

Auditors' Report and Consolidated Financial Statements of

SCORPIO MINING CORPORATION

December 31, 2005 and 2004

Auditors' Report

To the Shareholders of
Scorpio Mining Corporation

We have audited the consolidated balance sheets of Scorpio Mining Corporation as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the year ended December 31, 2005 and the nine month period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 and the nine month period ended December 31, 2004 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
April 28, 2006

SCORPIO MINING CORPORATION
Consolidated Balance Sheets
December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		(As restated - see Note 15)
CURRENT		
Cash and cash equivalents	\$ 2,474,840	\$ 12,567,937
Accounts receivable and other	389,318	798,250
Inventory	549,735	-
	<u>3,413,893</u>	13,366,187
RECLAMATION BONDS	50,000	50,000
MACHINERY AND EQUIPMENT (Note 4)	2,623,072	1,815,372
NON-PRODUCING MINING PROPERTIES (Note 5)	2,332,619	2,098,927
DEFERRED EXPLORATION EXPENDITURES (Note 5)	20,346,904	10,529,741
	<u>\$ 28,766,488</u>	<u>\$ 27,860,227</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 362,927	\$ 499,251
ASSET RETIREMENT OBLIGATIONS (Notes 3 (b) and 6)	143,472	90,638
FUTURE INCOME TAXES (Note 8)	473,000	205,000
	<u>979,399</u>	<u>794,889</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	34,259,302	32,572,024
Contributed surplus (Note 7)	6,052,451	4,067,890
Deficit	(12,524,664)	(9,574,576)
	<u>27,787,089</u>	<u>27,065,338</u>
	<u>\$ 28,766,488</u>	<u>\$ 27,860,227</u>

CONTINUING OPERATIONS (Note 1)

COMMITMENTS AND CONTINGENCIES (Notes 13 and 14)

APPROVED BY THE DIRECTORS

(Signed) Peter J. Hawley

Director

(Signed) Yves Rougerie

Director

See accompanying notes to the consolidated financial statements.

SCORPIO MINING CORPORATION

Consolidated Statements of Operations and Deficit

	Year ended December 31, 2005	Nine month period ended December 31, 2004
		(As restated - see Note 15)
REVENUE		
Interest income	\$ 158,705	\$ 267,005
EXPENSES		
Accretion of asset retirement obligations	9,142	4,173
Amortization	5,119	13,069
Audit and accounting fees	80,890	66,893
Foreign exchange loss (gain)	(68,083)	491,215
General and administrative	600,009	853,690
Interest and bank charges	41,555	7,358
Investor relations	221,110	404,000
Legal fees	109,433	122,243
Loss on disposal of fixed assets	9,125	-
Other (Notes 14 (b) and 15)	86,881	300,240
Professional services	184,238	96,254
Rent	121,379	50,126
Stock-based compensation	1,301,839	2,991,520
Travel expenses	138,156	40,469
	2,840,793	5,441,250
LOSS BEFORE INCOME TAXES	(2,682,088)	(5,174,245)
INCOME TAXES (Note 8)	268,000	205,000
NET LOSS FOR THE PERIOD	(2,950,088)	(5,379,245)
DEFICIT AT BEGINNING OF PERIOD, AS PREVIOUSLY REPORTED	(9,574,576)	(3,376,273)
ADJUSTMENT FOR CHANGE IN ACCOUNTING POLICY FOR STOCK-BASED COMPENSATION (Note 3 (a))	-	(815,310)
ADJUSTMENT FOR CHANGE IN ACCOUNTING POLICY FOR ASSET RETIREMENT OBLIGATION (Note 3 (b))	-	(3,748)
DEFICIT AT END OF PERIOD	\$ (12,524,664)	\$ (9,574,576)
 BASIC AND DILUTED LOSS PER SHARE	 \$ (0.07)	 \$ (0.14)
 WEIGHTED-AVERAGE NUMBER OF COMMON SHARES - BASIC AND DILUTED	 40,929,250	 37,993,756

See accompanying notes to the consolidated financial statements.

SCORPIO MINING CORPORATION

Consolidated Statements of Cash Flows

	Year ended December 31, 2005	Nine month period ended December 31, 2004
		(As restated - see Note 15)
OPERATING ACTIVITIES		
Net loss for the period	\$ (2,950,088)	\$ (5,379,245)
Items not involving cash:		
Provision for income taxes	268,000	205,000
Amortization	5,119	13,069
Accretion	9,142	4,173
Fair value of stock options	1,301,839	2,991,520
Loss on disposal of fixed assets	9,125	-
	(1,356,863)	(2,165,483)
Change in non-cash working capital		
Accounts receivable and other	413,932	(609,510)
Inventory	(549,735)	-
Accounts payable and accrued liabilities	(136,324)	63,500
	(1,628,990)	(2,711,493)
FINANCING ACTIVITIES		
Proceeds on disposal of fixed assets	8,903	-
Issue of common shares and warrants, net of issue costs	2,370,000	21,493,788
Reclamation bond	-	(50,000)
	2,378,903	21,443,788
INVESTING ACTIVITIES		
Deposit	-	1,053,000
Purchase of machinery and equipment	(1,159,420)	(1,806,324)
Non-producing mining properties expenditures, net of recoveries	(195,000)	(1,329,422)
Deferred exploration expenditures	(9,488,590)	(5,520,123)
	(10,843,010)	(7,602,869)
NET CASH (OUTFLOW) INFLOW	(10,093,097)	11,129,426
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	12,567,937	1,438,511
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 2,474,840	\$ 12,567,937
CASH AND CASH EQUIVALENTS ARE COMPRISED OF:		
Cash in bank	\$ 224,840	\$ 667,937
Short-term investments	2,250,000	11,900,000
	\$ 2,474,840	\$ 12,567,937

SUPPLEMENTARY INFORMATION (Note 10)

See accompanying notes to the consolidated financial statements.

SCORPIO MINING CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2005 and nine month period ended December 31, 2004

1. CONTINUING OPERATIONS

The Company was incorporated under the Canada Business Corporations Act on May 12, 1998 and conducts exploration on mining properties in Canada and Mexico. It has not yet determined whether these properties contain ore reserves that are economically recoverable. The Corporation carries out its activities in Mexico through its wholly-owned Mexican subsidiaries, Minera Escorpion, S.A. de C.V. and Minera Cosala S.A. de C.V.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company anticipates that it will require additional financing to complete its properties under development.

The Company changed its year end from March 31, to December 31. The current fiscal year end December 31, 2005 consists of operations for the twelve month period then ended. Comparative figures for the year ended December 31, 2004 are for a nine month period.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted principles. The significant accounting policies used in these financial statements are as follows:

(a) *Principles of consolidation*

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Minera Escorpion S.A. de C.V. and Minera Cosala S.A. de C.V. All intercompany transactions have been eliminated.

Variable interest entities (“VIEs”), which include, but are not limited to, special purpose entities, trusts, partnerships, and other legal structures, as defined by the Accounting Standards Board in Accounting Guideline (“AcG”) 15, *Consolidation of Variable Interest Entities* (“AcG 15”), are entities in which equity investors do not have the characteristics of a “controlling financial interest” or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are subject to consolidation by the primary beneficiary who will absorb the majority of the entities’ expected losses and/or expected residual returns. The Company has not identified any VIEs at December 31, 2005.

(b) *Cash and cash equivalents*

Cash and cash equivalents consists of cash on hand, deposits in banks and highly liquid investments with an original maturity of 90 days or less.

SCORPIO MINING CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2005 and nine month period ended December 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) *Machinery and equipment*

Machinery and equipment are carried at cost less accumulated amortization. Amortization is calculated on the diminishing balance method at a rate of 20%.

The Company periodically compares the carrying value of machinery and equipment to estimated net recoverable amounts to determine whether there is any indication of impairment. Estimated net recoverable amount is determined based on the expected use of the machinery and equipment in the conduct of exploration activity, the potential for discovery of economically recoverable reserves in the related mining properties on which exploration is occurring, alternative uses of the equipment and its potential resale value. An impairment in value would be indicated if the assets' carrying value exceeds its estimated recoverable amount. During the periods covered by these financial statements, there was no indication of impairment.

(d) *Non-producing mining properties and deferred exploration expenditure and development expenditures*

The Company follows the method for accounting for its mineral properties whereby all costs relating to the acquisition, exploration and development are deferred and capitalized by property.

Deferred expenditures include operating costs, net of revenues and related government assistance, prior to the commencement of commercial production.

On commencement of commercial production, net costs are charged to operations on the unit of production method as a proportion of estimated recoverable reserves. When a project is discontinued, the related costs are charged to earnings.

The Company reviews the carrying values of its non-producing mining properties and deferred exploration expenditures whenever events or changes in circumstances indicate that their carrying values may exceed their estimated recoverable amounts determined by reference to estimated undiscounted future cash flows. The recoverability of amounts shown is dependent upon the discovery of economically recoverable reserves, the ability of the Company to finance the development of the properties, and on the future profitable production or proceeds from the disposition thereof. An impairment loss is recognized when the carrying value of those assets exceeds its estimated net recoverable amount.

SCORPIO MINING CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2005 and nine month period ended December 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) *Inventory*

Inventory consists of materials and supplies and is recorded at the lower of cost and replacement cost.

(f) *Foreign currency translation*

The Company's foreign operations are considered integrated with those of the parent. The financial statements of the foreign operations are translated into Canadian dollars using the temporal method. This method translates monetary assets and liabilities at the rate of exchange at the balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at the rate of exchange in effect on the dates they occur, except for amortization which is translated at the historical rates associated with the assets being amortized. Gains or losses from translation are included in operations for the year.

(g) *Stock-based compensation*

The Company uses the fair value method to account for stock options granted to directors, officers, employees and non-employees. Accordingly, the fair value of the options at the date of grant is charged to operations, with an offsetting credit to contributed surplus, over the vesting periods. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital.

(h) *Measurement uncertainties*

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates that affect certain reported amounts and disclosures. Estimates are used for, but are not limited to, the accounting for doubtful accounts, amortization, income taxes, and the recoverability of non-producing mining property capitalized costs and deferred exploration expenditures. Actual results may differ from those estimates.

SCORPIO MINING CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2005 and nine month period ended December 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) *Loss per share*

Basic loss per share is computed by dividing the net loss to common shareholders by the weighted average number of common shares outstanding for that period. The diluted loss per share reflects the potential dilution of common share equivalents in the weighted average number of common shares outstanding during the year, if dilutive. For this purpose, the "if-converted" method is used for the assumed conversion of convertible notes and debentures at the beginning of the period. In addition, the "treasury stock" method is used for the assumed proceeds upon the exercise of stock options and share purchase warrants that are used to purchase common shares at the average market price during the period.

(j) *Income taxes*

The Company accounts for income taxes under the asset and liability method of accounting. Under this method, future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of tax loss carryforwards that are more likely than not to be realized. Future income tax assets and liabilities are measured using substantively enacted rates that are expected to be effective when settled or realized. The net change in recorded future income tax assets and liabilities is recognized in income in the period in which the change occurs, including any change in the applicable future tax rates.

(k) *Asset retirement obligation*

The Company recognizes the future costs associated with retirement of mining properties when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost is added to the carrying amount of that asset and the cost is amortized as an expense over the economic life of the related asset. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows to settle the obligation.

SCORPIO MINING CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2005 and nine month period ended December 31, 2004

3. CHANGE IN ACCOUNTING POLICIES

(a) *Stock-based compensation*

Prior to April 1, 2004, the Company used the fair value based method to account for stock-based compensation to non-employees. For those awards granted to employees, the Company used the intrinsic value based method, which recognized the compensation cost for awards to employees only when the market price of the Company's common share exceeded the exercise price of the employee stock option at the date of grant. However, the Company disclosed the pro forma effect of using a fair value based method for such stock-based compensation in the notes to the financial statements. Effective April 1, 2004, the Company adopted, retroactively without restatement of prior periods, the fair value based method to account for stock-based compensation to employees and directors, using an option price model.

(b) *Asset retirement obligations*

Effective April 1, 2004, the Company adopted the new accounting standard for asset retirement obligations, a standard that applies to future site reclamation costs for the Company's mining properties. Under this standard, future costs to retire an asset including dismantling, remediation and ongoing treatment and monitoring of the site are recognized and recorded as a liability at fair value at the date the liability is incurred. The liability is accreted over time to the estimated amount ultimately payable through periodic charges to earnings. In addition, the asset retirement obligation is capitalized as part of the carrying value of the related mineral property at its initial discounted value and amortized over the mineral properties' useful life. Previously, estimated costs for reclamation of non-producing mining properties were accreted as liabilities when the costs of site clean-up and reclamation could be reasonably estimated.

4. MACHINERY AND EQUIPMENT

	2005		
	Cost	Accumulated amortization	Net book value
Surface facilities	\$ 258,550	\$ 79,037	\$ 179,513
Plant and equipment	2,786,499	453,468	2,333,031
Mobile equipment	12,341	3,949	8,392
Furniture and office equipment	146,162	54,773	91,389
Software	13,434	2,687	10,747
	<u>\$ 3,216,986</u>	<u>\$ 593,914</u>	<u>\$ 2,623,072</u>

SCORPIO MINING CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2005 and nine month period ended December 31, 2004

4. MACHINERY AND EQUIPMENT (Continued)

		December 2004	
	Cost	(nine months) Accumulated amortization	Net book value
Surface facilities	\$ 227,723	\$ 39,913	\$ 187,810
Plant and equipment	1,724,758	191,364	1,533,394
Mobile equipment	12,340	1,760	10,580
Furniture and office equipment	111,971	28,383	83,588
	<u>\$ 2,076,792</u>	<u>\$ 261,420</u>	<u>\$ 1,815,372</u>

Deferred exploration costs include capitalized depreciation of surface facilities, plant and mobile equipment in the amount of 2005 - \$328,573, (2004 - \$157,455). During the period ended December 31, 2004, the Company purchased equipment of \$1,122,844, which has not yet been put into use. Depreciation will be charged once the equipment is put into use.

SCORPIO MINING CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2005 and nine month period ended December 31, 2004

5. NON-PRODUCING MINING PROPERTIES AND DEFERRED EXPLORATION

	2005					2004
	(twelve months)					(nine months)
	Nuestra Senora Property	Lac Arsenault/Weir	Cochrane Hill	Caribou Gold Mine	Total	Total
Mineral properties						
Balance, beginning of period	\$ 1,801,696	\$ 145,001	\$ 142,230	\$ 10,000	\$ 2,098,927	\$ 719,018
Acquired during the period	-	-	140,000	65,000	205,000	1,329,422
Disposition during the period	-	(15,000)	-	-	(15,000)	-
Asset retirement obligations	43,692	-	-	-	43,692	50,487
	\$ 1,845,388	\$ 130,001	\$ 282,230	\$ 75,000	\$ 2,332,619	\$ 2,098,927
Deferred exploration						
Property maintenance	\$ 743,898	\$ -	\$ -	\$ -	\$ 743,898	\$ 81,369
Mine development	3,456,153	-	-	-	3,456,153	1,596,755
Site administration	1,129,780	-	-	-	1,129,780	91,040
Roads and access facilities	-	-	-	-	-	1,156,659
Prospecting, drilling and exploration	3,113,630	(4,520)	7,277	-	3,116,387	1,284,179
Salaries and contractors	911,202	-	6,803	28,550	946,555	1,057,257
Transportation and travel	149,356	-	-	-	149,356	163,966
Depreciation	328,573	-	-	-	328,573	157,455
Other expenses	4,738	-	-	-	4,738	114,789
Government subsidy	-	(58,277)	-	-	(58,277)	(6,091)
Incurred during the period	9,837,330	(62,797)	14,080	28,550	9,817,163	5,697,378
Balance, beginning of period	9,747,733	305,419	476,589	-	10,529,741	4,832,363
Total deferred exploration	\$ 19,585,063	\$ 242,622	\$ 490,669	\$ 28,550	\$ 20,346,904	\$ 10,529,741

SCORPIO MINING CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2005 and nine month period ended December 31, 2004

5. NON-PRODUCING MINING PROPERTIES AND DEFERRED EXPLORATION (Continued)

(a) *Nuestra Senora, Mexico*

On November 9, 1998, as amended September 17, 1999 and December 15, 1999, the Company signed an option agreement with a private company, which is owned by a former director of the Company, to acquire an option to purchase 100% of the Nuestra Senora mineral exploration claims located in Sinaloa, Mexico. The Company also signed a separate agreement dated August 29, 1999, as amended November 1, 1999, between the underlying property owners and Minera Escorpion S.A. de C.V., to ensure that the Company's potential acquisition of a 100% interest in the Nuestra Senora mineral exploration claims would be fully acceptable to the underlying property owners. The Company paid an amount of US\$25,000 and was required to issue 200,000 common shares to complete the exercise of the option. All 200,000 common shares have been issued. In May 2004, the Company paid \$1,259,422 (US\$1,000,000) to acquire full ownership of the property and, as a result, acquired all rights, title and interest to the Nuestra Senora mineral claims and extinguished any further obligation to pay a 10% net profits royalty.

(b) *Lac Arseneault Property, Weir Township, Gaspé, Quebec*

On June 10, 1998, as amended July 8, 1999, September 17, 1999 and November 1, 1999, the Company signed an option to acquire a 100% interest in the Weir Township property. The Company paid \$40,000 and is required to issue 200,000 common shares to complete the exercise of the options. 150,000 common shares have been issued and one block of 50,000 common shares will be issued upon acceptance by the regulatory authorities of an exploration report by a qualified engineer recommending that a further phase of exploration be undertaken.

Should the property enter into commercial production, the Company is required to pay a 2% royalty on the net smelter return ("N.S.R.") to the original owner. The Company has the option to buy back such royalty for an amount of \$1,000,000 for each 1% N.S.R.

During 2005 the Company entered into an agreement with Appalaches Resources Inc. ("Appalaches"). Appalaches can earn a 51% interest in the property by issuing 800,000 common shares of Appalaches and making \$110,000 in payments in specified annual amounts before August 15, 2008. Appalaches also has to incur exploration expenditures of \$1,000,000 on the property before August 14, 2009. At December 31, 2005, the Company has received instalments of \$10,000 and 50,000 common shares of Appalaches.

SCORPIO MINING CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2005 and nine month period ended December 31, 2004

5. NON-PRODUCING MINING PROPERTIES AND DEFERRED EXPLORATION (Continued)

(c) *Cochrane Hill Property, Nova Scotia*

Pursuant to an agreement dated August 23, 2002, the Company acquired a 100% interest in the Cochrane Hill Property by making payments totalling \$250,000.

Should the property enter into commercial production, the Company is required to pay a 3% royalty on the N.S.R. to the original owner. The Company has the option to buy back 2% of such royalty for \$500,000 for the first 1% N.S.R. and \$1,000,000 for the second 1% N.S.R.

(d) *Caribou Mine, Nova Scotia*

On April 25, 2005, the Company signed a letter of intent to acquire a 100% interest in the former Caribou Gold Mine in Nova Scotia. The Company made a non-refundable cash payment of \$10,000 upon the signing of the letter of intent between the two parties. Under the terms of this letter of intent, the parties agreed to negotiate an option agreement whereby the Company could acquire a 100% interest in the property by making a payment of \$65,000 and fulfilling a work commitment of \$100,000 in the first year, and making payments of \$60,000 in each of the next three years with a work commitment of \$500,000 per year. The Company could elect to make a total cash payment of \$250,000 at any time during the first two years of the agreement to acquire a full 100% ownership of the property, and the vendor would retain a 2.5% N.S.R. royalty in the event of commercial production. The Company retains the right to purchase 1% of the N.S.R. royalty for the sum of \$1,000,000.

6. ASSET RETIREMENT OBLIGATIONS

The asset retirement obligations consist of mine closure and retirement obligations for mine facilities and infrastructure. The Company has recorded the following asset retirement obligations:

	<u>2005</u>	<u>2004</u>
	(twelve months)	(nine months)
Asset retirement obligations, beginning of period	\$ 90,638	\$ 35,978
Addition of provision	43,692	50,487
Accretion expense	9,142	4,173
Asset retirement obligations, end of period	<u>\$ 143,472</u>	<u>\$ 90,638</u>

SCORPIO MINING CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2005 and nine month period ended December 31, 2004

6. ASSET RETIREMENT OBLIGATIONS (Continued)

The total undiscounted amount of estimated cash flows required to settle the obligations at the Nuestra Senora and Cochrane Hill properties is \$254,000 (2004 - \$170,000), which has been discounted using a credit-adjusted risk free rate of between 5% and 7.5%. All reclamation obligations are not expected to be paid for several years in the future and will be funded from cash balances at the time of the mine closures.

7. CAPITAL STOCK

(a) Authorized and issued

Authorized share capital consists of an unlimited number of common shares.

	2005		2004	
	(twelve months)		(nine months)	
	Number of shares	Amount	Number of shares	Amount
<i>Issued and paid</i>				
Balance, beginning of period	39,458,291	\$ 32,572,024	33,026,988	\$ 27,021,761
Issued during the period				
For private placement (i)	5,000,000	1,568,500	131,577	286,875
For exercise of stock options	50,000	28,778	738,726	881,608
For exercise of warrants	150,000	90,000	5,561,000	4,152,750
Cumulative effect of accounting policy change (Note 3 (a))	-	-	-	229,030
Balance, end of period	44,658,291	\$ 34,259,302	39,458,291	\$ 32,572,024

- (i) On September 23, 2005, the Company closed a private placement of 5,000,000 units at a price of \$0.50 per unit, after deducting share issue costs of \$235,000. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one additional common share at a price of \$0.75 per share until September 22, 2006. The value of the warrants issued as part of the private placement of \$633,200 was allocated to contributed surplus. Also, 500,000 warrants exercisable at \$0.75 per share until September 22, 2006 were issued to agents in consideration for their services in connection with the placement. The fair value of the warrants issued to the agents of \$63,300 was allocated to share capital and contributed surplus (Note 7 (e)). No warrants had been exercised at December 31, 2005.

SCORPIO MINING CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2005 and nine month period ended December 31, 2004

7. CAPITAL STOCK (Continued)

(b) *Share purchase warrants*

	2005		2004	
	(twelve months)		(nine months)	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at beginning of period	11,580,609	\$ 1.46	17,077,859	\$ 1.22
Issued	5,500,000	0.75	63,750	3.00
Exercised	(150,000)	(0.60)	(5,561,000)	(0.75)
Cancelled/expired	(11,430,609)	(1.47)	-	-
Outstanding at end of period	5,500,000	\$ 0.75	11,580,609	\$ 1.46

The Company has, at December 31, 2005, share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Number of shares	Exercise price	Expiry date
5,500,000	\$0.75	September 22, 2006

Subsequent to December 31, 2005, 412,800 warrants were exercised for proceeds of \$309,600.

(c) *Stock option plan*

The Company has a stock option plan which permits the issuance of options from time to time in a fixed amount approved by shareholders. The number of shares currently reserved for issuance under this plan is 5,559,945 shares. Under the plan, the Board of Directors determines the term of a stock option to a maximum of five years and the time during which the option may vest. The price of stock options granted shall not be less than the discounted market price on the date on which the option is granted. The discounted market price is the market price, less a discount of between 15% to 25% depending on the market price of the underlying shares, subject to a minimum price of \$0.10.

SCORPIO MINING CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2005 and nine month period ended December 31, 2004

7. CAPITAL STOCK (Continued)

(c) *Stock option plan (continued)*

Stock options are issued at the discretion of the Board of Directors. A summary of changes in the Company's outstanding stock options is presented below:

	2005		2004	
	(twelve months)		(nine months)	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance, beginning of period	2,500,000	\$ 1.27	1,863,726	\$ 0.62
Granted	2,825,000	0.48	2,100,000	1.71
Exercised	(50,000)	(0.30)	(738,726)	(0.63)
Cancelled/expired	(450,000)	(1.41)	(725,000)	(1.81)
Balance, end of period	4,825,000	\$ 0.80	2,500,000	\$ 1.27

The following table summarizes information about stock options outstanding and exercisable at December 31, 2005:

Exercise price	Weighted average remaining contractual life (in years)	2005	
		Outstanding	Exercisable
\$ 0.30	1.64	75,000	75,000
0.47	4.38	2,525,000	1,262,500
0.61	4.38	200,000	100,000
0.66	2.86	725,000	725,000
1.05	3.84	125,000	93,750
1.14	3.92	400,000	400,000
1.91	3.39	775,000	775,000
		4,825,000	3,431,250

Subsequent to December 31, 2005, the Company received \$164,775 upon exercise of 357,500 options.

SCORPIO MINING CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2005 and nine month period ended December 31, 2004

7. CAPITAL STOCK (Continued)

(d) *Stock-based compensation*

As described in Note 2 (f), the Company records options granted using a fair value based method of accounting. The Company uses the Black-Scholes Option Pricing Model to estimate fair value using the following weighted-average assumptions:

	<u>2005</u>	<u>2004</u>
Risk free interest rate	3.22%	3.68%
Expected stock price volatility	97%	109%
Expected dividend yield	Nil%	Nil%
Expected option life in years	5 years	4 years

(e) *Contributed surplus*

Contributed surplus consists of the following:

	<u>2005</u>	<u>2004</u>
	(twelve months)	(nine months)
Balance, beginning of period	\$ 4,067,890	\$ 885,860
Adjustment for change in accounting policy for stock-based compensation (Note 3 (a))	-	586,280
Fair value of stock options issued	1,301,839	3,011,320
Warrants issued to agents	63,300	-
Warrants issued upon closing of the private placement	633,200	-
Transfer to share capital upon exercise of stock options	(13,778)	(415,570)
Balance, end of period	\$ 6,052,451	\$ 4,067,890

SCORPIO MINING CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2005 and nine month period ended December 31, 2004

8. INCOME TAXES

The provision for income taxes differs from the amount that would have resulted by applying the Canadian federal and provincial statutory income tax rates of 35.35% (2004 - 35.60%) to applicable earnings.

	<u>2005</u>	<u>2004</u>
	(twelve months)	(nine months)
Loss before income taxes	\$ (2,682,088)	\$ (4,874,005)
Computed (expected) tax benefit	\$ (948,100)	\$ (1,734,171)
Effect of lower tax rate in foreign jurisdiction	6,600	8,800
Non-deductible expenses and others	498,100	1,465,486
Tax benefit of losses not recognized	711,400	464,885
Total income tax expense	\$ 268,000	\$ 205,000

The Company has non-capital losses for income tax purposes of approximately \$20,206,000 (2004 - \$11,877,000), which may be used to reduce future taxable income in Canada and Mexico, expiring between 2006 and 2015. The Company has unclaimed exploration and development expenditures which can be deducted for income tax purposes in Canada in future years at the Company's discretion. Significant components of the Company's future tax assets and liabilities are shown below:

	<u>2005</u>	<u>2004</u>
	(twelve months)	(nine months)
Future tax assets		
Machinery and equipment	\$ 69,000	\$ 29,000
Non-capital loss carryforwards	5,973,000	3,578,000
Share issue costs	277,000	282,000
Total gross future tax assets	6,319,000	3,889,000
Valuation allowance	(2,099,000)	(1,233,000)
Total net future tax assets	4,220,000	2,656,000
Future tax liability for mining properties	(4,693,000)	(2,861,000)
	\$ (473,000)	\$ (205,000)

SCORPIO MINING CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2005 and nine month period ended December 31, 2004

9. RELATED PARTY TRANSACTIONS

The Company incurred the following charges with directors, officers and private companies controlled by them:

	<u>2005</u>	<u>2004</u>
	(twelve months)	(nine months)
Management fees	\$ 247,110	\$ 392,642
Deferred exploration costs	172,600	99,346
	<u>\$ 419,710</u>	<u>\$ 491,988</u>

During the year ended December 31, 2005, the Company incurred expenditures of \$635,910 (2004 - \$577,695) with a company in which a former employee was a shareholder. These costs are included in deferred exploration at December 31, 2005 except for \$300,240 incurred in 2004 which has been recorded as an expense as described in Note 15.

10. CASH FLOW INFORMATION

(a) *Other supplementary information*

	<u>2005</u>	<u>2004</u>
	(twelve months)	(nine months)
Interest paid	\$ -	\$ -
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

SCORPIO MINING CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2005 and nine month period ended December 31, 2004

10. CASH FLOW INFORMATION (Continued)

(b) *Supplementary information regarding other non-cash investing and financing transactions*

	<u>2005</u>	<u>2004</u>
	(twelve months)	(nine months)
Amortization of machinery and equipment capitalized in deferred exploration expenditures	\$ 328,573	\$ 157,455
Stock-based compensation expense capitalized in deferred exploration expenditures	-	19,800
Transfer of contributed surplus to share capital on exercise of stock options	13,778	644,600
Asset retirement obligation recognized during the year	43,692	50,487
Acquisition of marketable securities in exchange for recoveries on mineral properties	5,000	-
Fair value of warrants issued on completion of private placement	696,500	-

11. SEGMENTED INFORMATION

(a) *Industry information*

The Company operates in one reportable operating segment, being the acquisition and exploration of resource properties.

(b) *Geographic information*

Interest income in the year ended December 31, 2005 was earned in Canada. The Company's non-current non-monetary assets by geographic location are as follows:

	<u>2005</u>	<u>2004</u>
	(twelve months)	(nine months)
Canada	\$ 1,269,546	\$ 2,173,851
Mexico	24,033,049	12,270,189
	<u>\$ 25,302,595</u>	<u>\$ 14,444,040</u>

SCORPIO MINING CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2005 and nine month period ended December 31, 2004

12. FINANCIAL INSTRUMENTS

(a) *Fair values*

The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate their fair value based on their short-term nature.

(b) *Foreign exchange risk*

The Company is exposed to foreign exchange risk to the extent it incurs costs in foreign currencies including the Mexican peso. The Company does not use derivatives to manage its exposure to foreign exchange risk.

13. COMMITMENTS

The Company has, in the normal course of its business, entered into various long-term contracts which include commitments for future payments under contracts for the rental of office premises and other arrangements as follows:

2006	\$	78,100
2007		78,500
2008		80,100
2009		80,100
2010		66,800
	\$	<u>383,600</u>

Subsequent to December 31, 2005, the Company has subleased the above rental property.

The Company signed a letter of intent with a company that is going to act as a sponsor in the Company's intended application for a senior stock exchange listing. As part of the agreement, the Company must issue warrants to acquire 50,000 shares of the Company, exercisable for a two-year period at the market price at the date of listing.

14. CONTINGENCIES

(a) *Environmental contingencies*

The Company's exploration activities are subject to various federal, provincial and state laws and regulations in Canada and Mexico which govern the protection of the environment. These laws and regulations are continually changing and becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company expects to incur expenditures in the future to comply with such laws and regulations.

SCORPIO MINING CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2005 and nine month period ended December 31, 2004

14. CONTINGENCIES (Continued)

(b) *Legal matters*

In 2005 the Company initiated a claim against a former employee of its Mexican mining operations for recovery of unauthorized disbursements which benefited the employee in the amount of approximately \$90,000 (781,308 pesos) during the period from January 2004 to February 28, 2005.

The Company has also identified additional expenditures in the amount of approximately \$410,000 which were incurred in the period from December 2004 to January 31, 2005 and were charged to the Company's Mexican subsidiary by a company controlled by the former employee and a third party. The Company believes that certain of these expenditures were not properly authorized and also directly benefited the former employee. The former employee has denied the claims and has filed a proceeding with the Mexican Labour Board claiming additional benefits owing of approximately \$230,000 (2,000,000 pesos) from the Company. The Company believes it has substantial defences to the counterclaim and is unlikely to incur any further loss in connection with these actions. Amounts recovered from the former employee, if any, will be recorded in the period they are received.

15. CORRECTION OF PRIOR YEAR'S ERROR

As a result of the legal matter referred to in Note 14(b), the Company determined in 2005 that capitalized exploration costs in the amount of \$300,240, which were incurred in 2004, were not properly authorized or described in the Company's records and should have been recorded as expenses. This error has been corrected retroactively with the effect that net loss and deficit for the nine months ended December 31, 2004 has been increased by \$300,240 and the balance of deferred exploration costs have been reduced by a corresponding amount.

16. SUBSEQUENT EVENTS

Subsequent to year end, Scorpio announced it had engaged Research Capital Corporation (the "Agent") in connection with a private placement of approximately 30,000,000 units of the Company at a price of \$1.15 per unit. The Agent was granted the option to increase the offering size by up to 10,000,000 additional units on the same terms as the offering. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to acquire, at any time within twenty-four months from the closing of the offering, one common share of the Company at a price of \$1.40 per share. The offering was oversubscribed and the Agent's option has been exercised in full. As of April 28, 2006, the Company had completed the first tranche of the private placement of units raising gross proceeds of \$36,366,795, issuing an aggregate of 31,623,300 common shares and 15,811,650 common share purchase warrants to investors.

SCORPIO MINING CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2005 and nine month period ended December 31, 2004

16. SUBSEQUENT EVENTS (Continued)

The Company expects to close the final tranche shortly for additional gross proceeds to the Company of approximately \$4,301,000. The securities issued under the offering will be subject to a four-month hold period under applicable Canadian securities laws.

SCORPIO MINING CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

The following Management Discussion and Analysis (MD&A) is to be read in conjunction with the audited consolidated financial statements for the period ended December 31, 2005 and the MD&A for the same period filed on Sedar (www.sedar.com). Note: all dollar amounts are in Canadian dollars unless otherwise indicated.

DATE

The following MD&A is for the period ended December 31, 2005 and information to April 28, 2006.

OVERALL PERFORMANCE

Scorpio Mining Corporation (the “Company” or “Scorpio”) is incorporated under the Canada Business Corporations Act. The Company is a reporting issuer under the Reporting Jurisdictions of British Columbia, Alberta and Quebec. Scorpio Mining Corporation is registered as a Tier 1 Issuer on the TSX Venture Exchange under the trading symbol of SPM. The Company is involved in the acquisition, exploration and development of mineral resource properties in Canada and Mexico. Its current focus is the exploration and development of the Nuestra Senora Project, Cosala Mining District, Sinaloa, Mexico.

SELECTED ANNUAL INFORMATION

The financial information disclosed below has been determined in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and is reported in Canadian currency.

The following tables set forth selected financial data from the Company’s Audited Financial Statements and should be read in conjunction with these consolidated financial statements.

	Year ended December 31, 2005	Nine-month period ended December 31, 2004	Year ended March 31, 2004
Income interest and other income (Net interest income)	\$158,705	\$267,005	\$14,151
Net Loss	(2,950,088)	(5,379,245)	(1,643,553)
Net Loss per Share	(0.07)	(0.14)	(0.11)
Working capital	3,050,966	12,866,936	17,892,625
Total Assets	28,766,488	27,860,227	24,886,329
Long Term Debt	Nil	Nil	Nil
Dividends	Nil	Nil	Nil

Note: In 2004, the Company changed its year-end from March 31 to December 31.

The Company has not declared nor paid dividends on its common shares.

RESULTS OF OPERATIONS

This review of the results of operations should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2005.

Scorpio reported a net loss for the year ended December 31, 2005 of \$2,950,088 (\$0.07 per share) compared to \$5,379,245 (\$0.14) for the nine months ended December 31, 2004. The Company had no operating revenue in either of these periods because the company is still at the exploration stage. The operating cost for the year 2005 decreased by \$2.6 million, primarily as a result of a decrease in the stock based compensation of \$1.7 million and a decline in the foreign exchange loss resulting from translation of the results of operations and net monetary assets of the Company's Mexican subsidiary in the amount of \$559,000. During 2005 a decline in general and administrative expense of \$253,681 was substantially offset by corresponding increases in the amount of travel, rent and professional services. Expenditures charged directly to development of the Nuestra Senora project during the period totalled approximately \$9.8 million as compared to \$5.7 million in 2004. A tax credit of \$58,277 was received in 2005 for previous work on Lac Arseneault project compared to an expense of \$327,000 on exploration activities at the Cochrane Hill project in 2004. Purchase of machinery and equipment accounts for approximately \$1.2 million in 2005 compared to \$1.8 million in the nine-month period ended December 31, 2004. In 2005, \$205,000 was spent for property acquisition compared to \$1.3 million to acquire 100% ownership of the Nuestra Senora property in 2004.

Financial Condition and Liquidity

As of December 31, 2005 the Company had working capital of \$3,050,966 (December 31, 2004 the Company had a working capital of \$12,866,936).

Additional financing during the fiscal year ended December 31, 2005 included the completion of a private placement of 5,000,000 units for gross proceeds of \$2,500,000 (127,500 shares for gross proceeds of \$286,875 were issued during the nine-month period ended December 31, 2004). Each unit consisted of one common share in the capital of Scorpio and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of Scorpio at a price of \$0.75 per share until September 22, 2006. The Agent was paid a cash commission of 8% (\$200,000) from the gross proceeds of the offering and the Company issued an aggregate of 500,000 Agent's Warrants to the Agent and members of the selling group. Each Agent's Warrant is exercisable to acquire one common share at an exercise price of \$0.75 per share until September 22, 2006. There was an additional \$35,000 in issue costs related to the private placement. The Company's primary use of funds to date has been to advance the Nuestra Senora project.

During the period, 150,000 shares were issued through the exercise of Warrants for proceeds of \$90,000 (5,561,000 shares were issued for proceeds of \$4,152,750 during the fiscal period ended December 31, 2004) and 50,000 shares were issued through the exercise of Stock Options for another \$15,000 (738,726 shares were issued for \$466,038 during the fiscal period ended December 31, 2004).

Share capital	December 31, 2005	December 31, 2004
Outstanding common shares	44 658 291	39 458 291
Share purchase warrants	5 500 000	11 580 609
Options	4 825 000	2 500 000
Outstanding and diluted	<u>54 983 291</u>	<u>53 538 900</u>

Subsequent to year end, Scorpio announced it had engaged Research Capital Corporation (the "Agent") in connection with a private placement of approximately 30,000,000 of units of the Company at a price of \$1.15 per unit. The Agent was granted the option to increase the offering size by up to 10,000,000 of additional units on the same terms as the offering. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to acquire, at any time within twenty-four months from the closing of the offering, one common share of the Company at a price of \$1.40 per share. The offering was oversubscribed and the Agent's option has been exercised in full. As of April 28, the Company has completed the first tranche of the private placement of units raising gross proceeds of \$36,366,795. An aggregate of 31,623,300 common shares and 15,811,650 common share purchase warrants were issued to investors in the first tranche.

The Company expects to close the final tranche shortly, representing the balance of the president's list for additional gross proceeds to the Company of approximately \$4,301,000. The securities issued under the offering will be subject to a four-month hold period under applicable Canadian securities laws. Proceeds from the private placement will be used to finance further development and exploration of the Company's principal asset, the Nuestra Señora silver deposit in Sinaloa State, Mexico, and for general working capital purposes.

The primary factors that can affect the future financial condition of the Company include the continued ability to raise equity capital and the level of exploration expenditures required to meet commitments. As a mineral exploration and development company with no current production or revenue from mining operations, the Company's cash flows consist of cash outflows for administrative expenses, salaries, property acquisition and evaluation, exploration, development, and expenditures for depreciable equipment such as mobile equipment and computers required for office and field operations. Financing activities, such as share issuances, result in cash inflows to the Company. Since its inception, the Company has relied on capital markets (and in particular, equity markets) to fund its exploration activities, and expects to continue to rely on these markets in 2005 and thereafter until one or more of its projects are in production.

Industry and Economic Factors Affecting Performance

Certain factors affect the Company in its ability to carry on normal business. These include metal prices, competition amongst exploration firms for attractive mineral properties, the interest of investors in providing high-risk equity capital to exploration and mining companies, and the availability of qualified staff and equipment to conduct exploration.

Risk Factors

Mineral exploration and development involves a high degree of risk, and few properties that are explored are ultimately developed into producing mines. With respect to the Company's properties, where mineral resources exist, substantial expenditures may be required to define ore reserves which are sufficient to commercially mine, and to obtain the required environmental approvals and permitting required to commence development and construct a commercial mining operation. There can be no assurance that the mineral resources on such properties can be commercially mined and recovered as economically viable saleable products. The decision as to whether a property contains a commercial mineral deposit and should be brought into production will depend upon the results of exploration programs and/or feasibility studies.

Environmental Risks and Other Regulatory Requirements

The current or future operations of the Company, including development activities and commencement of production on its properties, require permits from various federal and local governmental authorities, and

such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. There can be no assurance that all permits which the Company may require for the construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms or that such laws and regulations would not have an adverse effect on any mining project which the Company might undertake.

Management

The Company is dependent on a relatively small number of key personnel, the loss of any of whom could have an adverse effect on the Company.

The Company has four material properties in its portfolio: Nuestra Senora in Sinaloa State, Mexico, Cochrane Hill and Caribou in Nova Scotia and Lac Arseneault in Gaspé, Quebec.

Nuestra Senora Property

The Nuestra Senora Project, east of the town of Cosala in Sinaloa, Mexico, is the main focus of Scorpio's exploration and development plans. The property comprises three recorded mining exploitation claims encompassing 140 hectares and six exploration claims encompassing 14,174 hectares. Applications have been made for one additional exploration claim, the size of which will depend upon the amount of land granted at the time of approval. Scorpio Mining's wholly owned Mexican mining subsidiary, Minera Cosala SA de CV ("Minera Cosala"), holds 100% ownership of the Nuestra Senora mineral rights with no underlying royalties or interest payments.

In February 2005, Minera Cosala signed an agreement with the surface rights owner, University of Sinaloa, which authorizes Minera Cosala to carry out all mining exploration and exploitation activities, infrastructure installation and mill and tailings construction. An Environmental Impact Statement (EIS) for exploration and mining was submitted to the Secretaría del Medio Ambiente y Recursos Naturales (SEMARNAP) and approved on July 18, 2005. The approval allows Minera Cosala to conduct exploration and mining activities on the three exploitation claims for a period of 10 years. Under the terms, Minera Cosala can extract 27,000 tonnes of waste per month and 650 tonnes of ore per day.

Nuestra Señora Deposit

During and subsequent to the year ended December 31, 2005, Scorpio has focused its exploration, development and resource definition on the Nuestra Señora deposit, which during ASARCO's tenure, was the largest producing deposit on the property.

As of April 2006, 840 metres of ramp advance and 795 metres of exploration crosscuts, drifts and drill bays have been excavated within the Nuestra Señora. Underground drilling now totals 13,350 metres in 83 holes.

The Nuestra Señora ramp is now connected to the 8th Level and has advanced halfway to the 9th Level. It is proposed to continue the development from its current position to the 10th Level and establish additional exploration drifts and drill bays. The Nuestra Señora mine has been de-watered to the 9th Level and it is expected that the 10th Level will be dry and accessible by the end of April.

On November 9, 2005, the Company released an initial Inferred Resource estimate on the Nuestra Senora deposit of 1,180,280 tonnes at an average grade of 219.10 g/t Ag, 3.79% Zn, 1.23% Cu, 1.13% Pb and 0.248 g/t Au. The resource estimate was prepared by Scorpio's independent Qualified Person, Guy Mac Gillivray, PGeo, and verified by independent consultants, Chlumsky, Armbrust and Meyer (CAM) of

Lakewood, Colorado. The estimate was calculated using a contained metal value of US\$50 and metal prices of US\$6.50 silver (Ag), US\$0.50 zinc (Zn), US\$1.20 copper (Cu), US\$0.35 lead, (Pb) and US\$400 gold (Au).

This initial resource was based on results from 46 surface holes and the first 29 underground holes with an average drill hole spacing of 25 metres. A NI 43-101 Technical Report supporting the resource estimate was filed on SEDAR December 8, 2005. As recommended by CAM, Scorpio drilled an additional 7,000 metres, which has allowed the calculation of a new resource incorporating 224 mineralized intercepts from a total of 78 holes that intersected mineralization within the deposit.

On February 22, 2006, the Company released a revised estimate verified by CAM that now stands at Indicated Resources of 1,128,000 tonnes grading 202.56 g/t Silver, 3.47% Zinc, 0.91% Copper, 1.44% lead and 0.236 g/t gold in addition to an Inferred Resources of 978,000 tonnes grading 229.47 g/t silver, 4.07% zinc, 0.92% copper, 2.72% lead and 0.347 g/t gold (Table 1).

The resource presented in Table 1 was calculated using metal prices of US\$7.50 /oz silver, US\$0.57 /lb zinc, US\$1.40 /lb copper, US\$0.40 /lb lead and US\$460 /oz gold, which are considered to be quite conservative relative to current market conditions and represent a 15% increase as those utilized in the November 2005 resource estimate. The Company cautions that mineral resources are not reserves and do not have demonstrated economic viability.

TABLE 1. Nuestra Senora Resource Estimate

Category	Cut-off Grade US\$	Volume M ³	Tonnes	Ag g/t	Zn %	Cu %	Pb %	Au g/t
Indicated	>=\$110/tonne	150,000	553,000	271.08	4.73	1.30	2.12	0.332
Total Indicated	>=\$70/tonne	327,000	1,128,000	202.56	3.47	0.91	1.44	0.236
Inferred	>=\$110/tonne	146,000	543,000	298.67	5.60	1.31	3.98	0.473
Total Inferred	>=\$70/tonne	279,000	978,000	229.47	4.07	0.92	2.72	0.347

* Using Metal Prices: US\$7.50 /oz silver, US\$0.57 /lb zinc, US\$1.40 /lb copper, US\$0.40 /lb lead, US\$460 /oz gold

A National Instrument 43-101 Technical Report supporting the revised resource estimate was filed on SEDAR on April 18, 2006. George A. Armbrust, PhD, CPG, is the Qualified Person responsible for the Technical Report.

De-watering of the lower mine levels (i.e. 7th to 10th Levels) has allowed Scorpio to confirm ASARCO's historical records, which indicated that mineral resources had been defined by drilling and development work but not extracted. Scorpio's mapping of the 8th Level mineralized zones suggests that the mineralized envelope is between 50 and 100 metres in width, and initial channel sampling of the 7th and 8th Levels has returned some very high-grade results. This work clearly indicates the potential to add significant resources within the previously developed areas of the mine. The company is confident it will continue to expand the size and increase the tonnage of the Nuestra Senora deposit over the next six months as the development and drill programs advance. The current planned exploration and development program includes:

- 9,000 metres of surface and underground exploration in the adjacent areas on the north side of the Hoag Fault and under the Santo Domingo and Santa Teresa areas;
- In-fill drilling and close-spaced channel sampling on the 7th to 10th Levels to increase the confidence level and hence upgrade the resource categories;
- Purchase of the land on which to locate the mill and tailings and initiate the permitting;
- Conduct a Scoping Study.

The work program is budgeted at approximately \$4.2 million and estimated to require five to six months to complete. Achieving these goals will provide sufficient information to proceed with a Feasibility Study and mill design.

Caribou Property

The Caribou gold property is located 80 km northeast of Halifax and 10 km south of the rural community of Upper Musquodoboit, in Halifax County, Nova Scotia. Scorpio has an option to acquire a 100% interest in the property that comprises 16 contiguous mineral claims covering approximately 256 hectares.

Under the Terms of the Agreement, Scorpio has 2 remaining payments of \$60,000 each due April 25, 2007 and 2008, totalling \$180,000. The payment schedule may be accelerated and the Company may exercise its Option at any time once all payments have been paid. A lump sum payment of \$250,000 is due upon exercising of the Option, which will be an advance against the Net Smelter Return Royalties. The Vendor retains a 2.5% Net Smelter Return Royalty, of which 1%, and first right of refusal on the additional 1.5%, may be purchased at the cost of \$1,000,000. Terms of the Agreement also call for work requirements of \$100,000 before April 25, 2006 and \$500,000 each year totalling \$1.6 million by April 25, 2009. As of the date of this report, the work requirements due in 2006 had been met.

The company engaged independent Qualified Person, Guy Mac Gillivray, PGeo, to compile all of the available underground and drill-hole data on the property, that includes some 500 diamond drill holes, into the three-dimensional Surpac modelling program. The compilation work will enable validation and classification of the historical resource estimate and modelling of underground workings relative to potential resource blocks. Planning for a work program on the property will be based on the outcome of this initial compilation.

Cochrane Hill Property

The Cochrane Hill property consists of 53 contiguous claims covering approximately 848 hectares of land in Guysborough County, Nova Scotia. Under the terms of an option agreement, Scorpio earned 100% of the Cochrane Hill property on November 1, 2005 by making a final cash payment to the property vendor. The option is subject to a 3% Net Smelter Return royalty, 2% of which may be purchased by Scorpio at a cost of \$500,000 for the first 1% and \$1 million for the second 1%.

The Company did not perform any work at Cochrane Hill during the year. A follow-up program to the 2004 exploration conducted and reported on by independent Qualified Person, Guy Mac Gillivray, PGeo is under consideration.

Lac Arseneault Property

The Lac Arseneault property is located on the Gaspé Peninsula of Quebec. Scorpio can vest a 100% interest in the property, subject to a 2% Net Smelter Royalty, by issuing the balance of 50,000 treasury shares to the underlying property owner.

Scorpio entered into an option agreement with Appalaches Resources Inc on the Lac Arseneault Property in August 2005. Under the terms of the agreement, Appalaches Resources can earn a 51% interest in the property over a four-year period by making total cash payments of \$110,000, issuance of 800,000 shares and \$1,000,000 in exploration expenditures. Appalaches Resources is the project operator.

A diamond drilling program on the property commenced in August and was completed in October after drilling 28 holes totalling 1,766 metres. The program concentrated on the Baker vein, a shear-hosted quartz vein with an exposed surface strike length of 45 metres. Sections were systematically drilled at 10 to 20 metre centres, targeting the Baker vein at depths of 20 to 90 metres.

The drilling has successfully extended the vein over 80 metres of strike length and to a depth of 90 metres. The quartz vein system remains open on strike and to depth. Significant assay results from the drilling are presented in Scorpio's News Release dated November 24, 2005. Appalaches Resources is planning a follow-up program for the 2006 field season that will further evaluate the Baker vein system, as well as numerous other mineralized areas identified on the property from previous exploration campaigns.

SUMMARY OF QUARTERLY RESULTS

All amounts are in Canadian Dollars and prepared in accordance with Canadian GAAP.

The following table sets forth selected quarterly financial information for each of the last eight (8) quarters:

Quarter Ending	Revenue*	Net (Loss)	Net Loss per share
December 31, 2005	109,766	(1,104,151)	(.02)
September 30, 2005	(30,664)	(772,632)	(.02)
June 30 2005	33,729	(770,352)	(.02)
March 31, 2005	45,874	(302,953)	(.01)
December 31, 2004	90,023	(1,536,940) **	(.03)
September 30, 2004	85,093	(758,360)	(.02)
June 30, 2004	90,989	(3,083,945)	(.09)
March 31, 2004	14,151	(1,232,084)	(.08)

* Interest and other income

** As described in Note 15 to the Audited Financial Statements, the Company determined in 2005 that capitalized exploration costs in the amount of \$300,240, which were incurred in December 2004, were not properly authorized or described in the Company's accounts and should have been recorded as an expense. The loss for the quarter ended December 31, 2004 has been restated to reflect the correction of this error resulting in an increase in the loss for the quarter of of \$300,240.

FOURTH QUARTER

During the fourth quarter of 2005, operating expenses were \$1.0 million and \$2.3 million was spent on exploration and development activities primarily related to the Nuestra Senora property. The reduction of the loss from \$1,536,940 in the last quarter of 2004 to \$1,104,151 for the same period in 2005 is mainly due to the variation in the foreign exchange from a loss of \$434,042 to a gain of \$24,990 for the same quarter in 2005 and also the correction of the prior year error of \$300,240 which had the effect of increasing the net loss by a corresponding amount in the three months ended December 31, 2004.

LIQUIDITY

In Management's view, given the nature of the Company's activities, the most meaningful and material financial information concerning the Company relates to its current liquidity and capital resources. The Company does not currently own or have an interest in any producing mineral properties and does not derive any revenues from operations. The Company's activities have been funded through equity financing and the Company expects that it will continue to be able to utilize this source of financing until it develops cash flow from operations. There can be no assurance, however, that the Company will be able to do so. If such funds are not available or other sources of finance cannot be obtained, the Company will be forced to curtail its activities to a level for which funding is available or can be obtained.

CAPITAL RESOURCES

As at December 31, 2005 the Company had \$2,474,840 in cash and cash equivalents. Net use of funds for operations during the twelve-month period totalled approximately \$1.6 million including the change in non-cash working capital. Cash received from financing activities totalled approximately \$2.4 million. Cash expenditures for machinery and equipment and deferred exploration were about \$10.8 million.

CONTINGENCIES

In 2005, the Company initiated a claim against a former employee of its Mexican mining operations for recovery of unauthorized disbursements which benefited the employee in the amount of approximately \$90,000 (781,308 pesos) during the period from November 2004 to February 28, 2005.

The Company has also identified additional expenditures in the amount of approximately \$410,000 which were incurred in the period from December 2004 to January 31, 2005 and were charged to the Company's Mexican subsidiary by a company controlled by the former employee and a third party. The Company believes that certain of these expenditures were not properly authorized and also directly benefited the former employee. The former employee has denied the claims and has filed a proceeding with the Mexican Labour Board claiming additional benefits owing of approximately \$230,000 (2,000,000 pesos) from the Company. The Company believes it has substantial defences to the counterclaim and is unlikely to incur any further loss in connection with these actions. Amounts recovered from the former employee, if any, will be recorded in the period they are received.

CORRECTION OF PRIOR YEAR'S ERROR

As a result of the legal matter referred to in the discussion above under "Contingencies", the Company determined in 2005 that capitalized exploration costs in the amount of \$300,240, which were incurred in 2004, were not properly authorized or described in the Company's records and should have been recorded as expenses. This error has been corrected retroactively with the effect that net loss and deficit for the nine months ended December 31, 2004 has been increased by \$300,240 and the balance of deferred exploration costs have been reduced by a corresponding amount.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements as at December 31, 2005.

COMMITMENTS

The Company has, in the normal course of its business, entered into various long-term contracts which include commitments for future payments under contracts for the rental of office premises and other arrangements as follows:

2006	78 100
2007	78 500
2008	80 100
2009	80 100
Thereafter to 2012	66 800
	\$ 383 600

Subsequent to December 31, 2005, the Company has subleased the above rental property.

The Company signed a letter of intent with a company that is going to act as a sponsor in the Company's application for the TSX listing. As part of the agreement, the Company must issue warrants to acquire 50,000 shares of the Company, exercisable for a two-year period at the market price at the date of listing.

The Company entered into various long-term agreements in its normal course of business. Future payments that may be required under these agreements are as follows:

	2006	2007	2008	2009	After	Total
Caribou Property Option Payments	60,000	60,000	60,000	-	-	180,000
Caribou Property Work Requirement	100,000	500,000	500,000	500,000	-	1,600,000
Rental	78,100	78,500	80,100	80,100	66,800	383,600
Total	238,100	638,500	640,100	580,100	66,800	2,163,600

TRANSACTIONS WITH RELATED PARTIES

Fee-based compensation to management for the period ended December 31, 2005 was \$419,710 (\$491,988) for the fiscal period ended December 31, 2004). Mr. Peter Hawley, under his corporation 129043 Canada Inc, received \$202,500 and Mr Roger Scammell \$172,600 in Management Fees. Ms. Janet Horbulyk received \$44,610 in Management Fees for providing the Company with securities and secretarial services. Since the last quarter of 2004, the company uses the services of a private company in which certain current and former employees are shareholders, for payroll and other services relating to the exploration properties in Mexico. The total amount charged by that private company for those services amounted to \$635,910 in 2005 as compared to \$577,695 in 2004.

PROPOSED TRANSACTIONS

In the normal course of business, the Company evaluates property acquisition transactions and, in some cases, makes proposals to acquire such properties. These proposals, which are usually subject to Board, regulatory and, sometimes, shareholder approvals, may involve future payments, share issuances and

property work commitments. As of this date, the Company has a number of possible transactions that it is pursuing. Management is uncertain whether any of these proposals will ultimately be completed.

CHANGE IN ACCOUNTING POLICIES

(a) Stock-based compensation

Prior to April 1, 2004, the Company used the fair value based method to account for stock-based compensation to non-employees. For those awards granted to employees, the Company used the intrinsic value based method, which recognized the compensation cost for awards to employees only when the market price of the Company's common share exceeded the exercise price of the employee stock option at the date of grant. However, the Company disclosed the pro forma effect of using a fair value based method for such stock-based compensation in the notes to the financial statements. Effective April 1, 2004, the Company has adopted, retroactively without restatement of prior periods, the fair value based method to account for stock-based compensation to employees and directors, using an option price model.

(b) Asset retirement obligations

Effective April 1, 2004, the Company adopted the new accounting standard for asset retirement obligations, a standard that applies to future site reclamation costs for the Company's mining properties. Under this standard, future costs to retire an asset including dismantling, remediation and ongoing treatment and monitoring of the site are recognized and recorded as a liability at fair value at the date the liability is incurred. The liability is accreted over time to the estimated amount ultimately payable through periodic charges to earnings. In addition, the asset retirement obligation is capitalized as part of the carrying value of the related mineral property at its initial discounted value and amortized over the mineral properties' useful life. Previously, estimated costs for reclamation of non-producing mining properties were accreted as liabilities when the costs of site clean-up and reclamation could be reasonably estimated.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in confirmation with the Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclose of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

Critical estimates include determination of the net recoverable amount of mining properties and deferred exploration expenses for the purposes of considering whether there has been any indication of impairment. Estimates were also used in determining the useful life of capital assets and their corresponding depreciation amount, the recorded amount of stock compensation expense, income taxes and the estimate of future site reclamation cost.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company currently does not own, hold or have any material interest in, or liability associated with, any derivative instruments. The Company has accounts receivable.

OTHER MD&A REQUIREMENTS

Corporate Update

Ms. Lisa K. Riley, BA, and Mr. D. Roger Scammell BSc, PGeo, were appointed to the Board of Directors in June 2005.

Other

As required by Multilateral Instrument 52-109, the Company has evaluated the effectiveness of its disclosure controls and procedures as of the end of the year ended December 31, 2005 under the supervision and with the participation of the President and the Chief Financial Officer. Based upon, and as of the date of this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective, because of the material weaknesses discussed below. In light of the material weaknesses described below, we performed additional analysis and other post-closing procedures to ensure our consolidated financial statements are prepared in accordance with generally accepted accounting principals. Accordingly, management believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures of our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Scorpio have been detected.

A material weakness is control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Our management has concluded that, as of December 31, 2005 and 2004, our disclosure controls and procedures over financial reporting is not effective

The following material weaknesses has been identified in management's assessment:

- Absence of appropriate review of non-routine or complex accounting matters, related accounting entries, and appropriate documentation, disclosure and application of Canadian. Generally Accepted Accounting Principles (GAAP) for those matters.

Management has undertaken the following actions to address the identified material weakness:

- New staff has been added and mainly a new Chief Financial Officer was appointed in April 2006, new controls will be implemented in the second quarter of 2006 under the responsibility of the Chief Financial Officer and an external accountant.
- The Company has developed and continues to refine policies and procedures for the review, identification, and documentation of non-routine, complex transactions and application of accounting standards to ensure compliance with Canadian GAAP.

As discussed above and in Note 15 of the annual consolidated financial statements, the Company's 2005 financial statements contain a correction of a prior year error with respect to exploration costs of

\$300,240, incurred in 2004, which were capitalized but which were not properly authorized or described in the Company's records. This has been corrected retroactively with the effect of increasing the net loss for the nine-months ended December 31, 2004 by \$300,240 and reducing the balance of deferred exploration costs by a corresponding amount. To address the material weakness in the internal controls, the Company is implementing formal internal controls with respect to authorization of disbursements and the segregation of duties at their operations in Mexico and in Canada.

Additional information relating to the Company is available on the SEDAR website: www.sedar.com under "Scorpio Mining Corporation".

The Canadian Institute of Chartered Accountants has issued a number of pronouncements that will affect the Company's financial reporting in 2006 and beyond. These pronouncements have varying commencement dates. The Company is currently evaluating the implications of these pronouncements on its financial reporting. These pronouncements include:

a) Section 1530 Comprehensive Income

This selection establishes standards for the reporting and display of comprehensive income. It does not address issues of recognition or measurement for comprehensive income of its components.

b) Earnings per Share

Proposed changes would amend the computational guidance in Section 3500 for calculation the number of incremental shares included in diluted earnings per share when applying the treasury stock method.

c) Section 3251 Equity

This section established standards for the presentation of equity and changes in equity during the reporting period.

d) Section 3831 Non-Monetary Transactions

The main feature of this section is a general requirement to measure an asset or liability exchanged or transferred in a non-monetary transaction at fair value, unchanged from the requirement in former section 3830. However, an asset is exchanged or transferred in a non-monetary transaction is measured at its carrying amount when:

- the transaction lacks commercial substance;
- the transaction is an exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange;
- neither the fair value of the asset received nor the fair value of the asset given up is reliably measurable; or
- the transaction is a non-monetary non-reciprocal transfer to owners that represents a spin-off or other form of restructuring or liquidation.

The "commercial substance" criterion replaces the "culmination of earnings" criterion in former Section 3830.

e) Section 3855 Financial Instruments-Recognition and Measurement

This section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives based on specified criteria.

f) Section 3861 Financial Instruments- Disclosure and Presentation

This section establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. The presentation paragraphs deal with classification matters while the presentation paragraphs deal with information about factors that affect the amount, timing and certainty of the entity's future cash flows relating to financial instruments and their business purposes and risks.

g) Section 3865 Hedges

This section establishes standards for when and how hedge accounting, which is optional, may be applied. This section is based on the same four fundamental decisions that serve as cornerstones for Section 3855 above.

h) Section 3051 Investments

This section continues to establish standards for accounting for investments subject to significant influence and for measuring and disclosing certain other non-financial instruments investments. This section also contains new guidance on when an other-than-temporary decline in value of an investment remaining subject to the section has occurred.

i) Other

Other guidance relevant to the Company's financial reporting included two EIC's from the Emerging Issues Committee. EIC-152 addresses issues relating to mining assets, their impairment and their valuation in business combinations. EIC-160 addresses stripping costs incurred in the production phase of a mining operation and how to account for these costs and their related amortization.

Outlook

In 2006, Scorpio will continue exploration and development of its exploration properties and mainly on Nuestra Senora where more than \$10 million will be spent during the year to increase the resources transfer resources and upgrade resources into reserves and continue the underground development of the mine.

Disclosure of Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares. As of April 28, 2006, the Company has 77,051,891 shares issued and outstanding and 102,618,241 fully diluted. The following is a list of outstanding warrants and options:

Warrants Outstanding

Warrants to issue 5,087,200 shares at \$0.75 per share until September 22, 2006

Warrants to issue 15,811,650 shares at \$1.40 per share until April 24, 2008

Stock Options Outstanding

Stock Options to issue 675,000 shares at \$0.66 per share until November 12, 2008
Stock Options to issue 825,000 shares at \$1.91 per share until May 21, 2009
Stock Options to issue 125,000 shares at \$1.05 per share until November 2, 2009
Stock Options to issue 400,000 shares at \$1.14 per share until December 1, 2009
Stock Options to issue 200,000 shares at \$0.61 per share until May 18, 2010
Stock Options to issue 2,292,500 shares at \$0.47 per share until May 18, 2010
Stock Options to issue 100,000 shares at \$1.05 per share until April 13, 2011

If all of these warrants and options were exercised, the Company would receive proceeds of \$25,951,710 and \$3,912,975 respectively. There were no shares subject to Escrow or Pooling Agreements at December 31, 2005.

BY ORDER OF THE BOARD

“Peter J. Hawley”

PETER J. HAWLEY
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Forward Looking Statements

This discussion includes certain statements that may be deemed “forward-looking statements”. All statements in this discussion, other than statements of historical facts, that address future exploration drilling, exploration activities and events or developments that the Company expects, are forward looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continued availability of capital and financing, and general economic, market or business conditions.