

Consolidated financial statements of

Scorpio Mining Corporation

December 31, 2006 and 2005

Scorpio Mining Corporation

December 31, 2006 and 2005

Table of contents

Auditors' report	1
Consolidated statements of operations and deficit	2
Consolidated balance sheets	3
Consolidated statements of cash flows	4
Notes to the consolidated financial statements	5-21

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Auditors' report

To the Shareholders of
Scorpio Mining Corporation

We have audited the consolidated balance sheets of Scorpio Mining Corporation as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) Deloitte & Touche LLP

Chartered Accountants
March 27, 2007

Scorpio Mining Corporation

Consolidated statements of operations and deficit
years ended December 31, 2006 and 2005

	2006	2005
	\$	\$
Interest income	952,196	158,705
Expenses		
General and administrative	1,076,514	739,769
Stock-based compensation	478,508	1,301,839
Write-off of non-producing mining properties and related deferred exploration and development expenditures	372,623	-
Investor relations	237,884	307,928
Transfer agent and listing fees	228,384	37,345
Project evaluation	198,909	-
Travel expenses	191,672	138,156
Professional fees	145,528	239,074
Rent	44,000	121,379
Amortization	11,131	5,119
Accretion of asset retirement obligations	9,780	9,142
Loss on disposal of fixed assets	-	9,125
Foreign exchange gain	(6,077)	(68,083)
	2,988,856	2,840,793
Loss before income taxes	(2,036,660)	(2,682,088)
Income tax (recovery) expense (Note 9)	(432,764)	268,000
Net loss for the year	(1,603,896)	(2,950,088)
Deficit, beginning of year	(12,524,664)	(9,574,576)
Deficit, end of year	(14,128,560)	(12,524,664)
Basic and diluted net loss per share	(0.02)	(0.07)
Weighted average number of common shares - basic and diluted	71,069,091	40,929,250

Scorpio Mining Corporation

Consolidated balance sheets

as at December 31, 2006 and 2005

	2006	2005
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	28,574,199	2,474,840
Taxes and other accounts receivable	1,682,411	439,318
Inventory	1,123,239	549,735
	31,379,849	3,463,893
Machinery and equipment (Note 3)	5,409,753	2,623,072
Non-producing mining properties (Note 4)	2,267,618	2,332,619
Deferred exploration and development expenditures (Note 4)	31,397,483	20,346,904
	70,454,703	28,766,488
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,397,061	362,927
Current portion of obligation under capital lease (Note 5)	77,211	-
	1,474,272	362,927
Obligation under capital lease (Note 5)	99,009	-
Asset retirement obligations (Note 6)	153,252	143,472
Future income taxes (Note 9)	-	473,000
	1,726,533	979,399
Shareholders' equity		
Share capital (Note 7)	68,184,374	34,259,302
Contributed surplus (Note 8)	14,672,356	6,052,451
Deficit	(14,128,560)	(12,524,664)
	68,728,170	27,787,089
	70,454,703	28,766,488

Continuing operations (Note 1)

Contingencies (Note 14)

Approved by the Directors

(Signed) Peter J. Hawley

Peter J. Hawley, Director

(Signed) Robert C. Bryce

Robert C. Bryce, Director

Scorpio Mining Corporation

Consolidated statements of cash flows

years ended December 31, 2006 and 2005

	2006	2005
	\$	\$
Operating activities		
Net loss for the year	(1,603,896)	(2,950,088)
Items not involving cash		
Future income taxes	(473,000)	268,000
Amortization	11,131	5,119
Accretion of asset retirement obligations	9,780	9,142
Stock-based compensation	478,508	1,301,839
Write-off of non-producing mining properties and related deferred exploration and development expenditures	372,625	-
Loss on disposal of fixed assets	-	9,125
	(1,204,852)	(1,356,863)
Change in non-cash working capital items		
Taxes and other accounts receivable	(1,183,659)	413,932
Inventory	(598,026)	(549,735)
Accounts payable and accrued liabilities	228,368	(136,324)
	(2,758,169)	(1,628,990)
Financing activities		
Repayment of obligation under capital lease	(93,305)	-
Issue of capital stock and warrants	45,545,132	2,370,000
Share issue costs	(3,588,032)	-
	41,863,795	2,370,000
Investing activities		
Proceeds on disposal of fixed assets	-	8,903
Acquisition of machinery and equipment	(2,810,420)	(1,159,420)
Acquisition of non-producing mining properties	(65,000)	(195,000)
Deferred exploration and development expenditures	(10,148,375)	(9,488,590)
	(13,023,795)	(10,834,107)
Effect of exchange rate changes on cash and cash equivalents		
	17,528	-
Increase (decrease) in cash and cash equivalents	26,099,359	(10,093,097)
Cash and cash equivalents, beginning of year	2,474,840	12,567,937
Cash and cash equivalents, end of year	28,574,199	2,474,840
Cash and cash equivalents are comprised of		
Cash in bank	4,202,818	224,840
Short-term investments	24,371,381	2,250,000
	28,574,199	2,474,840

Supplementary cash flow information (Note 11)

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2006 and 2005

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. The Company has incurred losses from inception and anticipates that it will require additional financing to complete its properties under development. The Company's ability to continue as a going concern is dependent upon its ability in the future to raise financing to fund development expenditures as required and ultimately to achieve profitable operations.

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. If the Company were unable to continue as a going concern then material adjustments would be required to the carrying value of assets and liabilities and the balance sheet classifications used.

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, Scorpio Gold Corporation 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 determined that it is the primary beneficiary of certain VIEs relating to its Mexican operations and those VIEs are consolidated with the accounts of the Company in these consolidated financial statements.

(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.

(c) *Machinery and equipment*

Machinery and equipment is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over their estimated useful lives which are as follows:

Surface facilities	4 to 8 years
Plant and equipment	8 years
Furniture and office equipment	3 to 12 years

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2006 and 2005

2. Significant accounting policies (continued)

(c) *Machinery and equipment (continued)*

The Company compares the carrying value of machinery and equipment to estimated net recoverable amounts whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. 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 mineral 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 years covered by these financial statements, there was no indication of impairment.

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

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

Deferred exploration and development 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 will be charged to operations on the unit of production method as a proportion of estimated recoverable mineral 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 and development 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 mineral 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. During the year ended December 31, 2006, the Lac Arseneault property and related deferred exploration expenditures totalling \$372,623 have been written off.

(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.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2006 and 2005

2. Significant accounting policies (continued)

(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. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to capital stock.

(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, stock-based compensation expense, amortization, income taxes, asset retirement obligations, and the recoverability of non-producing mining properties, capitalized costs and deferred exploration and development expenditures. Actual results may differ from those estimates.

(i) *Net loss per share*

Basic net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding for the year. The diluted net 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. 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. For the years ended December 31, 2006 and 2005, all of the outstanding stock options and warrants were anti-dilutive.

(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 obligations*

The Company recognizes contractual, statutory and legal obligations 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

December 31, 2006 and 2005

2. Significant accounting policies (continued)

(l) Future accounting changes

(i) Comprehensive income

The Canadian Institute of Chartered Accountants "(CICA)" issued Section 1530 of the CICA Handbook, *Comprehensive Income*, which is effective for fiscal years beginning on or after October 1, 2006. It describes how to report and disclose comprehensive income and its components.

Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than the company's shareholders. It includes items that would not normally be included in net earnings, such as:

- changes in the currency translation adjustment relating to self-sustaining foreign operations; and
- unrealized gains or losses on available-for-sale investments.

The CICA also made changes to Section 3250 of the CICA handbook, *Surplus*, and reissued it as Section 3251, *Equity*. The section is also effective for fiscal years beginning on or after October 1, 2006. The changes in how to report and disclose equity and changes in equity are consistent with the new requirements of Section 1530, *Comprehensive Income*.

The Company is still in the process of evaluating the impact that adoption of this section will have on the Company's future financial statements.

(ii) Financial instruments

The CICA issued Section 3855 of the CICA Handbook, *Financial Instruments - Recognition and Measurement*, and Section 3861, *Financial Instruments - Disclosure and Presentation*. These sections are effective for fiscal years beginning on or after October 1, 2006. It describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

These sections require that:

- all financial assets be measured at fair value, with some exceptions like loans and investments that are classified as held-to-maturity;
- all financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes. Other financial liabilities are measured at fair value;
- all derivative financial instruments be measured at fair value, even when they are part of a hedging relationship; and
- establish presentation and disclosure standards for financial instruments and non-financial derivatives.

The Company is still in the process of evaluating whether the adoption of this section will have a material effect on the Company's future financial statements.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2006 and 2005

2. Significant accounting policies (continued)

(i) *Future accounting changes (changes)*

(iii) Hedges

The CICA recently issued Section 3865 of the CICA Handbook, *Hedges*. The section is effective for fiscal years beginning on or after October 1, 2006, and describes when and how hedge accounting can be used.

Hedging is an activity that may be used by a company to change an exposure to one or more risks by creating an offset between:

- changes in the cash flows attributable to a hedged item and a hedging item; or
- changes resulting from a risk exposure relating to a hedged item and a hedging item.

Hedge accounting makes sure that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of operations in the same period.

Management does not believe that the adoption of this section will have a material impact on the financial statements.

(iv) Accounting changes

The Accounting Standard Board has replaced Section 1506, *Accounting Changes*, with a new section based on International Accounting Standards 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

The main features of the new sections are as follows:

- voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information;
- changes in accounting policies are applied retrospectively unless doing so is impracticable;
- prior period errors are corrected retrospectively; and
- new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors.

The standard is effective for fiscal years beginning on or after January 1, 2007.

Management does not believe that the adoption of this section will have a material impact on the financial statements.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2006 and 2005

3. Machinery and equipment

	2006		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	125,425	-	125,425
Surface facilities	535,791	169,805	365,986
Plant and equipment	5,221,511	629,943	4,591,568
Furniture and office equipment	411,483	84,709	326,774
	6,294,210	884,457	5,409,753

	2005		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Surface facilities	258,550	79,037	179,513
Plant and equipment	2,798,840	457,417	2,341,423
Furniture and office equipment	159,596	57,460	102,136
	3,216,986	593,914	2,623,072

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. Included in plant and equipment is equipment under a capital lease having a cost of \$266,585 and accumulated amortization of \$Nil.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2006 and 2005

4. Non-producing mining properties and deferred exploration and development expenditures

					2006	2005
	Nuestra Senora	Lac Arsenault/ Weir	Cochrane Hill	Caribou Gold Mine	Total	Total
	\$	\$	\$	\$	\$	\$
Non-producing mineral properties						
Balance, beginning of year	1,845,388	130,001	282,230	75,000	2,332,619	2,098,927
Acquisition	-	-	5,000	60,000	65,000	205,000
Disposition	-	-	-	-	-	(15,000)
Write-off	-	(130,001)	-	-	(130,001)	-
Asset retirement obligations	-	-	-	-	-	43,692
Balance, end of year	1,845,388	-	287,230	135,000	2,267,618	2,332,619
Deferred exploration and development expenditures						
Balance, beginning of year	19,585,063	242,622	490,669	28,550	20,346,904	10,529,741
Property maintenance	419,652	-	-	-	419,652	743,898
Mine development	6,026,288	-	-	-	6,026,288	4,402,708
Site administration	1,874,664	-	-	-	1,874,664	1,129,780
Drilling and exploration	2,283,898	-	11,260	89,915	2,385,073	3,116,387
Stock-based compensation	109,367	-	-	-	109,367	-
Transportation and travel	178,632	-	1,152	5,747	185,531	149,356
Depreciation	279,191	-	-	-	279,191	328,573
Field supplies	-	-	2,560	10,875	13,435	4,738
Write-off	-	(242,622)	-	-	(242,622)	-
Government subsidy	-	-	-	-	-	(58,277)
Incurred during the year	11,171,692	(242,622)	14,972	106,537	11,050,579	9,817,163
Balance, end of year	30,756,755	-	505,641	135,087	31,397,483	20,346,904

(a) *Nuestra Senora, Mexico*

In May 2004, the Company acquired full ownership of the property and, as a result, acquired all rights, title and interest to the Nuestra Senora mineral claims.

(b) *Cochrane Hill Property, Nova Scotia*

In August 2002, the Company acquired a 100% interest in the Cochrane Hill Property.

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

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2006 and 2005

4. Non-producing mining properties and deferred exploration and development expenditures (continued)

(c) *Caribou Mine, Nova Scotia*

On April 25, 2005, the Company signed a letter of intent to acquire a 100% interest in the former producing 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. 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 is in compliance with its commitments under the terms of the letter of intent as at December 31, 2006. The Company could elect to make a total cash payment of \$250,000 at any time prior to April 25, 2007 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.

5. Obligation under capital lease

The future minimum lease payments required from equipment under a capital lease agreement is as follows:

	\$
2007	87,375
2008	95,318
2009	7,943
<hr/> Total minimum lease payments	<hr/> 190,636
Amount representing interest at 2.5% over LIBOR	14,416
	<hr/> 176,220
Less: Current portion	77,211
<hr/> Long-term portion	<hr/> <hr/> 99,009

6. Asset retirement obligations

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

	2006	2005
	\$	\$
Asset retirement obligations, beginning of year	143,472	90,638
Addition of provision	-	43,692
Accretion expense	9,780	9,142
<hr/> Asset retirement obligations, end of year	<hr/> 153,252	<hr/> 143,472

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2006 and 2005

6. Asset retirement obligations (continued)

The total undiscounted amount of estimated cash flows required to settle the asset retirement obligations at the Nuestra Senora and Cochrane Hill properties is \$254,000 (2005 - \$254,000), which has been discounted using a credit-adjusted risk free rate of between 5% and 7.5%. All asset retirement obligations are not expected to be paid for several years in the future and are intended to be funded from cash balances at the time of the mine closures.

7. Capital stock

(a) Authorized and issued

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

	2006		2005	
	Number of shares	Amount	Number of shares	Amount
		\$		\$
Issued and paid				
Balance, beginning of year	44,658,291	34,259,302	39,458,291	32,572,024
Issued during the year				
For private placement (i)	35,363,300	32,887,869	5,000,000	2,500,000
For exercise of stock options	740,000	694,972	50,000	28,778
For exercise of broker warrants	184	339	-	-
For exercise of warrants	5,775,900	5,329,156	150,000	90,000
Share issue costs	-	(4,987,264)	-	(931,500)
Balance, end of year	86,537,675	68,184,374	44,658,291	34,259,302

- (i) During the year ended December 31, 2006, the Company closed a brokered private placement and issued a total of 35,363,300 units for gross proceeds of \$40,667,795 in two tranches. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share of the Company at a price of \$1.40 per share. The first tranche closed April 24, 2006 whereby 31,623,300 units were issued including warrants expiring on April 24, 2008. The second tranche closed May 3, 2006 whereby 3,740,000 units were issued including warrants expiring on May 3, 2008. The Company paid a cash commission of \$3,197,828 to the agent and certain finders. The Company also issued a total of 2,120,047 compensation options to the agent and certain finders, each compensation option entitling the holder to purchase a compensation unit at a price of \$1.40 for a period of 24 months from the completion of the placement. Each compensation unit consists of one common share and one-half of one common share purchase warrant.

Each whole warrant, including warrants issued on exercise of compensation units, entitles the holder to acquire one common share of the Company at a price of \$1.40 per share for a period of 24 months from the completion of the private placement.

The Company estimated the fair value of the 17,681,650 warrants issued in the 2006 private placement as \$7,779,926 using the Black-Scholes model assuming no expected dividend yield, an expected life of 2 years, an average expected stock price volatility of 77% and a risk free interest rate of 4.18%. The portion of the \$40,667,795 proceeds of the private placement allocable to the warrants has been recorded as an addition to contributed surplus.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2006 and 2005

7. Capital stock (continued)

(b) Warrants

	2006		2005	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding, beginning of year	5,500,000	0.75	11,580,609	1.46
Issued upon closing of the private placement	17,681,650	1.40	5,500,000	0.75
Issued upon exercise of compensation options	92	1.40	-	-
Exercised	(5,775,900)	0.78	(150,000)	(0.60)
Cancelled/expired	-	-	(11,430,609)	(1.47)
Outstanding, end of year	17,405,842	1.40	5,500,000	0.75

As of December 31, 2006, the Company has warrants outstanding entitling the holders to acquire common shares as follows:

Number of warrants	Exercise price \$	Expiry date
15,649,150	1.40	April 24, 2008
1,756,692	1.40	May 3, 2008
17,405,842		

(c) Compensation options

Under the May 2006 brokered private placement, 2,120,407 compensation options were granted as partial compensation to the agent and certain finders. Each option can be exercised to acquire a compensation unit at \$1.40 per unit until May 2008. Each compensation unit consists of one common share and one-half of one common share purchase warrant. Total compensation unit cost was valued at \$1,399,232 and this fair value was estimated using the Black-Scholes model using no expected dividend yield, an average expected stock price volatility of 77%, a risk-free interest rate of 4.18% and an expected life of 2 years. During the year ended December 31, 2006, 184 compensation options have been exercised.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2006 and 2005

7. Capital stock (continued)

(d) Stock option plan (continued)

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2006:

Exercise price	Weighted average remaining contractual life (in years)	2006	
		Outstanding	Exercisable
\$			
0.47	3.38	2,035,000	2,035,000
0.61	3.38	150,000	150,000
0.66	1.86	600,000	600,000
0.88	4.61	200,000	50,000
0.89	4.46	75,000	37,500
0.95	4.67	100,000	25,000
1.05	3.48	225,000	175,000
1.14	2.92	400,000	400,000
1.28	1.84	30,000	7,500
1.42	4.36	30,000	15,000
1.91	2.39	775,000	775,000
		4,620,000	4,270,000

The weighted average exercise price of outstanding and exercisable stock options is \$0.87.

(e) Stock-based compensation

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

	2006	2005
Expected dividend yield	Nil%	Nil%
Expected stock price volatility	85%	97%
Risk free interest rate	4.17%	3.22%
Expected life	4.83 years	5.00 years
Total stock-based compensation	\$587,875	\$1,301,839

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2006 and 2005

8. Contributed surplus

Contributed surplus consists of the following:

	2006	2005
	\$	\$
Balance, beginning of year	6,052,451	4,067,890
Fair value of stock options issued	587,875	1,301,839
Fair value of compensation units issued to agent and finders (Note 7 (c))	1,399,232	63,300
Fair value of warrants issued upon closing of the private placement (Note 7 (a))	7,779,926	633,200
Transfer to share capital upon exercise of stock options	(329,171)	(13,778)
Transfer to share capital upon exercise of warrants	(817,876)	-
Transfer to share capital upon exercise of broker warrants	(81)	-
Balance, end of year	14,672,356	6,052,451

9. 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 32.90% (2005 - 35.35%) to applicable earnings.

	2006	2005
	\$	\$
Loss before income taxes	(2,036,660)	(2,682,088)
Expected tax benefit	(670,061)	(948,100)
Effect of lower tax rate in foreign jurisdiction	97,819	6,600
Non-deductible expenses	348,163	498,100
Benefit of prior year tax assets not previously recognized	(208,685)	-
Current year tax assets not recognized	-	711,400
Total income tax expense	(432,764)	268,000

The provision for income taxes is made up of the following components:

	2006	2005
	\$	\$
Current	40,236	-
Future	(473,000)	268,000
	(432,764)	268,000

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2006 and 2005

9. Income taxes (continued)

Significant components of the Company's future tax assets and liabilities are shown below:

	2006	2005
	\$	\$
Future tax assets		
Machinery and equipment	10,494	69,000
Non-capital loss carryforwards	10,006,754	5,973,000
Share issue costs	1,167,543	277,000
Total gross future tax assets	11,184,791	6,319,000
Valuation allowance	(2,670,393)	(2,099,000)
Total net future tax assets	8,514,398	4,220,000
Future tax liability for mining properties and development exploration and development expenditures and others	(8,514,398)	(4,693,000)
Net future tax liability	-	(473,000)

The Company has the following non-capital losses for income tax purposes which may be used to reduce future taxable income in Canada and Mexico:

Expiry	Canada	Mexico
	\$	\$
2009	593,000	-
2010	194,000	-
2014	2,052,000	4,900,000
2015	695,000	7,850,000
2016	6,000	18,835,000
	3,540,000	31,585,000

10. Related party transactions

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

	2006	2005
	\$	\$
General and administrative	572,940	247,110
Deferred exploration and development expenditures	225,500	172,600
Project evaluation costs	8,681	-
Share issue costs	138,000	-

During the year ended December 31, 2005, the Company also incurred expenditures of \$635,910 (2006 - \$Nil) with a company in which a former employee was a shareholder. These costs are included in deferred exploration at December 31, 2005.

As at December 31, 2006, an amount of \$188,640 resulting from transactions with related parties is included in accounts payable and accrued liabilities.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2006 and 2005

10. Related party transactions (continued)

The above transactions occurred within the normal course of business and are measured at the exchange amount, which is the amount of considerations established and agreed to by the related parties.

11. Cash flow information

(a) Other supplementary information

	2006	2005
	\$	\$
Income taxes paid	40,236	-

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

	2006	2005
	\$	\$
Amortization of machinery and equipment capitalized in deferred exploration and development expenditures	279,191	328,573
Transfer of contributed surplus to share capital on exercise of stock options	329,171	13,778
Increase in asset retirement obligation	-	43,692
Acquisition of marketable securities as a recovery on mineral properties	-	5,000
Acquisition of capital assets under a capital lease	266,585	-
Stock-based compensation included in deferred exploration and development expenditures	109,367	-
Deferred exploration and development expenditures included in accounts payable	756,267	-
Transfer of contributed surplus to share capital on exercise of warrants	817,876	-
Fair value of compensation options issued on completion of private placement	1,399,232	-

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2006 and 2005

12. Segmented information

(a) *Industry information*

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

(b) *Geographic information*

Interest income in the year ended December 31, 2006 and 2005 was earned in Canada. The Company's non-current non-monetary assets by geographic location are as follows:

	2006	2005
	\$	\$
Canada	2,436,985	1,269,546
Mexico	36,637,869	24,033,049
	39,074,854	25,302,595

13. Financial instruments

(a) *Fair values*

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

The carrying value of the obligation under capital lease approximates its fair value given that it bears interest at rates approximating current market rates.

(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.

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

December 31, 2006 and 2005

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.

The Company is also party to certain other claims incurred in the normal course of business, none of which management believes will have a material impact on the results of operations or financial position of the Company.

15. Comparative figures

Certain comparative figures pertaining to expenses have been reclassified within the statements of operations to conform with the grouping presentation adopted in 2006.

SCORPIO MINING CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

The following Management Discussion and Analysis (MD&A) is for the year ended December 31, 2006 and is provided as of March 27, 2007. This MD&A is to be read in conjunction with the audited consolidated financial statements of Scorpio Mining Corporation (the "Company" or "Scorpio") for the years ended December 31, 2006 and 2005. These documents are available on the Company's website (www.scorpionmining.com) and filed on Sedar (www.sedar.com). All dollar amounts are in Canadian dollars unless otherwise indicated.

Scorpio Mining Corporation is incorporated under the Canada Business Corporations Act. The Company is a reporting issuer under the Reporting Jurisdictions of British Columbia, Alberta, Ontario and Quebec. Scorpio Mining Corporation has been registered on the TSX Exchange under the trading symbol of SPM since October 18, 2006, previously it was listed on the TSX Venture Exchange under the same 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 Señora 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 dollars.

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, 2006	Year ended December 31, 2005
Interest income	\$952,196	\$158,705
Net Loss	(1,603,896)	(2,950,088)
Net Loss per Share	(0.02)	(0.07)
Working capital	29,905,577	3,100,966
Total Assets	70,454,703	28,766,488
Long Term Debt	99,009	Nil

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

Nuestra Señora Property

The Nuestra Señora Project, east of the town of Cosala in the State of Sinaloa, Mexico, is the main focus of Scorpio's exploration and development plans. The property comprises three recorded mineral 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 be determined 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 Señora mineral rights with no underlying royalties or property payments.

Nuestra Señora Deposit

During and subsequent to the year ended December 31, 2006, Scorpio has continued to focus its exploration, development and resource definition efforts on the Nuestra Señora silver, zinc, copper and lead deposit, which during ASARCO's historical operating tenure (1954-1965) was the largest producing deposit on the property.

In 2006, Scorpio drilled 134 underground holes totalling 15,426 metres. The decline ramp and other underground development advanced 560 metres and 1,220 metres respectively. As of the date of this report, a total of 1,517 metres of ramp advance and 2,286 metres of exploration crosscuts, drifts, drill bays and other excavations have been completed by Scorpio within the Nuestra Señora deposit. Underground drilling now totals 27,496 metres in 198 holes.

Surface drilling of the Santo Domingo and Santa Teresa areas in 2006 totalled 3,819 metres in 17 holes. Drilling was suspended in July for the duration of the rainy season and resultant high river levels. Total surface drilling to date at the Nuestra Señora is 67 drill holes totalling 13,489 metres.

The Nuestra Señora decline ramp is now connected to the 8th, 9th and 10th Levels and has advanced to below the elevation of the 10th Level. Ramp development temporarily halted to allow for driving of two cross-cuts to connect it with the Hoag zone. It resumed in January 2007 and as of February 28 was situated 20 metres below the 10th Level. Four exploration drifts were driven off the 9th and 10th Level cross-cuts and delineation drilling of the Nuestra Señora mineralization from these openings is well underway.

In June 2006, Scorpio announced the discovery of the Hoag zone, a large mineralized body discovered by exploration drilling adjacent to the Nuestra Señora deposit. Deeper drilling on the Hoag zone resulted in yet another new discovery, the Sept 9 zone, which also lies in close proximity to the Nuestra Señora deposit and underground workings. In addition to the ramp extension, access drifts and draw points are being driven on the 9th and 10th Levels in the footwall of the Hoag zone in preparation for its exploitation.

Definition drilling of the Nuestra Señora deposit from the 8th Level continued to define the extension of mineralization not tested by previous operator, ASARCO. The mineralized zone extends to the north and south outside and away from the developed area and remains open on strike. In January 2007, Scorpio announced further discoveries of high-grade lenses peripheral to the extensions of the Nuestra Señora deposit. These North and South lenses represent the third and fourth mineralized bodies discovered within a six-month period of drilling. Based on these exploration successes and the need for in-fill drilling below the 10th Level, the 9,000-metre surface and underground drill program proposed in the first quarter of 2006 was increased to 20,000 metres in the second quarter.

The current understanding of the Nuestra Señora, Hoag, Sept 9, North and South lenses and other deposits in the area, is that a series of stacked thrust faults provided the main conduit for mineralizing fluids. Subsequent deformation along the thrust faults created dilational zones, which provided wider structural traps for the emplacement of mineralization. The drill intersections and assay results to date demonstrate strong upside potential for the project. The Hoag and Sept 9 zones do not outcrop at surface but are situated between the Nuestra Señora deposit and the Santo Domingo and Santa Teresa deposits, all of which have surface expressions. Management believes there is excellent potential to continue to find other such "blind" (unexposed) mineralized bodies within the immediate area.

Nuestra Señora Deposit (Continued)

On February 22, 2006, the Company released an Indicated Resource estimate for the Nuestra Señora deposit 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 Resource 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. The resource 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. 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 (Reference: "Technical Report Nuestra Señora Project, Sinaloa, Mexico" dated April 17, 2006; Sedar filing April 18, 2006).

Further drilling and underground sampling allowed for an updated resource that presents a significant increase in tonnage from the February 2006 estimate and upgrades confidence levels. Effective January 9, 2007, Measured & Indicated Resources, using US\$70 per tonne cut-off, total 3,544,378 tonnes grading 118 grams per tonne (g/t) Silver, 2.27% Zinc, 0.38% Copper, 1.06% Lead and 0.15 g/t Gold, and Inferred Resources total 4,107,110 tonnes grading 132 g/t Silver, 2.18% Zinc, 0.22% Copper, 1.00% Lead and 0.185 g/t Gold (Table 1).

Table 1. Nuestra Señora Resource Estimate (January 9, 2007) Using -15% Discounted Metal Prices

Category	Cut-off Grade US\$	Tonnes	Ag g/t	Zn %	Cu %	Pb %	Au g/t
Measured	>=\$70/tonne	2,301,283	119	2.32	0.39	1.09	0.152
Measured	>=\$50/tonne	3,287,516	100	1.91	0.32	0.92	0.132
Indicated	>=\$70/tonne	1,243,095	118	2.18	0.35	1.00	0.160
Indicated	>=\$50/tonne	1,833,590	97	1.81	0.28	0.86	0.137
Measured & Indicated	>=\$70/tonne	3,544,378	118	2.27	0.38	1.06	0.15
Measured & Indicated	>=\$50/tonne	5,121,106	99	1.88	0.31	0.90	0.133
Inferred	>=\$70/tonne	4,107,110	132	2.18	0.22	1.00	0.185
Inferred	>=\$50/tonne	6,669,687	101	1.75	0.19	0.86	0.151

The resource estimate was prepared by independent consultant and qualified person, Denis Boivin, PGeo. (Reference: "Technical Report Nuestra Señora Project, Sinaloa, Mexico" dated February 7, 2007; Sedar filing February 21, 2007). Mineral resources are not reserves and do not have demonstrated economic viability.

Metal prices utilized to determine the cut-off value of the resources were US\$9.76 /oz silver, US\$1.19 /lb zinc, US\$2.55 /lb copper, US\$0.48 /lb lead and US\$510 /oz gold, which represent a 15% discount to average 2006 prices. The range in cut-off grades from US\$50 to US\$70 is due to the current bulk mining scenarios being considered by the Company and the potential of increasing mill throughput. These different cut-off grades will be used in a pre-feasibility study to determine the economic variability of the project.

Nuestra Señora Deposit (Continued)

In February 2007, the Company released metallurgical test results on a sample of mineralized material from the Nuestra Señora deposit. The metallurgical testing produced high-grade, clean copper, lead and zinc concentrates. The Company's mill consultant is conducting additional tests with various flotation reagents to improve and upgrade the selectivity of the sulphides of both grades and recovery. The preliminary flowsheet has been designed and will be finalized once the studies are complete.

Table 2. Metallurgical Test Results - Nuestra Señora Deposit

Product	Wt %	Grade, %, g/t				Distribution, %			
		Cu	Pb	Zn	Ag	Cu	Pb	Zn	Ag
Pb Conc	2.5	16.9	46.5	4.14	4893	26.5	92.3	3.2	70.4
Cu Conc	2.3	32.7	1.25	5.06	1203	47.2	2.3	3.6	16.0
Zn Conc	5.9	6.38	0.36	48.7	226	23.1	1.7	87.6	7.5
Final Tails	89.5	0.059	0.053	0.20	12.0	3.3	3.7	5.5	6.1
Head	100.0	1.59	1.26	3.23	172	100.0	100.0	100.0	100.0

In March 2007, the Company reported additional metallurgical results from SGS Lakefield's metallurgical lab on a sample of mineralized material from the Hoag Zone. Test results were again positive, indicating clean, high-grade copper, lead and zinc concentrates that are compatible with mineralization in the adjacent Nuestra Señora deposit.

Metallurgical Test Results – Hoag Zone

Product	Wt. %	Grade, %, g/t				Distribution, %			
		Cu	Pb	Zn	Ag	Cu	Pb	Zn	Ag
Pb Conc	3.55	2.26	54.10	6.05	1400.00	36.10	93.10	6.40	78.30
Cu/Pb Conc	0.92	9.40	8.00	19.1	330.00	39.00	3.60	5.2	4.80
Zn Conc	4.34	0.66	0.15	55.20	50.00	12.90	0.32	71.30	3.40
Final tails	82.47	0.01	0.028	0.14	0	3.70	1.10	3.40	0
Head	100	0.24	2.54	3.59	63.50	100.0	100.0	100.0	100.0

A 118-hectare section of land located 3 kilometres northwest of the mine site was purchased for the mill site and tailings containment in June 2006. An access road from the mine to the mill site has been completed and has been extended to the tailings impoundment area to allow access for condemnation drilling.

In October 2006, the Company purchased additional processing mill components from the decommissioning of the San Manuel polymetallic mine located in Sonora State, Mexico. This equipment, as well as mill components purchased in 2004 from the San Martin mill facility, has been mobilized to a refurbishment yard in Mazatlan, Mexico. Once refurbished, the various components will be transported to the mill site located near the Nuestra Señora mine.

Construction of a dedicated electrical power line extending from the main hydro line to the Nuestra Señora mine and mill sites is in progress.

Nuestra Señora Deposit (Continued)

The Company accomplished all of its goals set forth for the 2006 program within the prescribed budget.

The planned exploration and development program to June 1st, 2007 is budgeted at \$15,990,000 and includes:

- Continued exploration drilling
- Completion of an updated resource estimate
- Continued metallurgical testing
- Mine planning
- Mill design
- Completion of a pre-feasibility study

A number of mining engineering contracts have been awarded as part of an independent pre-feasibility study and mill design. The study is expected to be completed in April 2007.

The Company has sufficient funds to complete these programs and, subject to positive results, is well-positioned to proceed with mill construction and detailed production planning.

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 option agreement, Scorpio has two remaining payments of \$60,000 each due April 25, 2007 and 2008, totalling \$120,000. A lump sum payment of \$250,000 is also due upon exercise 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%, may be purchased at a cost of \$1,000,000 and the remaining 1.5 % is subject to a right of first refusal in favour of the Company. Outstanding work requirements under the terms of the agreement include \$500,000 each year totalling \$1.5 million due April 25, 2007, 2008 and 2009.

A resource estimate was prepared for the Caribou Deposit by independent Qualified Person Guy MacGillivray, PGeo, based on a compilation of all of the available underground and drill-hole data on the property. The Inferred Resource estimate using uncut gold assays is 350,305 tonnes grading 8.41 g/t gold. Using a statistical cut-off for gold of 47 g/t, the Inferred Resource for the property is 350,305 tonnes grading 5.83 g/t gold. (Reference: "Technical Report - Preliminary Resource Estimate for the Caribou Property and Recommendations for Additional Work" dated December 30, 2006; Sedar filing February 21, 2007). Mineral resources are not reserves and do not have demonstrated economic viability.

Past gold production for the property to a depth of 250 metres totals 3,366,575 grams gold (120,000 oz) or 13,995 grams of gold per vertical metre, from material with an average recovered grade of 0.458 oz/ton.

Caribou Property (Continued)

The geological model is high-grade lode gold mineralization, filling spaces and cracks created by the folding and fracturing of the host rocks. This deformation increased the permeability and thickened the sedimentary beds and mineralized zones at the crest of the folds. The resultant mineralized bodies are pipe shaped, and where situated above one another, are called "saddle reefs." Gold may also be remobilized into bedded leads and/or shear stock-work zones related to cross-cutting fractures. Mineralization on the property occurs in two main deposit styles, bedding parallel quartz veins and flexure-associated quartz stock-work zones with or without related fissure veining.

An exploration program based on the recommendations provided in MacGillivray's report is under consideration.

Cochrane Hill Property

The Cochrane Hill property consists of 65 contiguous claims encompassing 1,192 hectares of land in Guysborough County, Nova Scotia. Fifty-three claims encompassing 848 hectares are held under an option agreement, whereby Scorpio earned a 100% in the claims on November 1, 2005 by making a final cash payment to the property vendor. The claims are 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 remaining 12 claims encompassing 344 hectares were acquired by staking and are 100% owned by Scorpio.

The current land position includes the Crows Nest gold property, a 97-hectare claim block that was staked in 2006 and is contiguous with the original Cochrane Hill property. Apart from acquisition of the Crows Nest claims, no work was performed on the property during the year. The Company is currently contemplating a 2007 exploration program that would include dewatering, bulk sampling and surface and underground drilling of the Cochrane Hill gold deposit.

Lac Arseneault Property

The Lac Arseneault property consists of 30 contiguous claims encompassing 480 hectares, and is located in Bonaventure County on the Gaspé Peninsula of Quebec. Scorpio can vest a 100% interest in the property, subject to a 2% net smelter return 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. (Appalaches) on the Lac Arseneault Property in August 2005. Under the terms of the agreement, Appalaches could 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 completed 28-hole (1,766-metre) diamond drilling program on the property in October 2005. The program concentrated on the Baker vein, a shear-hosted quartz vein with an exposed surface strike length of 45 metres. The drilling 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.

Although Appalaches indicated its intent to conduct a follow-up program for the 2006 field season, Scorpio was informed on July 24, 2006 that Appalaches had chosen to terminate the option agreement. As such, no work was performed on the property in 2006. The Company wrote-off the Lac Arseneault property and related deferred exploration expenditures during 2006. The Company still keeps that property for future consideration.

RESULTS OF OPERATIONS

Scorpio reported a net loss for the year ended December 31, 2006 of \$1,603,896 (\$0.02 per share) compared to \$2,950,088 (\$0.07 per share) for the year ended December 31, 2005. The Company had no operating revenue in either of these periods because the Company is still at the exploration and development stage. During those two years, revenue consisted solely of interest income in the amounts of \$952,196 in 2006 and \$158,705 in 2005.

The general and administrative expenses increased from \$739,769 in 2005 to \$1,076,514 in 2006 due principally to the opening of an administrative office in Val d'Or, Quebec and the hiring of additional personnel which resulted in an increase of \$336,745 during the year. Professional fees decreased from \$239,074 in 2005 to \$145,527 in 2006 mainly due to a decrease in legal fees in 2006. Travel expenses increased by \$53,516 in 2006 compared to 2005 as a result of the increased mine development activities in Mexico. Project evaluation costs were \$198,909 for 2006 compared to nil in 2005, this was caused by the evaluation of projects that were rejected after due diligence work. The stock-based compensation expense decreased from \$1,301,839 to \$478,508 in 2006 because there were less options granted in 2006; 535,000 compared to 2,825,000 in 2005. In 2006, there was a write-off of non-producing mining properties and related deferred exploration and development expenditures for a total of \$372,623 compared to nil in 2005. This write-off was made on the Lac Arseneault property because the Company did not perform exploration on the property during the two previous years and will concentrate its effort on other properties in the future. The transfer agent and listing fees increase from \$37,345 in 2005 to \$228,384 in 2006 because the Company completed the listing of its common shares on the Toronto Stock Exchange (TSX) on October 18, 2006 under the trading symbol, SPM which created a first listing charge of \$153,573.

Income taxes

There was a credit of \$432,764 in 2006 for the income taxes compared to an expense of \$268,000 in 2005. The main difference comes from the future income taxes. In 2005 there were non deductible expenses of \$498,100 compare to \$123,546 in 2006 and also in 2005 there was a tax benefit of losses not recognized of \$711,400.

Liquidity and Capital Resources

Current assets

As of December 31, 2006, the Company had \$28,574,199 in cash and cash equivalents compared to \$2,474,840 as of December 31, 2005. The increase in cash is related to the equity financing completed in the second quarter of 2006 as well as the exercise of warrants and stock options. Gross and net proceeds from the issuance of 35,363,300 units in the equity financing were \$40,667,795 and \$37,079,763 respectively. During the year ended December 31, 2006, a total of \$365,801 was also received from the exercise of 740,000 stock options and \$4,511,538 from the exercise of 5,776,084 warrants.

Working capital was \$29,905,577 as of December 31, 2006 compared to \$3,100,966 as of December 31, 2005.

Long Term Assets

Acquisition of long term assets amounted to \$14,435,425 during the year 2006 compared to \$10,843,010 in 2005. Components of long term assets acquisitions are listed below.

Machinery and Equipment

Acquisitions during the year 2006 totaling \$3,077,224 include the purchase of processing mill equipment and two scooptrams for a total of \$1,574,000 and also include, for an amount of \$125,000, the acquisition of a 118-hectare parcel of land intended as the location for the mill and tailings containment, located some three kilometres northwest of the Nuestra Senora mine site. During the year 2005, all acquisitions of fixed assets was for machinery and equipment at the Nuestra Senora mine site.

Mining Properties and Deferred Exploration and Development Expenditures

During the year 2006 the Company paid an additional \$65,000 on two properties; \$60,000 on the Caribou Gold Mine and \$5,000 on Cochrane Hill.

The total deferred exploration and development expenditures incurred in 2006 were \$11,293,201 compared to \$9,817,163 for the year 2005.

During those two years, most of the exploration and development expenditures, were incurred on the Nuestra Senora property and were mainly mine development, site administration and drilling and exploration.

During 2006, the Company wrote-off the Lac Arseneault mining property and related deferred exploration expenditures for an amount of \$372,623 because there has been no exploration activity in the past two years on that property and there is none planned for the coming year.

The exploration and development work at Nuestra Senora is summarized below:

	Year Ended December 31, 2006	Year Ended December 31, 2005
Diamond Drilling	Metres	Metres
Underground	15,426	12,070
Surface	3,819	9,670
Total	<u>19,245</u>	<u>21,740</u>
Underground Development		Metres
	Metres	
Ramp	560	903
Other Development	1,220	633
Total	<u>1,780</u>	<u>1,536</u>

Note: Ramp development in 2005 includes 142 metres of ramping in the Candelaria deposit.

Liabilities

Current liabilities were \$1,474,272 as of December 31, 2006 compared to \$362,927 as of December 31, 2005. The difference is primarily due to an increase of activities on the Nuestra Senora project in the Mine development.

SUMMARY OF QUARTERLY RESULTS

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

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

Quarter Ending	Interest Income \$	Net Loss \$	Net Loss per share \$
December 31, 2006	291,939	(718,146)	(.02)
September 30, 2006	401,325	(12,480)	(.00)
June 30, 2006	246,592	(452,721)	(.01)
March 31, 2006	12,340	(420,549)	(.01)
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)

FOURTH QUARTER

During the fourth quarter of 2006, interest income was \$291,939 compared to \$109,966 for the same quarter of 2005. The operating expenses were \$1,294,719 compared to \$945,856 for the corresponding quarter of 2005. The significant expenses during the fourth quarter of 2006 were the project evaluation costs for \$198,909 and the write-off of non producing mining properties and related deferred exploration and development expenditures of \$372,623 compared to nil in 2005. The project evaluation and the write-off during the fourth quarter are the main reasons in the increase of the net loss from \$12,480 in the third quarter of 2006 to \$718,146 in the fourth quarter of 2006. The Company invested \$3,475,794 on exploration and development activities primarily related to the Nuestra Senora property during the fourth quarter of 2006 compared to \$2,291,810 for the same period of 2005.

The loss in the fourth quarter of 2006 is \$718,146 compared to a loss of \$1,104,151 for the corresponding period of 2005. The reduction in the loss is mainly due to the reduction in the stock-based compensation expense and the increase in the interest income.

Cash flow

Cash flow used in operating activities was \$2,758,169 in 2006 compared to \$1,628,990 in 2005. This results from the net loss for the year of \$1,603,896 and the changes in non cash working capital items for the taxes and other accounts receivable and inventory in the amounts of \$1,183,659 and \$598,026 respectively. In 2005 the net loss was \$2,950,088 but cash flow used in operations was less as a result of the add back of stock-based compensation of \$1,301,839,

Cash flow from financing activities was \$41,863,795 for the year 2006 compared to \$2,378,903 in 2005. The difference is directly attributable to significant changes in shareholders' equity in the year from a total of \$27,787,089 as of December 31, 2005 to \$68,728,170 as of December 31, 2006. Capital stock increased from \$34,259,302 as of December 31, 2005 to \$68,184,374 as of December 31, 2006. The increase is mainly from the equity financing of \$40,667,795 (gross proceeds) less the issue costs of \$3,588,032. The fair value of compensation options issued to the agent was \$1,399,232 and the fair value of the warrants issued upon closing of the private placement was \$7,779,926. Stock options and warrants exercised during the year also account for values of \$365,801 and \$4,511,538 respectively.

Cash flow (Continued)

Cash flow used in investing activities was \$13,023,795 for the year 2006 compared to \$10,843,010 for the same period of 2005.

COMMITMENTS

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. 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 is in compliance with its commitments under the terms of the option as at December 31, 2006. 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.

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.

The Company is also party to certain other claims incurred in the normal course of business, none of which management believes will have a material impact on the results of operations or financial position of the Company.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements as at December 31, 2006 and 2005.

TRANSACTIONS WITH RELATED PARTIES

The compensation to management and directors and for companies controlled by management and directors for the year ended December 31, 2006 was \$945,121 (\$419,710 for the fiscal period ended December 31, 2005) in Management Fees for providing the Company with administrative services.

CONTRACTUAL OBLIGATIONS

The future minimum lease payments required from equipment under a capital lease agreement from 2007 to 2009 total \$190,636.

PROPOSED TRANSACTIONS

In the normal course of business, the Company evaluates property and project 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.

CRITICAL ACCOUNTING ESTIMATES

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, stock-based compensation expense, asset retirement obligations amortization, income taxes, and the recoverability of non-producing mining properties capitalized costs and deferred exploration and development expenditures. Actual results may differ from those estimates.

The Company reviews the carrying values of its non-producing mining properties and deferred exploration and development 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. During the year ended December 31, 2006, the Lac Arseneault property and related deferred exploration expenditures have been written off.

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.

Financial Condition and Liquidity

The primary factors that will affect the future financial condition of the Company include the continued ability to raise equity capital and the level of exploration and development expenditures required to meet commitments or commercial production. 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 and development activities, and expects to continue to rely on these markets in 2007 and 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 among 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.

OTHER MD&A REQUIREMENTS**Controls and Procedures**

Management is responsible for establishing and maintaining a system of controls and procedures over the public disclosure of financial and non-financial information regarding the Company. Management is also responsible for the design and maintenance of effective internal control over financial reporting to provide reasonable assurance regarding the integrity and reliability of the Company's financial information and the preparation of its financial statements in accordance with the Canadian generally accepted accounting principles. Management maintains appropriate information systems, procedures and controls to ensure integrity of the financial statements and maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable.

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, 2006 by and under the supervision of management including the participation of the Chief Executive officer ("CEO") and the Chief Financial Officer ("CFO"). The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances.

Based upon, and as of the date of this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls were operating effectively as of December 31, 2006.

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, the Company performed additional analysis and other post-closing procedures to ensure our consolidated financial statements are prepared in accordance with generally accepted accounting principles. 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.

Management of the Company, including our Chief Executive Officer and Chief Financial Officer, do 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. Management of the Company has concluded that, as of December 31, 2005 the Company's internal control over financial reporting were not effective based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework.

The following material weaknesses were identified in management's assessment as at December 31, 2005

- 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 in 2006

- New staff has been added and a new Chief Financial Officer was appointed in April 2006, new controls have been implemented during the year 2006 under the responsibility of the Chief Financial Officer.
- 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.

Controls and Procedures (Continued)

As discussed above and in Note 14 of the annual consolidated financial statements, the Company's 2005 financial statements contain expenditures in the amount of approximately \$410,000, which were incurred in the period from December 2004, to January 31, 2005 but which were not properly authorized or described in the Company's records.

To address the material weakness in the internal controls, the Company has implemented in 2006 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".

CHANGE IN ACCOUNTING POLICIES

Future accounting changes

The Canadian Institute of Chartered Accountants "(CICA)" issued Section 1530 of the CICA Handbook, *Comprehensive Income* which is effective for fiscal years beginning on or after October 1, 2006. It describes how to report and disclose comprehensive income and its components.

Comprehensive income is the change in a Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders. It includes items that would not normally be included in net earnings, such as:

- changes in the currency translation adjustment relating to self-sustaining foreign operations
- unrealized gains or losses on available for-sale investments.

The CICA also made changes to Section 3250 of the CICA handbook, *Surplus*, and reissued it as Section 3251, *Equity*. The section is also effective for fiscal years beginning on or after October 1, 2006. The changes in how to report and disclose equity and changes in equity are consistent with the new requirements of Section 1530, *Comprehensive Income*.

Financial Instruments

The CICA issued Section 3855 of the CICA Handbook, *Financial Instruments – Recognition and Measurement* and Section 3861 *Financial Instruments – Disclosure and Presentation*. These sections are effective for fiscal years beginning on or after October 1, 2006. It describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

Financial Instruments (Continued)

These sections require that:

- all financial assets be measured at fair value, with some exceptions like loans and investments that are classified as held-to-maturity;

- all financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes. Other financial liabilities are measured at fair value;
- all derivative financial instruments be measured at fair value, even when they are part of a hedging relationship; and
- establish presentation and disclosure standards for financial instruments and non-financial derivatives.

The Company is still in the process of evaluating whether the adoption of the sections will have a material effect on the Company's financial statements.

Hedges

The CICA recently issued Section 3865 of the CICA Handbook, *Hedges*. The section is effective for fiscal years beginning on or after October 1, 2006, and describes when and how hedge accounting can be used.

Hedging is an activity that may be used by a Company to change an exposure to one or more risks by creating an offset between:

- changes in the cash flows attributable to a hedged item and a hedging item, or
- changes resulting from a risk exposure relating to a hedged item and a hedging item.

Hedge accounting makes sure that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of operations in the same period.

Management does not believe that the adoption of this section will have a material impact on the financial statements.

Accounting changes

The Accounting Standard Board has replaced section 1506, *Accounting Changes*, with a new section based on International Accounting Standards 8, *Accounting Policies, changes in Accounting Estimates and Errors*.

The main features of the new sections are as follows:

- Voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information.
- Changes in accounting policies are applied retrospectively unless doing so is unpracticable.

Accounting changes (Continued)

- Prior period errors are corrected retrospectively.
- New disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors.

The standard is effective for fiscal years beginning on or after January 1, 2007.

Management does not believe that the adoption of this section will have a material impact on the financial statements.

Outlook

In 2007, Scorpio will continue to explore and develop its exploration properties and mainly Nuestra Senora where more than \$30 million will be spent during the year to increase and upgrade mineral resources, continue the underground development of the mine, complete a pre-feasibility study and build a Mill processing plant of 1000 tons per day.

Disclosure of Outstanding Share Data**Share capital as of March 27, 2007**

Outstanding common shares	87,264,768
Broker compensation options (including related share purchase warrants)	3,169,683
Share purchase Warrants	17,314,401
Options	<u>4,055,000</u>
Fully diluted	<u><u>111,803,852</u></u>

On March 4th, 2007, the Company granted, subject to shareholder and regulatory approval, 3,400,000 options to directors, employees and consultants at an exercise price of \$1.88 for 5 years. These options, still subject to shareholder and regulatory approval are in addition of those in the above table.

If all of the warrants, options and the broker options were exercised, the Company would receive proceeds of \$24,343,045, \$4,442,527 and \$4,442,528 respectively. There were no shares subject to Escrow or Pooling Agreements at December 31, 2006.

BY ORDER OF THE BOARD

“Peter J. Hawley”

PETER J. HAWLEY
CHAIRMAN 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.