

Consolidated financial statements of

Scorpio Mining Corporation

December 31, 2008 and 2007

Scorpio Mining Corporation

December 31, 2008 and 2007

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Management's responsibility for financial reporting

The accompanying consolidated financial statements of Scorpio Mining Corporation were prepared by management, which is responsible for the integrity and fairness of the information presented including the many amounts that must of necessity be based on estimates and judgements. These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Financial information appearing throughout our management's discussion and analysis is consistent with these consolidated financial statements.

In discharging our responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, we maintain the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include quality standards in hiring employees, policies and procedure manuals.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit Committee, which is composed entirely of directors who are neither officers nor employees of Scorpio Mining Corporation. This Committee reviews our consolidated financial statements and recommends them to the Board for approval. Other key responsibilities of the Audit Committee include reviewing our existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues.

Deloitte & Touche LLP, Chartered Accountants appointed by the shareholders of Scorpio Mining Corporation upon the recommendation of the Audit Committee and Board, have performed an independent audit of the consolidated financial statements and their report follows. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

(Signed) Peter J. Hawley

Peter J. Hawley
Chief Executive Officer

(Signed) Gilbert Comtois

Gilbert Comtois, CA
Chief Financial Officer

March 26, 2009

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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, 2008 and 2007 and the consolidated statements of operations, shareholders' equity 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, 2008 and 2007 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 26, 2009

Scorpio Mining Corporation

Consolidated statements of operations

years ended December 31, 2008 and 2007

	2008	2007
	\$	\$
Interest income	244,444	681,934
Expenses		
Impairment of property, plant and equipment, mining properties and related deferred exploration and development expenditures (Note 8)	84,245,516	68,500
Interest and financing (Note 12)	2,358,992	11,999
General and administrative	1,737,294	1,817,181
Stock-based compensation	1,212,836	3,639,699
Investor relations	653,939	418,851
Severance payments	640,456	-
Professional fees	337,595	298,851
Business development	299,239	507,062
Accretion of asset retirement obligations	78,868	66,131
Transfer agent and listing fees	66,641	56,312
Rent	59,057	70,180
Amortization	54,000	43,043
Loss on disposal of property, plant and equipment and other	44,512	11,897
Gain on dilution of a subsidiary	-	(88,268)
Foreign exchange (gain) loss	(865,781)	1,075,502
	90,923,164	7,996,940
Loss before income taxes and non-controlling interest	(90,678,720)	(7,315,006)
Income tax expense (Note 13)	55,381	-
Loss before non-controlling interest	(90,734,101)	(7,315,006)
Non-controlling interest	34,934	24,611
Net loss and comprehensive loss for the year	(90,699,167)	(7,290,395)
Basic and diluted net loss per share	(0.82)	(0.08)
Weighted average number of common shares - basic and diluted	109,996,003	90,460,246

Scorpio Mining Corporation

Consolidated statement of shareholders' equity

years ended December 31, 2008 and 2007

	Common shares		Contributed surplus	Equity	Deficit	Total shareholders' equity
	Shares	Amount		component of convertible debentures		
		\$	\$	\$	\$	\$
Balance at December 31, 2006	86,537,675	68,184,374	14,672,356	-	(14,128,560)	68,728,170
Net loss for the year	-	-	-	-	(7,290,395)	(7,290,395)
Issued on private placement	15,715,000	20,115,200	1,885,800	-	-	22,001,000
Share issue costs	-	(2,391,708)	627,029	-	-	(1,764,679)
Stock-based compensation	-	-	4,009,502	-	-	4,009,502
Exercise of stock options	1,482,500	1,947,734	(942,059)	-	-	1,005,675
Exercise of warrants	926,427	1,704,626	(407,628)	-	-	1,296,998
Exercise of broker compensation options	8,257	15,193	(3,633)	-	-	11,560
For acquisition of non-producing mining property	50,000	68,500	-	-	-	68,500
Balance at December 31, 2007	104,719,859	89,643,919	19,841,367	-	(21,418,955)	88,066,331
Net loss for the year	-	-	-	-	(90,699,167)	(90,699,167)
Share issue costs	-	(1,554)	-	-	-	(1,554)
Value of equity component of convertible debentures (Note 9)	-	-	-	1,998,212	-	1,998,212
Issue costs of convertible debentures allocated to equity component (Note 9)	-	-	-	(113,487)	-	(113,487)
Stock-based compensation	-	-	1,392,179	-	-	1,392,179
Exercise of stock options	5,000	8,650	(4,200)	-	-	4,450
Exercise of warrants	7,292,142	13,417,541	(3,208,542)	-	-	10,208,999
Exercise of broker compensation options	106,068	195,165	(46,670)	-	-	148,495
Balance at December 31, 2008	112,123,069	103,263,721	17,974,134	1,884,725	(112,118,122)	11,004,458

Scorpio Mining Corporation

Consolidated balance sheets

as at December 31, 2008 and 2007

	2008	2007
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	4,448,315	17,563,300
Accounts receivable and other	2,272,456	3,791,540
Inventories (Note 5)	3,571,282	3,961,836
	10,292,053	25,316,676
Property, plant and equipment (Note 6)	7,292,996	16,903,377
Non-producing mining properties (Note 7)	1,049,518	2,528,191
Deferred exploration and development expenditures (Note 7)	13,755,422	48,434,461
	32,389,989	93,182,705
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,703,473	4,024,914
Current portion of obligation under capital lease	37,559	76,438
	1,741,032	4,101,352
Obligation under capital lease	-	6,644
Long-term debt (Note 9)	18,382,634	-
Asset retirement obligations (Note 10)	1,160,921	874,265
	21,284,587	4,982,261
Non-controlling interest	100,944	134,113
Shareholders' equity		
Share capital (Note 11)	103,263,721	89,643,919
Contributed surplus	17,974,134	19,841,367
Equity component of convertible debentures	1,884,725	-
Deficit	(112,118,122)	(21,418,955)
	11,004,458	88,066,331
	32,389,989	93,182,705

Continuing operations (Note 1)

Contingencies (Note 17)

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, 2008 and 2007

	2008	2007
	\$	\$
Operating activities		
Net loss for the year	(90,699,167)	(7,290,395)
Items not involving cash		
Amortization and accretion	513,714	109,174
Non-controlling interest	(34,934)	(24,611)
Stock-based compensation	1,212,837	3,639,699
Impairment of property, plant and equipment, mining properties and related deferred exploration and development expenditures	84,245,516	68,500
Loss on disposal of property, plant and equipment and other	44,512	11,897
Gain on dilution of a subsidiary	-	(88,268)
	(4,717,522)	(3,574,004)
Change in non-cash working capital items		
Accounts receivable and other	1,462,805	(2,546,200)
Inventories	421,438	(2,782,866)
Accounts payable and accrued liabilities	71,505	(334,842)
	(2,761,774)	(9,237,912)
Financing activities		
Short-term loan	10,000,000	-
Repayment of short-term loan	(10,000,000)	(47,996)
Issue of convertible debentures	20,000,000	-
Issue of share capital and warrants	10,361,944	24,315,231
Share issue costs	(121,961)	(1,644,271)
Issue costs of convertible debentures allocated to equity component	(113,487)	-
Funds received by Scorpio Gold Corporation as share subscription and share issuance	-	742,500
Repayment of obligation under capital lease	(217,763)	(69,741)
	29,908,733	23,295,723
Investing activities		
Deferred exploration and development expenditures, net	(20,125,039)	(16,189,760)
Acquisition of property, plant and equipment	(20,269,988)	(8,803,915)
Proceeds from sale of property, plant and equipment	8,325	160,889
Proceeds from option agreement	20,000	-
Cash received from Scorpio Gold Corporation (Note 7 (d))	-	176,900
Acquisition of non-producing mining properties	(60,000)	(60,000)
Subscription cash decrease as a result of de-consolidation of Scorpio Gold Corporation	-	(638,976)
	(40,426,702)	(25,354,862)
Effect of exchange rate changes on cash and cash equivalents	164,758	286,152
Decrease in cash and cash equivalents	(13,114,985)	(11,010,899)
Cash and cash equivalents, beginning of year	17,563,300	28,574,199
Cash and cash equivalents, end of year	4,448,315	17,563,300
Cash and cash equivalents are comprised of		
Cash in bank	1,435,621	2,571,768
Short-term investments	3,012,694	14,991,532
	4,448,315	17,563,300

Supplementary cash flow information (Note 15)

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2008 and 2007

1. Continuing operations

The Company was incorporated under the Canada Business Corporations Act on May 12, 1998 and conducts exploration and development on mining properties in Canada and Mexico. From July 29, 2008, the Company began producing metal concentrate at its Nuestra Señora mine. Effective January 1, 2009, the Nuestra Señora mine achieved commercial production.

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 has incurred losses since inception and the Company's mining operations have not yet generated positive cash flows as of December 31, 2008. The Company's ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations under prevailing market metal prices or its ability to raise equity or debt financing. 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 100% owned subsidiaries, Scorpio Holding One Limited, Scorpio Holding Two Limited and Minera Cosala S.A. de C.V. and its 93.5% owned subsidiary, Scorpio Gold Corporation ("Scorpio Gold").

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) Changes in accounting policies

(i) Going concern

Effective as at January 1, 2008, the Company adopted changes to Canadian Institute of Chartered Accountants, ("CICA") Handbook Section 1400, *General Standards of Financial Statement Presentation*, which now requires management to make an assessment as to the Company's ability to continue as a going concern. In making this assessment management takes into account all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. Disclosure is required of any material uncertainties related to events or condition that may cast significant doubt upon the Company's ability to continue as a going concern.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2008 and 2007

2. Significant accounting policies (continued)

(b) *Changes in accounting policies (continued)*

(ii) Financial instrument disclosure

On January 1, 2008, the Company adopted Section 3862, *Financial Instruments - Disclosures*, and Section 3863, *Financial Instruments - Presentation*, which together comprise a complete set of disclosure and presentation requirements that revise and enhance current disclosure requirements for financial instruments. Section 3862 requires disclosure of additional detail by financial asset and liability categories. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

The adoption of these new accounting standards had no effect on the current or comparative balance sheet or results of operations. Certain note disclosures and statement presentation have been revised to conform with these new standards.

(c) *Revenue recognition*

Revenue from sales of concentrates prior to commencement of commercial production is recorded as a reduction of deferred exploration and development expenditures.

Commercial production is deemed to have commenced when management determines that the completion of operational commissioning of major mine and processing plant components is completed, operating results are being achieved consistently for a period of time and that there are indicators that these operational results, including mill capacity and recovery, will be continued.

Revenue from the sales of metal concentrate is recognized when title transfers and the rights and obligations of ownership pass to the customer, the sales price is fixed or determinable and collectable and is reasonably assured. The Company's sales of concentrates are made under pricing arrangements where the final sales prices are determined by quoted market prices in a period subsequent to the date of sale. In these circumstances, revenue from sales is recorded at the time of sale based on forward prices for the expected date of final settlement. Subsequent variations in prices are recognized as revenue adjustments as they occur. For changes in metal quantities upon receipt of new information and assays, the provisional sales quantities are adjusted as well.

(d) *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. The Company does not use any derivative instruments to hedge its currency risk with respect to foreign currencies.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2008 and 2007

2. Significant accounting policies (continued)

(e) *Property, plant and equipment*

Property, plant 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

The Company compares the carrying value of property, plant 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 estimated undiscounted future cash flows expected from the use of the property, plant 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, the profitable production of mineral reserves into concentrate on the related mining properties, alternative uses of the equipment and its potential resale value. Impairment in value would be indicated if the assets' carrying value exceeds its estimated recoverable amount. When the carrying value of those assets exceeds the related undiscounted cash flows, they are written down to their estimated fair value which is determined using discounted cash flows.

(f) *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, 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. When the carrying value of those assets exceeds the related undiscounted cash flows, they are written down to their estimated fair value which is determined using discounted cash flows.

(g) *Inventories*

Supplies are recorded at the lower of cost, using the weighted average cost formula and net realizable value. In the event that the cost of ore inventory produced using these supplies exceeds its net realizable value, then the supplies are written down to net realizable value. In such circumstances, the Company uses replacement cost as the best available measure of the net realizable value of supplies.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2008 and 2007

2. Significant accounting policies (continued)

(g) *Inventories (continued)*

Ore represents material that is expected to be processed into a saleable form and sold at a profit and is recorded at the lower of cost and net realizable value. Ore is recorded as an asset that is classified within inventory at the point that it is extracted from the mine. Ore is accumulated in stockpiles. Ore stockpile is measured by estimating the number of tons of the stockpile, the amount of contained metal (based on assay data) and the estimated metallurgical recovery rates (based on the expected processing method). Costs are allocated to the stockpile using current mining costs incurred up to the point of stockpiling the ore. Provisions, if any, are recorded to reduce inventory to net realizable value.

Concentrate inventory is recorded at the lower of cost and net realizable value.

(h) *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. 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.

(i) *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 either charged to operations or capitalized to exploration or development expenditures, as appropriate, with an offsetting credit to contributed surplus, over the vesting period of the option. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital.

(j) *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, valuation of ore stockpiles and concentrate inventory, the accounting for stock-based compensation expense, the revenue recognition, calculation of amortization, the provision for income taxes, the anticipated costs of asset retirement obligations and the recoverability of non-producing mining properties, and deferred exploration and development expenditures. Actual results may differ from those estimates.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2008 and 2007

2. Significant accounting policies (continued)

(k) *Loss per share*

Basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding for the year. 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. 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, 2008 and 2007, all of the outstanding convertible debentures, stock options and warrants were anti-dilutive.

(l) *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.

(m) *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.

(n) *Financial instruments*

The Company classifies its financial instruments into one of the following categories: held-for-trading (assets and liabilities), assets available-for-sale, loans and receivables, assets held-to-maturity and other financial liabilities. All financial instruments are measured at fair value on initial recognition.

Financial assets and liabilities designated as "held-for-trading" are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets designated as "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax. Transaction costs from held-for-trading financial assets and liabilities and from available for-sale financial assets are recognized in earnings.

Financial assets designated as "held-to-maturity" or "loans and receivables", and financial liabilities designated as "other financial liabilities" are recorded at amortized cost. Transaction costs from loans and receivables increase the carrying amount of the related financial assets. Transaction costs from other financial liabilities are recognized in earnings.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2008 and 2007

2. Significant accounting policies (continued)

(n) *Financial instruments (continued)*

The Company has designated cash equivalents as “held-for-trading”. Accounts receivable and other are classified as “loans and receivables” and accounts payable, obligation under capital lease and long-term debt are classified as “other financial liabilities”.

(o) *Comparative figures*

Certain comparative figures have been reclassified to conform with the grouping presentation adopted in 2008.

3. Recent accounting pronouncements

(a) *Goodwill and intangible assets*

In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, replacing Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. The new pronouncement establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. Furthermore, Emerging Issues Committee (“EIC”) Abstract 27, *Revenues and Expenditures during the Pre-operating Period*, is no longer applicable for companies that have adopted Section 3064. The section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. This standard is not expected to have a material impact on the Company’s financial condition or operation results.

(b) *Convergence with International Financial Reporting Standards*

In January 2006, the CICA Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada and the expected convergence with International Financial Reporting Standards (“IFRS”) by the end of 2011. On February 13, 2008 the Canadian AcSB confirmed 2011 as the official changeover date for publicly listed Canadian companies to start using IFRS. The transition will affect interim and annual financial statements relating to years beginning on or after January 1, 2011. The impact of the transition to IFRS on the Company’s consolidated financial statements has not yet been determined.

(c) *Business combinations*

In January 2009, the CICA issued Section 1582, *Business Combinations*. This section, which replaces the former Section 1581, *Business Combinations*, establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, *Business Combinations* (January 2008).

The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. If an entity applies this section before January 1, 2011, it shall disclose that fact and apply Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*, at the same time.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2008 and 2007

3. Recent accounting pronouncements (continued)

(d) *Consolidated financial statements*

In January 2009, the CICA issued Section 1601, *Consolidated Financial Statements*. This section, which, together with new Section 1602, replaces the former Section 1600, *Consolidated Financial Statements*, establishes standards for the preparation of consolidated financial statements.

The section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. An entity adopting this section for a fiscal year beginning before January 1, 2011 also adopts Section 1582, *Business Combinations*, and Section 1602, *Non-Controlling Interests*.

(e) *Non-controlling interests*

In January 2009, the CICA issued Section 1602, *Non-Controlling Interests*. This new section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, *Consolidated and Separate Financial Statements* (January 2008).

This section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption permitted as of the beginning of a fiscal year. An entity adopting this section for a fiscal year beginning before January 1, 2011 also adopts Section 1582, *Business Combinations*, and Section 1601, *Consolidated Financial Statements*.

4. Financial instruments

(a) *Financial risk factors*

As at December 31, 2008, the Company's risk exposures and the impact on the Company's financial instruments are summarized below:

(i) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is attributable to cash and cash equivalents and trade receivables on concentrate sales. The credit risk on cash and cash equivalents is limited because the Company invests its cash equivalents in deposits with well capitalized financial institutions with strong credit ratings. During 2008, all concentrate sales were to two customers as per its offtake agreements. The Company manages this risk by receiving advances of 80% to 95% of the value of the concentrate shipped. As at December 31, 2008, the Company's exposure to credit risk with respect to trade receivables amounts to \$86,041 (US\$70,226).

The Company's credit risk has not changed significantly from prior years.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2008 and 2007

4. Financial instruments (continued)

(a) *Financial risk factors (continued)*

(ii) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's current policy to manage liquidity risk related to cash and cash equivalents is to invest excess cash in highly liquid investments with maturity of 90 days or less. As at December 31, 2008, the Company has cash and cash equivalents of \$4,448,315 to settle current liabilities of \$1,741,032. The Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms except the obligation under capital lease for an amount of \$37,559 that will be paid in instalments until April 2009 and convertible debentures in the principal amount of \$20,000,000 which mature in May 2011.

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and price risk.

(1) Interest rate risk

As at December 31, 2008, the Company has \$3,012,694 in short-term investments. Management believes the interest rate risk is insignificant since the short-term investments have a maturity of 90 days or less.

The Company is also party to an obligation under capital lease, bearing interest at variable rates with a balance of \$37,559 as at December 31, 2008. Management believes that a fluctuation of 1% in the interest rate over a 12 month period would have an insignificant impact on the interest on the obligation under capital lease reported in these consolidated statements of operations. The Company's convertible debentures carry a fixed interest rate of 7% per annum and accordingly are not subject to interest rate risk.

(2) Currency risk

The Company is exposed to currency risk on fluctuations related to cash and cash equivalents, account receivables and other, accounts payable and obligation under capital lease that are denominated in U.S. dollars ("US\$") and Mexican pesos ("MXP").

The Company does not use derivatives to manage its exposure to currency risk.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2008 and 2007

4. Financial instruments (continued)

(a) *Financial risk factors (continued)*

(iii) Market risk (continued)

(2) Currency risk (continued)

As at December 31, 2008, the Company is exposed to foreign currency risk through the following financial assets and liabilities denominated in U.S. dollars and Mexican pesos:

	2008	
	US\$	MXP
Cash and cash equivalents	215,731	5,226,901
Accounts receivable and other	70,226	15,151,842
Accounts payable and accrued liabilities	371,113	17,792,294
Obligation under capital lease	30,655	-

A +/- 10% fluctuation in U.S. currency rates would affect earnings (loss) by approximately \$14,000 and a +/- 10% fluctuation in MXP currency rates would affect earnings (loss) by approximately \$23,000.

(3) Price risk

The price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments in the market. As at December 31, 2008, the Company has trade receivables related to the sale of lead concentrate amounting to \$86,041 (US\$70,226). Management believes that price risk with respect to lead concentrate is insignificant. As at December 31, 2008 the Company has amounts that had only been provisionally priced related to the sale of zinc concentrate amounting to \$599,120 (US\$489,000). A +/- 20% fluctuation in zinc and silver prices would affect this trade receivable by approximately \$220,000 (US\$180,000).

The Company did not use derivatives in 2008 to manage its exposure to price risk.

(b) *Fair values*

The carrying amount of cash and cash equivalents, accounts receivable and other, and accounts payable approximate their fair value due to their short-term nature. The carrying amount of the obligation under capital lease approximates its fair value since its interest rate is LIBOR based and accordingly fluctuates with market. Management estimates the fair value of long-term debt (convertible debentures) to be \$17,850,000 which is based on the discounted value of future payments required under the debentures.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2008 and 2007

5. Inventories

	2008	2007
	\$	\$
Concentrate	912,110	-
Supplies	2,588,415	1,538,388
Ore stockpile	70,757	2,423,448
	3,571,282	3,961,836

During the year ended December 31, 2008, inventory included as an expense is \$Nil (2007 - \$Nil). Ore stockpile inventory was written down by \$2,309,676 (2007 - \$Nil) and concentrate inventory was written down by \$1,158,931 (2007 - \$Nil). Those amounts were capitalized in deferred exploration and development expenditures under mine development.

6. Property, plant and equipment

				2008
	Cost	Accumulated amortization	Impairment	Net book value
	\$	\$	\$	\$
Land	1,233,078	-	992,697	240,381
Surface facilities	759,238	389,131	258,462	111,645
Plant and equipment	33,716,852	1,615,279	25,468,441	6,633,132
Furniture and office equipment	918,990	280,359	330,793	307,838
	36,628,158	2,284,769	27,050,393	7,292,996

				2007
	Cost	Accumulated amortization		Net book value
	\$	\$		\$
Land		1,136,157	-	1,136,157
Surface facilities		666,802	256,392	410,410
Plant and equipment		5,105,942	1,072,067	4,033,875
Furniture and office equipment		603,470	153,932	449,538
Construction in progress		10,873,397	-	10,873,397
		18,385,768	1,482,391	16,903,377

Included in property, plant and equipment is the Company's Nuestra Señora processing mill facility, and other equipment that is not yet subject to depreciation having a cost after impairment of \$5,836,266. Depreciation of the mill facility and tailings pond will start upon commencement of commercial production and depreciation of other equipment will begin once it is put into use.

Included in plant and equipment is equipment under capital lease having a cost of \$171,564 (2007 - \$266,585) and accumulated amortization of \$14,420 (2007 - \$29,690). The net book value is \$30,634 (2007 - \$236,895) after an impairment of \$126,510.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2008 and 2007

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

				2008	2007
	Nuestra Señora	Cochrane Hill	Caribou	Total	Total
	(a)	(b)	(c)		
	\$	\$	\$	\$	\$
Non-producing mineral properties					
Balance, beginning of year	1,886,419	245,186	396,586	2,528,191	2,267,618
Acquisitions	-	-	60,000	60,000	128,500
Proceeds from option agreement	-	(20,000)	-	(20,000)	-
Impairment	(1,518,673)	-	-	(1,518,673)	(68,500)
Acquisition of non-producing mining property cost of					
Scorpio Gold (d)	-	-	-	-	220,141
Asset retirement obligations	-	-	-	-	41,031
Reduction on transfer of properties to Scorpio Gold (d)	-	-	-	-	(60,599)
Balance, end of year	367,746	225,186	456,586	1,049,518	2,528,191
Deferred exploration and development expenditures					
Balance, beginning of year	48,212,093	-	222,368	48,434,461	31,397,483
Mine development	13,511,153	-	-	13,511,153	5,266,017
Drilling and exploration	4,212,003	-	-	4,212,003	4,792,949
Site administration	2,999,967	-	3,773	3,003,740	2,710,405
Sales of concentrate	(1,412,301)	-	-	(1,412,301)	-
Electric power line	526,834	-	-	526,834	2,177,402
Roads	165,584	-	-	165,584	1,604,826
Depreciation of property, plant and equipment	717,868	-	9,996	727,864	537,894
Stock-based compensation	179,343	-	-	179,343	369,803
Depreciation of asset under capital lease	45,928	-	-	45,928	29,690
Proceeds from option agreement	-	-	-	-	(10,000)
Field supplies	-	-	17,553	17,553	78,503
Permitting and other	-	-	19,710	19,710	126,135
Incurred during the year	20,946,379	-	51,032	20,997,411	17,683,624
Impairment	(55,676,450)	-	-	(55,676,450)	-
Reduction on transfer of properties to Scorpio Gold (d)	-	-	-	-	(646,646)
Balance, end of year	13,482,022	-	273,400	13,755,422	48,434,461

(a) *Nuestra Señora, 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 Señora mineral claims.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2008 and 2007

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

(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 ("NSR") royalty to the original owner. The Company has the option to buy back 2% of the NSR royalty for \$500,000 for the first 1% and \$1,000,000 for the second 1%.

On May 30, 2007, the Company granted to a third party the option to acquire a 60% interest in the Cochrane Hill Property. In order to maintain its option, the third party must incur a minimum cumulative expenditure amount of \$4.75 million and make cash payments of \$100,000 within certain time limits.

(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 (all paid) in each of the next three years with a work commitment of \$500,000 per year. During 2007, the property owner agreed to delay the commencement of work commitments from April 2007 to April 2008. This work deferral has been further extended to April 2010 due to required permits for recommenced work program not being issued. Outstanding work commitments remain at an aggregate total of \$1,500,000, with all work to be completed by April 2011. Upon exercise of the option, the property will remain subject to a 2.5% NSR royalty in favour of the vendor. The Company retains the right to purchase 1% of the NSR royalty for the sum of \$1,000,000. Upon exercise of the option, the Company must also make an advance royalty payment of \$250,000 which will be credited against future NSR royalty payments.

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Notes to the consolidated financial statements

December 31, 2008 and 2007

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

(d) *Sale of interest in Canadian non-producing mining properties*

On August 9, 2007, pursuant to a transfer agreement between the Company and Scorpio Gold, the Company transferred its Caribou, Cochrane Hill and Lac Arsenault non-producing mining properties (the "Transferred Properties") to Scorpio Gold, a company related by way of certain common directors and management, in exchange for 26,830,763 common shares of Scorpio Gold, representing 93.6% of the then outstanding common shares of Scorpio Gold.

This related party transaction has been measured at the carrying value of the assets sold on the basis that there has been no substantive change in ownership of the Transferred Properties. Details of the transaction are as follows:

	\$
Carrying value of assets acquired from Scorpio Gold (including Transferred Properties):	
Transferred non-producing mining properties	1,128,876
Non-producing mining property costs incurred by Scorpio Gold	220,141
Machinery and equipment	434,198
Cash	176,900
Transferred asset retirement obligations	(42,336)
Non-controlling interest	(122,038)
Non-cash working capital items, net	(1,956)
	<u>1,793,785</u>
Carrying values of the Transferred Properties sold to Scorpio Gold:	
Non-producing mining properties	482,230
Deferred exploration and development expenditures	646,646
Asset retirement obligations	(42,336)
	<u>1,086,540</u>
Excess of the carrying value of Scorpio Gold assets acquired over the non-producing mining properties transferred	<u>707,245</u>

The excess of the carrying value of Scorpio Gold assets acquired over the cost of the Transferred Properties has been recorded as a reduction to non-producing mining properties and to deferred exploration and development expenditures in the amounts of \$60,599 and \$646,646, respectively.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2008 and 2007

8. Impairment of property, plant and equipment, mining properties and deferred exploration and development expenditures

As a result of impairment tests performed as at December 31, 2008, the Company recorded an impairment of its Mexican assets totalling \$84,245,516 of which \$57,195,123 is allocated to the mining property and related deferred exploration and development expenditures on the Nuestra Señora property and \$27,050,393 is allocated to the related property, plant and equipment. This impairment occurred primarily because of the recent decline in metal prices. The fair value of the reporting unit was estimated using all available information at the date of the impairment test, to determine the discounted estimated future cash flows. Estimated future cash flows used to test impairment of long-lived assets included management's estimates of operating results and capital requirements over the life of the related mineral property. Key assumptions for metal prices, inflation and discount rates and foreign exchange rates were based on information available from third party sources that management believed to be reasonable in the circumstances. The fair value of the impaired long-lived assets was determined using discounted cash flows over the expected life of the mine.

During the year ended December 31, 2007, the Lac Arseneault property and related deferred exploration expenditures totalling \$68,500 were written off.

9. Long-term debt

On May 5, 2008, the Company completed a brokered private placement financing to issue convertible debentures in the aggregate principal amount of \$20,000,000. The debentures were issued at par, have a maturity date of May 5, 2011, and bear interest at a rate of 7% per year, payable semi-annually in arrears. The debentures are convertible at any time prior to maturity at the option of the holders into common shares of the Company at a conversion price of \$1.55 per common share and are not redeemable by the Company. In consideration for its services, the underwriter received a fee of \$750,000 and the total cost was \$1,132,939 for the transaction.

In connection with this financing, the Company received a \$10,000,000 short-term bridge loan from an institutional investor. The bridge loan was unsecured, repayable on demand, and accrued interest at a rate of 7% per annum, compounded daily. In accordance with the terms of the bridge loan, upon closing of the convertible debenture offering, the principal amount of the bridge loan was repaid through the issuance to the bridge loan lender of \$10,000,000 principal amount of the debentures as part of the aggregate \$20,000,000 principal amount of debentures issued, and accrued interest on the bridge loan was paid in cash.

Generally accepted accounting principles for compound financial instruments require the Company to allocate the proceeds received from the convertible debentures between; (i) the estimated fair value of the holder's option to convert the debentures into common shares and (ii) the estimated fair value of the future cash outflows related to the debentures. At issuance, the Company estimated the fair value of the conversion option by deducting the present value of the future cash outflows of the convertible debentures, calculated using a risk-adjusted discount rate of 11%, from the face value of the principal of the convertible debentures. The residual value allocated to the conversion option is added to the face value of the convertible debentures over the life of the debentures by a charge to earnings, using the effective interest rate method. Issue costs of \$113,486 were allocated to equity component on a pro rata basis.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2008 and 2007

9. Long-term debt (continued)

The financial liability component of the convertible debentures at December 31, 2008 is as follows:

	\$
Principal amount of convertible debentures	20,000,000
Deduct: Residual value allocated to the conversion option	(1,998,212)
Financial liability component at issuance (present value of future cash outflows)	18,001,788
Add: Accretion of the residual value allocated to the conversion option	380,846
Long-term balance of financial liability component	18,382,634

The principal amount of the convertible debentures plus accrued interest to December 31, 2008 amount to \$20,220,548.

10. 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:

	2008	2007
	\$	\$
Asset retirement obligations, beginning of year	874,265	153,252
Addition of provision	207,788	654,882
Accretion expense	78,868	66,131
Asset retirement obligations, end of year	1,160,921	874,265

The total undiscounted amount of estimated cash flows required to settle the asset retirement obligations at the Nuestra Señora and Cochrane Hill properties is \$2,150,000 (2007 - \$1,742,000), which has been discounted using credit-adjusted risk-free rates ranging from 5% to 8.5%. 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.

11. Share capital

(a) Authorized and issued

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

During the year ended December 31, 2007, the Company completed a brokered private placement and issued a total of 15,715,000 units for gross proceeds of \$22,001,000. Each unit consisted of one common share and one quarter of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share of the Company at a price of \$1.85 per share until November 1, 2010. The Company paid a cash commission of \$1,540,070 to the agents. The Company also issued a total of 1,100,050 compensation options to the agents, each compensation option entitling the holder to purchase a common share at a price of \$1.49 up until November 1, 2010.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2008 and 2007

11. Share capital (continued)

(b) *Warrants*

	2008		2007	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Outstanding, beginning of year	20,412,293	1.49	17,405,842	1.40
Issued upon closing of private placement	-	-	3,928,750	1.85
Issued upon exercise of compensation options	53,034	1.40	4,128	1.40
Exercised	(7,292,142)	1.40	(926,427)	1.40
Expired	(9,244,435)	1.40	-	-
Outstanding, end of year	3,928,750	1.85	20,412,293	1.49

As of December 31, 2008, the Company has warrants outstanding entitling the holders to acquire common shares as follows:

Number of warrants	Exercise price	Expiry date
	\$	
3,928,750	1.85	November 1, 2010

(c) *Broker compensation options*

- (i) Pursuant to a brokered private placement that closed on November 1, 2007, 1,100,050 compensation options were granted as partial compensation to the agents. Each option can be exercised to acquire a common share at \$1.49 each until November 1, 2010. During the years ended December 31, 2008 and 2007, none of these compensation options were exercised.
- (ii) Pursuant to a brokered private placement that closed in April and May 2006, 2,120,407 compensation options were granted as partial compensation to the agent and certain finders. Each option could be exercised to acquire a compensation unit consisting of one common share and one-half of one common share purchase warrant. During the year ended December 31, 2008, 106,068 (2007 - 8,257) compensation options were exercised. The remaining 2,005,898 compensation options expired unexercised.

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2008 and 2007

11. Share capital (continued)

(c) Broker compensation options (continued)

The following table shows the outstanding compensation options as at December 31, 2008:

Compensation options	Exercise price	Expiry date
	\$	
1,100,050	1.49	November 1, 2010

(d) Stock option plan

On May 1, 2007, the shareholders of the Company approved a new stock option plan under which all prior outstanding stock options were considered part of this new plan. The number of shares reserved for issuance under this plan is limited to 10% of the number of shares which are issued and outstanding on the date of a particular grant of options. Under the plan, the Board of Directors determines the term of a stock option to a maximum of 10 years, the period of time during which the options may vest and become exercisable as well as the option exercise price which shall not be less than the closing price of the Company's share on the Toronto Stock Exchange immediately preceding the date of grant.

A summary of changes in the Company's outstanding stock options is presented below:

	2008		2007	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Balance, beginning of year	6,607,500	1.44	4,620,000	0.87
Granted	2,244,856	1.20	3,620,000	1.86
Exercised	(5,000)	0.89	(1,482,500)	0.68
Cancelled/expired	(650,000)	0.82	(150,000)	1.77
Balance, end of year	8,197,356	1.42	6,607,500	1.44
		2008		2007
		\$		\$
Weighted average fair value at grant date		0.60		1.08

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Notes to the consolidated financial statements

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11. Share capital (continued)

(d) Stock option plan (continued)

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2008:

Exercise price	Weighted average remaining contractual life (in years)	Outstanding	Exercisable
\$			
0.47 to 0.66	1.38	1,210,000	1,210,000
0.88 to 0.95	2.61	332,500	332,500
1.05 to 1.39	3.81	2,514,856	2,514,856
1.42 to 1.77	2.90	55,000	55,000
1.88 to 1.91	2.73	4,085,000	4,085,000
		8,197,356	8,197,356

Subsequent to December 31, 2008, the Company issued 1.9 million stock options with an exercise price of \$0.295 per share, which vest immediately and expire on January 15, 2014.

(e) Stock-based compensation

As described in Note 2 (i), 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:

	2008	2007
Expected dividend yield	Nil%	Nil%
Expected stock price volatility	62%	64%
Risk free interest rate	3.85%	4.20%
Expected life	4.00 years	4.86 years

Scorpio Mining Corporation

Notes to the consolidated financial statements

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12. Interest and financing

	2008	2007
	\$	\$
Interest on short-term loans	33,458	-
Interest on long-term debt	920,546	1,563
Accretion of debt component of convertible debentures	380,846	-
Financing fees	1,019,452	-
Interest on obligations under capital lease	4,690	10,436
	2,358,992	11,999

13. 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 30.9% (2007 - 32.02%) to applicable earnings.

	2008	2007
	\$	\$
Loss before income taxes	(90,678,720)	(7,315,006)
Expected tax benefit	(27,985,499)	(2,342,265)
Effect of lower tax rate in foreign jurisdiction	2,838,173	46,018
(Non-taxable) non-deductible expenses	(1,175,103)	825,493
Variation in income tax rates	(157,819)	716,677
Benefit of prior year tax assets not previously recognized	(1,216,062)	(141,815)
Current year tax assets not recognized	27,751,691	466,759
Loss of prior year tax assets previously recognized	-	429,133
Total income tax expense	55,381	-

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

	2008	2007
	\$	\$
Current	55,381	-
Future	-	-
	55,381	-

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Notes to the consolidated financial statements

December 31, 2008 and 2007

13. Income taxes (continued)

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

	2008	2007
	\$	\$
Future tax assets		
Property, plant and equipment	7,009,865	15,899
Non-capital loss carryforwards	26,038,339	14,741,205
Non-producing mining properties and development expenditures and others	1,679,893	1,125,275
Share issue costs	932,344	1,007,768
Total gross future tax assets	35,660,441	16,890,147
Valuation allowance	(30,221,904)	(3,694,665)
Total net future tax assets	5,438,537	13,195,482
Future tax liabilities		
Property, plant and equipment	(2,286)	(171,877)
Non-producing mining properties and development expenditures and others	(5,436,251)	(13,023,605)
Net future tax liability	-	-

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	331,000	-
2010	194,000	-
2013	-	193,000
2014	2,052,000	6,003,000
2015	695,000	9,217,000
2016	-	15,270,000
2017	-	18,810,000
2018	-	35,386,000
2026	38,000	-
2027	2,253,000	-
2028	2,881,000	-
	8,444,000	84,879,000

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Notes to the consolidated financial statements

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14. Related party transactions

The Company incurred the following charges with directors and private companies controlled or under significant influence by them:

	2008	2007
	\$	\$
General and administrative	90,000	85,500
Deferred exploration and development expenditures	316,745	171,862
Business development expenses	-	56,250

As at December 31, 2008, an amount of \$2,963 (2007 - \$7,771) resulting from transactions with related parties is included in accounts payable and accrued liabilities.

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

Scorpio Mining Corporation

Notes to the consolidated financial statements

December 31, 2008 and 2007

15. Cash flow information

(a) *Other supplementary information*

	2008	2007
	\$	\$
Interest paid	737,227	12,000
Income taxes paid	55,381	-

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

	2008	2007
	\$	\$
Amortization of property, plant and equipment capitalized in deferred exploration and development expenditures	773,792	567,584
Transfer of contributed surplus to share capital on exercise of:		
Stock options	4,200	942,059
Broker compensation options	46,670	3,633
Warrants	3,208,542	407,628
Increase in asset retirement obligations included in non-producing mining properties	-	41,031
Increase in asset retirement obligation included in property, plant and equipment	207,788	613,851
Stock-based compensation included in deferred exploration and development expenditures	179,343	369,805
Deferred exploration and development expenditures included in accounts payable	1,310,989	1,312,744
Acquisition of property, plant and equipment included in the accounts payable	70,108	2,379,655
Share issue costs included in the accounts payable	-	120,407
Fair value of compensation options issued on completion of private placement	-	627,029
Sales concentrate receivable deducted from deferred exploration and development expenditures	84,216	-
Acquisition of plant and equipment under a capital lease	171,564	-

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Notes to the consolidated financial statements

December 31, 2008 and 2007

16. 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, 2008 and 2007 was earned in Canada. The Company's long-term assets by geographic location are as follows:

	2008	2007
	\$	\$
Canada	1,697,936	1,581,159
Mexico	20,400,000	66,284,870
	22,097,936	67,866,029

17. 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.

(b) *Legal matters*

The Company is party to certain 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.

18. Capital management

Capital is defined as shareholders' equity and long-term debt, including obligation under capital lease and current portion. The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern and to maximize the value for its shareholders.

The Company manages its capital with the objective of safeguarding the entity's ability to continue as a going concern and to maximize the value for its shareholders. The Company's activities have been funded so far through debt and equity financing based on cash needs. The Company typically sells its shares by way of private placement. There were no changes in these objectives, policies and processes used to manage capital during the year.

The Company manages its capital structure and determines its capital requirements in light of the changing economic conditions and the risk characteristics of its assets. To reach its objectives the Company may have to maintain or adjust its capital structure by issuing new share capital or new debt.

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Notes to the consolidated financial statements

December 31, 2008 and 2007

18. Capital management (continued)

During 2008, the Company adjusted its capital structure by issuing convertible debentures in the principal amount of \$20,000,000 to complete the financing for the Nuestra Señora mine in Mexico.

At this stage of its development it is the policy of the Company to preserve cash to fund its operations and not to pay dividends. The Company is not subject to any externally imposed capital requirements.

The following summarizes the Company's capital structure at December 31:

	2008	2007
	\$	\$
Long-term debt	18,420,193	83,082
Shareholders' equity	11,004,458	88,066,331
Capital	29,424,651	88,149,413

19. Agreement with Cincoro Capital Corp.

Effective November 3, 2008, Scorpio Gold, a 93.5% owned subsidiary of Scorpio Mining Corporation signed a Share Exchange Agreement ("Agreement") with Cincoro Capital Corp. ("Cincoro"), a capital pool company listed on the TSX Venture Exchange, ("TSX-V") whereby Cincoro has agreed to purchase (the "Acquisition") all of the issued and outstanding common shares of Scorpio Gold in consideration for the issue of Cincoro shares. The Acquisition, if completed, will constitute Cincoro's "qualifying transaction" under the policies of the TSX-V. Completion of the transaction with Cincoro, which will change its name to Scorpio Gold Corporation, will see Scorpio Mining become the controlling shareholder in Cincoro.

Under the Agreement, Cincoro will prior to the completion of the qualifying transaction consolidate its currently issued 7,100,000 common shares on a 3 to 1 basis (three pre-consolidated shares for each one post-consolidated share). Cincoro will then acquire all of the issued and outstanding common shares of Scorpio Gold in exchange for the issuance of common shares of Cincoro on the basis of one post-consolidated common share of Cincoro for each of the Scorpio Gold common shares outstanding. Upon completion of the qualifying transaction, Scorpio Gold will become a wholly-owned subsidiary of Cincoro. As a condition of the qualifying transaction, Cincoro is required to complete a non-brokered private placement to raise a minimum of \$1,500,000.

The transaction is subject to customary conditions, including receipt of all requisite regulatory approvals.