



**SCORPIO MINING CORPORATION**

Annual Information Form

For the year ended December 31, 2012

Date: March 14, 2013

## TABLE OF CONTENTS

<b>PRELIMINARY NOTES</b> .....	<b>1</b>
<b>DOCUMENTS INCORPORATED BY REFERENCE</b> .....	1
<b>EFFECTIVE DATE OF INFORMATION</b> .....	1
<b>FINANCIAL INFORMATION</b> .....	1
<b>CURRENCY</b> .....	1
<b>IMPERIAL EQUIVALENTS</b> .....	2
<b>FORWARD-LOOKING INFORMATION</b> .....	2
<b>CAUTIONARY NOTES TO U.S. INVESTORS CONCERNING RESOURCE ESTIMATES</b> .....	2
<b>CORPORATE STRUCTURE</b> .....	<b>3</b>
<b>NAME, ADDRESS AND INCORPORATION</b> .....	3
<b>INTERCORPORATE RELATIONSHIPS</b> .....	3
<b>GENERAL DEVELOPMENT OF THE BUSINESS</b> .....	<b>4</b>
<b>THREE YEAR HISTORY</b> .....	4
<b>DESCRIPTION OF THE BUSINESS</b> .....	<b>8</b>
<b>GENERAL DESCRIPTION</b> .....	8
<b>ENVIRONMENTAL LIABILITY</b> .....	9
<b>EMPLOYEES</b> .....	9
<b>NUESTRA SEÑORA PROPERTY, SINALOA, MEXICO</b> .....	<b>9</b>
<b>PROPERTY DESCRIPTION AND LOCATION</b> .....	9
<b>ACCESSIBILITY, CLIMATE, LOCAL RESOURCES, INFRASTRUCTURE AND PHYSIOGRAPHY</b> .....	13
<b>HISTORY</b> .....	15
<b>ENVIRONMENTAL PERMITTING</b> .....	16
<b>GEOLOGICAL SETTING</b> .....	17
<b>EXPLORATION</b> .....	18
<b>MINERALIZATION</b> .....	21
<b>DIAMOND DRILLING</b> .....	22
<b>SAMPLING, ANALYSIS AND SECURITY</b> .....	24
<b>UPDATE OF MINERAL RESOURCE AND RESERVE ESTIMATES AT NUESTRA SEÑORA</b> .....	26
<b>UPDATED MINERAL RESOURCES, NUESTRA SEÑORA MINE</b> .....	27
<b>NUESTRA SEÑORA PROCESSING PLANT OPERATIONS</b> .....	28
<b>NUESTRA SEÑORA PLANT EXPANSION</b> .....	28
<b>EL CAJÓN AND SAN RAFAEL PROJECTS, SINALOA, MEXICO</b> .....	<b>28</b>
<b>PROPERTY DESCRIPTION AND LOCATION</b> .....	30
<b>ACCESSIBILITY, CLIMATE, LOCAL RESOURCES, INFRASTRUCTURE AND PHYSIOGRAPHY</b> .....	30
<b>HISTORY</b> .....	30
<b>ENVIRONMENTAL PERMITTING</b> .....	32
<b>GEOLOGICAL SETTING</b> .....	32
<b>HISTORICAL EXPLORATION</b> .....	34
<b>MINERALIZATION</b> .....	35
<b>REVERSE CIRCULATION DRILLING</b> .....	38
<b>CORE DRILLING</b> .....	38
<b>DRILL-HOLE SURVEYING</b> .....	39
<b>SAMPLING</b> .....	40

EL CAJÓN DEPOSIT .....	41
UPDATED EL CAJÓN MINERAL RESOURCES .....	41
SAN RAFAEL DEPOSIT .....	43
UPDATED SAN RAFAEL MINERAL RESOURCES .....	44
<b>PARRAL DISTRICT, CHIHUAHUA AND DURANGO, MEXICO .....</b>	<b>45</b>
<b>TAXES.....</b>	<b>47</b>
<b>OUTLOOK FOR 2013 .....</b>	<b>47</b>
<b>DIVIDENDS.....</b>	<b>49</b>
<b>DESCRIPTION OF CAPITAL STRUCTURE .....</b>	<b>49</b>
GENERAL DESCRIPTION OF CAPITAL STRUCTURE.....	49
<b>MARKET FOR SECURITIES .....</b>	<b>50</b>
<b>PRIOR SALES.....</b>	<b>50</b>
STOCK OPTIONS.....	50
NAME, OCCUPATION AND SECURITY HOLDINGS.....	50
CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS .....	53
CONFLICTS OF INTEREST.....	53
<b>PROMOTERS.....</b>	<b>54</b>
<b>LEGAL PROCEEDINGS .....</b>	<b>54</b>
<b>INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS .....</b>	<b>55</b>
<b>TRANSFER AGENT AND REGISTRAR.....</b>	<b>55</b>
<b>MATERIAL CONTRACTS.....</b>	<b>55</b>
<b>INTERESTS OF EXPERTS .....</b>	<b>55</b>
NAME OF EXPERTS.....	55
INTERESTS OF EXPERTS.....	56
<b>ADDITIONAL INFORMATION.....</b>	<b>56</b>
AUDIT COMMITTEE.....	56
COMPANY INFORMATION .....	62
<b>FINANCIAL RISK FACTORS .....</b>	<b>62</b>
<b>RISK FACTORS .....</b>	<b>65</b>

**ANNUAL INFORMATION FORM**  
(the “AIF”)

**SCORPIO MINING CORPORATION**  
 (“Scorpio” or the “Company”)

**PRELIMINARY NOTES**

**Documents Incorporated by Reference**

The information provided in this Annual Information Form (“AIF”) is supplemented by disclosure contained in the documents listed below which are incorporated by reference into this AIF. These documents must be read together with the AIF in order to provide full, true and plain disclosure of all material facts relating to Scorpio Mining Corporation (referred to herein as “Scorpio” or the “Company”). The documents listed below are not contained within or attached to this document. These documents may be accessed on SEDAR at [www.sedar.com](http://www.sedar.com) under the Company’s profile, Scorpio Mining Corporation.

<b>Document</b>	<b>Report Date/Period ended</b>
“Resource Updates for the Nuestra Señora, San Rafael, and El Cajon Deposits, Sinaloa, Mexico” prepared by Mine Development Associates (“MDA”).	Report dated August 10, 2012 for resource update as at August 10, 2012
2012 Audited Annual Financial Statements and Management’s Discussion and Analysis	Approved by the Board on March 14, 2013 for the years ended December 31, 2012 and 2011

**Effective Date of Information**

Unless otherwise indicated, all information contained in this AIF of the Company is current as of March 14, 2013.

**Financial Information**

All financial information in this AIF is prepared in accordance with International Financial Reporting Standards (“IFRS”), unless otherwise indicated.

**Currency**

All dollars amounts in this AIF are expressed in Canadian dollars unless otherwise indicated.

**Imperial Equivalents**

For ease of reference, the following factors for converting metric measurements to imperial are provided:

<b>Convert from Metric</b>	<b>To Imperial</b>	<b>Multiply By</b>
Hectares	Acres	2.471
Metres	Feet	3.281
Kilometres (km)	Miles	0.621
Tonnes	Tons (2000 pounds)	1.102
Grams/tonne	Ounces (troy/ton)	0.029

**Forward-Looking Information**

Certain statements contained in this AIF, and in certain documents incorporated by reference herein, constitute forward-looking statements. These statements relate to future events or the Company's future performance, business prospects or opportunities. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known or unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into this AIF should not be unduly relied upon. These statements speak only as of the date of this AIF or as of the date specified in the documents incorporated by reference into this AIF, as the case may be. The Company does not intend, and does not assume any obligation, to update these forward-looking statements. These forward-looking statements involve risks and uncertainties relating to, among other things, results of exploration, development and production activities, the Company's limited experience with development and production-stage mining operations, uninsured risks, regulatory changes, defects in title, availability of materials and equipment, timeliness of government approvals, changes in commodity prices, performance of facilities, equipment and processes relative to specifications and expectations and unanticipated environmental impacts on operations. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to risk factors contained herein and incorporated by reference herein. See "Risk Factors".

**Cautionary Notes to U.S. Investors Concerning Resource Estimates****Measured and Indicated Mineral Resources**

This AIF uses the terms "measured and indicated mineral resources". The Company advises U.S. investors that while these terms are recognized by Canadian regulations, the U.S. Securities and Exchange Commission ("SEC") does not recognize them.

U.S. investors are cautioned not to assume that any part or all of mineral deposits included in these categories will ever be converted into mineral reserves. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Disclosure of "contained ounces" is permitted under Canadian regulations; however, the SEC normally only permits the reporting of non-reserve

mineralization as in-place tonnage and grade.

### **Inferred Mineral Resources**

This document uses the term “Inferred Mineral Resources”. U.S. investors are advised that while this term is recognized and required by Canadian regulations, the SEC does not recognize it. U.S. investors are also cautioned that Inferred Mineral Resources have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of economic studies other than a Preliminary Economic Assessment (“PEA”).

## **CORPORATE STRUCTURE**

### **Name, Address and Incorporation**

The Company was incorporated under the Canada Business Corporations Act on May 12, 1998 under its present name with an authorized share capital of an unlimited number of common shares without par value.

The Company’s registered office is located at Suite 606, 40 University Avenue, Toronto, Ontario, Canada M5J 1T1. The Company is a reporting issuer in the Provinces of British Columbia, Alberta, Ontario and Quebec. The Company’s common shares commenced trading on the TSX Venture Exchange (“TSX-V”) on February 22, 2000 and were listed and posted for trading on the Toronto Stock Exchange (“TSX”) on October 18, 2006, and concurrently de-listed from the TSX-V.

### **Intercorporate Relationships**

The Company’s principal subsidiaries are:

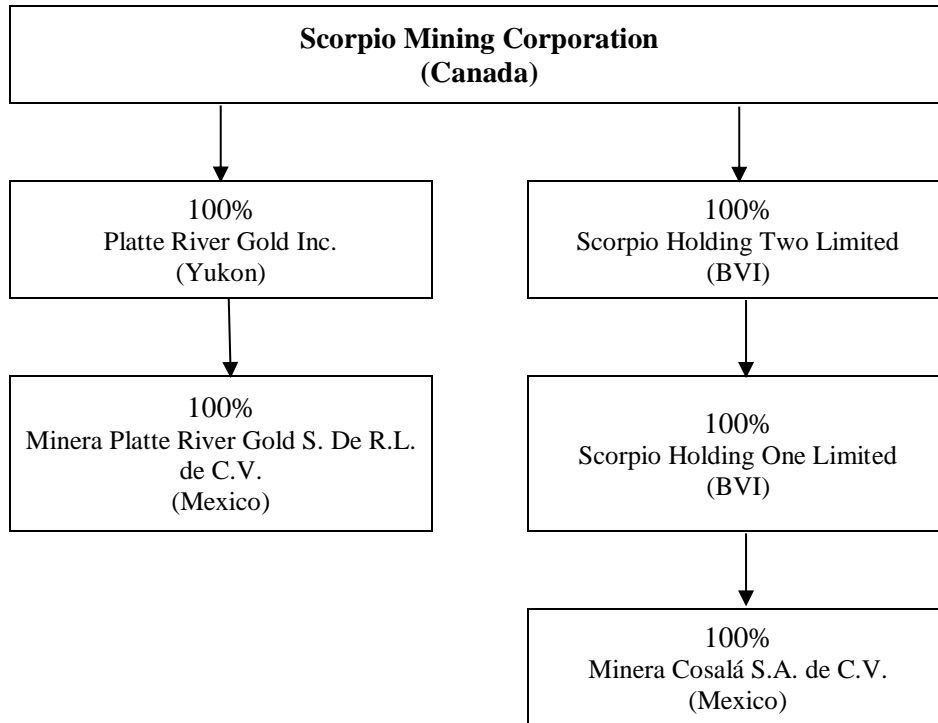
Minera Cosalá S.A. de C.V. (“Minera Cosalá”), incorporated in Mexico on November 4, 2003, is 100% indirectly owned by the Company and owns and operates the Company’s principal Mexican assets, including its 100% owned Nuestra Señora Mine. See “Description of Business – Nuestra Señora Property, Mexico”.

Scorpio Holding One Limited and Scorpio Holding Two Limited were incorporated in the British Virgin Islands on October 4, 2007 in order to create an indirect holding company structure for the Company’s interest in its Mexican assets. Scorpio Holding Two Limited, which is 100%-owned by the Company, is the 100% owner of Scorpio Holding One Limited, which in turn holds 100% of the shares of Minera Cosalá.

Platte River Gold Inc. (“Platte River”) is a Canadian corporation, which is 100%-owned by the Company and incorporated under the Yukon Business Corporations Act. Platte River holds a 100% interest in Minera Platte River Gold S. de R.L. de C.V (“MPRG”).

MPRG, incorporated in Mexico on April 2, 2004 owns, among other assets, the Cosalá Norte projects (previously called the “La Verde Project” by MPRG) located near the Company’s Nuestra Señora processing plant. The Cosalá Norte projects include the El Cajon and San Rafael deposits and the previously operated La Verde mine. Minera Cosalá and MPRG share the same offices in Cosalá and Mazatlan, Mexico.

The following chart illustrates the intercorporate relationships of the Company and its principal subsidiaries as of the date of this AIF:



## GENERAL DEVELOPMENT OF THE BUSINESS

### Three Year History

At the present time, the Company has one producing mine, the 100% owned, Nuestra Señora silver-zinc-copper-lead underground mine (the “Nuestra Señora Mine”) located in the Cosalá District, State of Sinaloa, Mexico, where the Company completed its commissioning and achieved commercial production in January 2009. The Company is a major concession holder in the Cosalá District, with holdings of approximately 26,818 hectares (“ha”), containing numerous exploration targets including previously producing mines. The Company also holds approximately 2,568 ha of mineral concessions in the Concordia District which is also in the State of Sinaloa. On April 1, 2010, the Company completed the acquisition of all of the outstanding shares of Platte River, through which the Company acquired several advanced silver-zinc-lead-copper-gold deposits, including the El Cajón (“El Cajón Project”) and San Rafael (“San Rafael Project”) deposits, each with mineral resources compliant with National Instrument 43-101 (“NI 43-101”), and the La Verde underground mine which was previously operated on a small scale by third parties since the mid-1980’s. These properties are located close to the Nuestra Señora Mine and processing plant and contiguous to the claims owned at that time by the Company. In addition, the Company holds the rights to the La Revancha and Tepozán properties covering an area of 2,891 ha, which are prospective silver and silver-gold properties, respectively, in the Parral area of the respective states of Chihuahua and Durango, Mexico.

**Year Ended December 31, 2010**

On April 1, 2010, the Company acquired 100% of the outstanding common shares of Platte River in exchange for the issuance of approximately 74.8 million common shares of the Company, which resulted in Platte River shareholders holding approximately 40% of the issued and outstanding common shares of the Company on completion of the acquisition.

During the financial year ended December 31, 2010, Scorpio continued its underground development and optimization of the processing facilities at the Nuestra Señora Mine.

The focus of mine development was to maximize mining flexibility by developing access to cut and fill stopes in several areas in the mine allowing for access to varying styles and grades of mineralization. High density ore definition drilling enabled the maximization of ore recovery and the minimization of dilution. It also enabled the identification of additional mineralized zones amenable to more efficient long hole stoping.

At the end of 2010, an electric power line received all government permits and was installed between the Nuestra Señora processing plant and the Nuestra Señora Mine. This power line is connected directly to the Federal Electricity Commission's grid. The mine was energized from the grid on January 19, 2011, reducing diesel consumption and thereby reducing mining operating costs.

Metal production enhancements continued at the Company's processing plant. Despite suffering the failure of a ball mill trunnion in March 2010, the Company attained its budgeted throughput for the year. The trunnion failure caused a 50% reduction in processing capacity at the plant for a period of 90 days. However, once repairs had been made, the operating rate of the processing plant was increased to approximately 40,000 tonnes per month.

An update of the Nuestra Señora estimated resources and reserves was commissioned through independent consultants, Genivar Inc. ("Genivar"). Genivar produced the updated resource and reserve estimate as at October 31, 2010, entitled "Mineral Reserve Update, Nuestra Señora, NI 43-101 Technical Report" and dated March 28, 2011 (the "Nuestra Señora Technical Report")

**Year Ended December 31, 2011**

In 2011, the Company commenced an aggressive 10,500 metre underground exploration and definition drilling at the Nuestra Señora Mine. Due to issues encountered with aging mining equipment, development advances for 2011 were limited to 2,848 equivalent metres.

During 2011, the Company's Board of Directors approved \$5 million for implementing the Phase I of the Nuestra Señora plant expansion in preparation to increase processing capacity by up to 80% to 2,750 tonnes per day. Phase I of this expansion which included engineering, civil works, and the purchasing of long lead time items such as an additional used ball mill and the installation of a flash flotation cell, was completed as planned in Q2 2012.

During 2011, the Company identified an unexpected divergence between the mineral resource and reserve estimates, as set out in the Nuestra Señora Technical Report prepared for the Company by Genivar, and the actual mineralization that the Company encountered in the main production areas between Levels 8 and 12 at the Nuestra Señora Mine. The Company encountered ore with lower than estimated lead and copper grades in these production areas, and development and definition drilling identified lower tonnages relative to what was expected in the Nuestra Señora Technical Report.



In order to better understand this divergence, the Company commissioned a comprehensive update of the Nuestra Señora mineral resource and reserve estimates. As part of this update, in Q3 2011 the Company engaged MDA, an independent expert, to prepare new resource and reserve estimates that are compliant with NI 43-101 and that take into account the latest information available to the Company, in particular relating to the structural controls and mineralization.

The Company performed diamond drilling to potentially increase the resource base and support an upgrade from resource to reserve category on the El Cajón and San Rafael Projects. The Company completed the drilling by the end of Q1 2012 and provided updated resource estimates for the El Cajón and San Rafael Projects during 2012.

### **Year Ended December 31, 2012**

#### **2012 Underground development and production**

In 2012, the Company continued with aggressive underground exploration and definition drilling at the Nuestra Señora Mine. Mine development during 2012 totalled 4,835 equivalent metres, of which 2,728 metres were development in ore related to stope preparation and slashing of pre-existing drives.

The Company had engaged a contractor in the key area of production drilling to ensure that adequate long hole stoping tonnes were available in the near term. This contractor commenced drilling in December 2011 and was on site until mid-April 2012. During that time the inventory of long hole stoping tonnes increased from almost zero to a one month stock. Since April 2012, higher productivity and additional owner-operated production drills have built up and then maintained a three month inventory of drilled and blasted stock.

In H1 2012, the Company maintained an elevated processing rate with ore of lower grade than predicted being encountered at the Nuestra Señora Mine. In Q1 2012, the majority of ore was being sourced from high productivity long hole stopes supplemented by production with less-mechanized mining methods to maximize the recovery of the resource. Due to increased activity of jumbos, just over half of the ore produced in Q2 2012 was sourced from mine development with the remainder from long hole stopes. Ore production from air-leg mining areas was limited due to its lower priority and to safety concerns related to the experience of the available personnel.

Throughout Q3 2012, the proportion of ore sourced from long hole stoping increased month over month; and by September 2012 long hole stopes provided 67% of the mine's ore. The average head grades of copper and silver delivered to the process plant in July and August were 0.18% and 86 g/t, respectively. However, in September, mine production from long hole stopes resulted in significantly higher head grades of 0.27% for copper and 96 g/t for silver.

Ore production in Q4 2012 was evenly sourced between long hole stoping and jumbo development. The average Q4 2012 head grades of copper and silver delivered to the process plant were 0.27% and 91 g/t, respectively, which represent increases over the previous quarter. Average head grades for zinc and lead were 1.60% and 0.72%, respectively. During Q4 2012, incremental waste rehanding was performed to fill exhausted open stopes and enable future production from remnant pillars above.

Development at the Candelaria deposit ("Candelaria") of Nuestra Señora occurred on three levels during H1 2012, with a total of 14,880 tonnes of ore excavated via mechanized development. Grade control drilling has encountered small areas that can be excavated by mechanized methods and there are indications that the mineralized structure may extend over several levels. Despite that, the amount of development required on each new level and the relatively confined dimensions of the ore body will not

enable Candelaria to attain high production rates on its own. This area is under evaluation to determine its future production potential of supplemental high grade feed to complement other sources.

### Financial

- Revenue from metals payable of \$55.0 million in 2012, down from \$70.3 million achieved in 2011 due to lower recorded metal prices and head grades for all metals;
- Cash cost per silver payable ounce, net of by-product credits<sup>(1)</sup>, increased to \$11.93 in 2012 compared to \$1.49 in 2011 due to increased costs, lower production of contained metals as a result of lower head grades for all metals, and lower credits due to a decrease in base metal prices;
- Net earnings in 2012 decreased to \$7.1 million or \$0.04 per share (basic) compared to net earnings of \$12.6 million, or \$0.07 per share (basic), in 2011;
- Adjusted EBITDA<sup>(1)</sup> of \$15.5 million in 2012 decreased from \$35.0 million in 2011 as a result of lower revenues and higher costs described above; and
- Cash flow from operating activities before movements in working capital of \$15.6 million in 2012 decreased from \$34.8 million in 2011.

<sup>(1)</sup> This is a non-IFRS performance measure; please see Non-IFRS Performance Measures section in the Company's Management Discussion and Analysis.

### Operations

- Focused on decreasing costs and increasing efficiencies to reduce overall cost per tonne of material mined and processed;
- Increased annual ore processing throughput to a record 521.6 kilotonnes, representing increases of 2% and 37% from 2011 and 2010 throughput, respectively;
- Recovered metals in concentrates in 2012 reflect a decrease in silver, zinc, lead and copper, compared to 2011;
- Recovered silver equivalent ounces<sup>(1)</sup>, at 2,282,512 ounces in 2012, decreased 16% from 2,711,009 ounces in 2011 mainly due to a reduction in head grades;
- Implemented a number of changes in the Nuestra Señora processing plant to increase overall quality and value of concentrates produced;
- Operations have been strengthened with the addition of a Mine Manager, Chief Mine Geologist, Mine Maintenance Superintendent, Safety Manager and emergency response contractors; and, as of March 2013, the hiring of a Chief Operating Officer based in Cosalá.

<sup>(1)</sup> Silver equivalent ounces were calculated using the following metal prices: silver US\$24/oz.; zinc US\$0.90/lb.; copper US\$3.50/lb.; and lead US\$0.90/lb.

### Project development

- Completed Phase I of the Nuestra Señora plant expansion, on time and on budget, in preparation to increase capacity by up to 80%, to 2,750 tonnes per day ("tpd");
- Received environmental approval from Mexico's Secretary of Environment and Natural Resources ("SEMARNAT") to operate the existing processing plant up to a maximum throughput of 4,000 tpd if required by the Company in the future;
- Completed preliminary mine design and production planning for the El Cajón Project;
- Engaged Canadian-based JDS Energy and Mining to perform the definitive engineering for the development of the El Cajón Project;

- Land lease agreements concluded with Ejidos for properties located in the Cosalá Norte District;
- Received archaeological clearance for the first phase of the Cosalá Norte development;
- Successfully negotiated land right usage for a proposed new 10.8 kilometer route from the El Cajón deposit to the Nuestra Señora processing facility, requiring 5.8 kilometers of new road construction;
- Submitted the Environmental Impact Statement (the acronym in Spanish “MIA”) for exploitation of the El Cajón and San Rafael underground deposits with SEMARNAT;
- Submitted the Change of Land Use Permit for the Cosalá Norte Projects to SEMARNAT; and
- Nuestra Señora reserves and Cosalá Norte District PEA slated for completion by MDA in Q2 2013.

### Exploration

- Completed approximately 38,000 meters of diamond drilling, as part of the 2012 exploration program at the Nuestra Señora Mine and other properties; and
- Contributed to the preparation of the NI 43-101 compliant resource estimates which increased the mineral resource estimates at El Cajón and San Rafael Projects by, respectively, 16.5% and 26.5% in the measured and indicated categories and by 0.2% and 511% in the inferred category.

## **DESCRIPTION OF THE BUSINESS**

### **General Description**

The principal business performed by the Company is the acquisition, exploration, development and exploitation of mineral resource properties, primarily those with the potential for near-term production or exhibiting potential for hosting a major mineralized deposit. Scorpio reorganized its assets in August 2007, whereby it maintained its principal asset, its 100%-owned Nuestra Señora silver-zinc-copper-lead project located in Mexico and transferred its gold assets located in Canada, on which there had been no significant recent exploration activity conducted, to Scorpio Gold Corporation (“Scorpio Gold”).

The Company’s mission is to continue to grow its Mexican properties as a mining enterprise and, if warranted, complete acquisitions that are aligned with its strategic business plans. The Company’s current strategy remains focused on developing the El Cajón and San Rafael Projects while continuing to operate the nearby Nuestra Señora Mine and processing plant. The Company may proceed with the expansion of the current processing plant at Nuestra Señora depending on the results of studies done on the El Cajón and San Rafael Projects. In addition, exploration will continue on prospective targets, with an emphasis provided to the Cosalá District.

During the past twelve years, the Company has been successful in raising over \$124 million by way of private placements, debt financings and the exercise of warrants and stock options, and \$11.8 million from the sale of Scorpio Gold shares. These funds have been expended or allocated for exploration and development of its properties, including the Nuestra Señora Mine and processing plant, the Cosalá Norte properties, and the Parral area properties, all located in Mexico, and for general working capital purposes.

With completion of the commissioning of the Nuestra Señora processing plant in January 2009 and the commencement of production of copper, lead and zinc concentrates, Scorpio signed an agreement dated May 21, 2008 with Ocean Partners U.S.A. Inc. (“Ocean”) of Wilton, Connecticut as the Company’s sole and exclusive marketing agent for the sale of its concentrates from the Nuestra Señora Mine. In December 2010, the Company re-negotiated and extended its contract with Ocean to continue to act as the Company’s marketing agent and assist in the sales of its concentrates until December 31, 2015.

Currently, lead concentrate is sold to a smelter in Mexico, and zinc and copper concentrates are sold to a purchaser in Manzanillo, Mexico. The Company is under contract to sell lead, zinc and copper concentrates until June 30, 2013 to these two customers. Monthly concentrate production under these contracts are 350 to 650 wet metric tonnes (“wmt”) of lead, 900 to 1,300 wmt of zinc, and 150 to 250 wmt of copper.

The Company’s business is not materially affected by intellectual property such as licenses, patents and trademarks, nor is it affected by seasonal changes. The Company is not aware of any aspect of its business which may be materially affected in the current financial year by renegotiation or termination of contracts.

### **Environmental Liability**

The Company’s exploration and exploitation activities are subject to various federal, state and local laws and regulations in 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 in material compliance with all applicable laws and regulations. The Company expects to incur expenditures in the future to comply with such laws and regulations.

At least once per year, or when changes in circumstances occur, the Company reviews its estimates of the provision for environmental rehabilitation associated with retirement, including reclamation, of its mining properties.

### **Employees**

At December 31, 2012, the Company had five employees based in Toronto, Ontario, 368 employees in Cosalá, Mexico, 21 employees in Mazatlán, Mexico, one consultant in Vancouver, British Columbia and one consultant in Virginia, USA.

### **NUESTRA SEÑORA PROPERTY, SINALOA, MEXICO**

The Company operates the Nuestra Señora Mine and processing plant which are located east of the town of Cosalá in the State of Sinaloa, Mexico. The Nuestra Señora Mine is an underground silver-zinc-lead-copper mine which completed commissioning and commenced commercial production in January 2009. The Nuestra Señora processing plant which is located 7 km northwest of the Nuestra Señora Mine is a conventional flotation operation which currently operates at approximately 1,500 tpd and processes ore feed from the Nuestra Señora Mine. The Company is evaluating expansion of this plant and has concluded Phase I of this expansion. During 2012 the Company obtained SEMARNAT’s approval to operate this process plant at up to 4,000 tonnes per day if such expansion were required by the Company in the future. The Company’s focus is to develop its properties in the vicinity of the plant to provide additional ore feed.

### **Property Description and Location**

Minera Cosalá, an indirect, wholly owned subsidiary of Scorpio, purchased 100% ownership in the three mineral concessions that form the central part of the Nuestra Señora property from Sr. Alejandro Octavio Trueba Valenzuela and his family and the concessions were formally acquired and transferred to Minera Cosalá on June 23, 2004. The acquisition was made on an arm’s length basis. There are no underlying royalties or obligations except those to the Mexican federal government as defined in the Mexican mining laws. The surrounding mineral concessions were acquired by staking and are owned 100% by Minera

Cosalá.

The current Mexican mining law contains no distinction between exploration and exploitation mineral concessions; they are simply referred to as mineral concessions. However, there is a distinction for the purposes of environmental permitting, and permits must be sought in accordance with the activities planned by the concession holder. Activities may vary from basic exploration through to complex mining and processing operations. The environmental assessment required in submissions to SEMARNAT and the operating conditions imposed in the resulting permits are in accordance with the level of activity being carried out.

All concessions remain valid for 50 years from the date of title as long as the semi-annual mining duties are paid and minimum annual work requirements are met. The mining duties are based on the number of years the concession has been held. Total semi-annual mining duties for the 70 concessions are approximately \$1.85 million Mexican Pesos (“MXP”), payable to the Secretaría de Economía, Coordinación General de Minería, Dirección General de Minas. Scorpio reports that these payments are up to date. The current total minimum annual work commitment for all of Scorpio’s Cosalá district concessions is \$32.7 million MXP.

All of the Nuestra Señora mineral concessions lie within the municipality of Cosalá and are administered by the Dirección General de Minas in the Sinaloa state capital of Culiacán.

The mineral concessions are in the name of wholly-owned subsidiaries Minera Cosalá or MPRG and are shown in the following table:

<b>MINERAL CONCESSION STATUS</b>					
<b>Concession Name</b>	<b>Concession Title No.</b>	<b>DGM File No.</b>	<b>Issue Date</b>	<b>Expiry Date</b>	<b>Area (Ha)</b>
Ampl. El Magistral	226527	95/12357	23-Jan-2006	22-Jan-2056	614.6
Ampliacion Los Cristos	178095	321.1/9-204	11-Jul-1986	10-Jul-2036	95.7
Anexas al Predio	167217	95/02620	22-Oct-1980	21-Oct-2030	20.0
Anexas del Angel	167216	95/01947	22-Oct-1980	21-Oct-2030	56.0
Brujita	238634	95/12768	11-Oct-2011	10-Oct-2061	7.8
Covadonga	225804	2/1/02552	26-Oct-2005	25-Oct-2055	13.1
El Angel Tercero	167215	95/01913	22-Oct-1980	21-Oct-2030	64.0
El Cajón	226288	2/1/02534	6-Dec-2005	5-Dec-2055	26.1
El Cajón 2	210988	95/10547	29-Feb-2000	28-Feb-2050	922.8
El Magistral	225864	2/1/02555	4-Nov-2005	3-Nov-2055	80.6
El Olvidado	214759	95/11779	22-Nov-2001	21-Nov-2051	70.4
El Pino	227527	25/31898	6-Jul-2006	5-Jul-2056	40.0
El Sabino	213989	95/11585	13-Jul-2001	12-Jul-2051	13.9
El Venado	155605	95/02048	30-Sep-1971	29-Sep-2021	21.0
Frank	216057	95/11820	2-Apr-2002	1-Apr-2052	59.3
Gordon	210637	95/10551	29-Oct-1999	28-Oct-2049	55.1
Humaya	210466	2/1.3/1481	8-Oct-1999	7-Oct-2049	325.2
Jimmy 3	213060	95/11494	2-Mar-2001	1-Mar-2051	200.0
Jimmy 4	213019	95/11498	2-Mar-2001	1-Mar-2051	56.0
Jimmy 5	213069	95/11499	2-Mar-2001	1-Mar-2051	75.7

MINERAL CONCESSION STATUS					
Jimmy 6	214500	95/11517	2-Oct-2001	1-Oct-2051	170.4
La Dora	186334	321.1/2-547	29-Mar-1990	28-Mar-2040	15.0
La Dura	171975	321.1/9-28	21-Sep-1983	20-Sep-2033	100.0
La Escondida	225865	2/1/02556	4-Nov-2005	3-Nov-2055	112.0
La Estrella	172855	961	29-Jun-1984	28-Jun-2034	55.0
La Roja	218187	2/1/02219	11-Oct-2002	10-Oct-2052	563.3
La Seca 2 Fracc. 1	223178	95/12091	29-Oct-2004	28-Oct-2054	5,747.0
La Seca 2 Fracc. 2	223179	95/12091	29-Oct-2004	28-Oct-2054	88.2
La Seca 3	225354	95/12358	24-Aug-2005	23-Aug-2055	200.0
La Seca Fracc. 1	222214	95/12083	3-Jun-2004	2-Jun-2054	7,514.6
La Seca Fracc. 2	222215	95/12083	3-Jun-2004	2-Jun-2054	9.8
La Verde	156662	95/02214	14-Apr-1972	13-Apr-2020	100.0
Las Guasimas	214758	95/11778	22-Nov-2001	21-Nov-2051	9.0
Las Milpas	211200	95/10719	11-Apr-2000	10-Apr-2050	20.9
Los Arrayanes	234186	095/13124	4-Jun-2009	4-Jun-2059	2,568.4
Los Cristos	221715	025/31229	17-Mar-2004	16-Mar-2004	599.3
Magda 2	226587	95/12242	27-Jan-2006	26-Jan-2056	519.7
Magda 2 Fracc. 2	226588	95/12242	27-Jan-2006	26-Jan-2056	0.5
Magda 3	237656	95/12786	20-Apr-2011	19-Apr-2061	13.3
Magda 4	237658	95/12824	20-Apr-2011	19-Apr-2061	0.5
Magda 5	237657	95/12623	20-Apr-2011	19-Apr-2061	0.3
Magda 6	237659	95/12825	20-Apr-2011	19-Apr-2061	0.8
Magda 7	237660	95/12826	20-Apr-2011	19-Apr-2061	2.5
Magda Fracc. A	218571	2/2/00001	22-Nov-2002	21-Nov-2052	209.6
Magda Fracc. B	218572	2/2/00001	22-Nov-2002	21-Nov-2052	49.0
Mina Magistral	210893	95/10692	28-Jan-2000	27-Jan-2050	84.9
Monica	213950	95/11578	13-Jul-2001	30-Jul-2051	60.0
Monica 2	213820	95/11497	3-Jul-2001	2-Jul-2051	16.0
Norma	207259	95/09629	27-May-1998	26-May-2048	148.6
Penny	228020	2/1/02566	27-Sep-2006	26-Sep-2056	213.8
Real de Montecristo	207640	2/1.3/01325	30-Jun-1998	29-Jun-2048	29.3
Ricardo	225146	95/12204	26-Jul-2005	25-Jul-2055	2,114.3
Rich	226568	25/31827	27-Jan-2006	26-Jan-2056	310.8
Rich 1	226550	95/12374	26-Jan-2006	25-Jan-2056	179.9
Rich 2	227568	95/12509	6-Jul-2006	5-Jul-2056	199.8
Rich 4	237827	95/12828	29-Apr-2011	28-Apr-2061	0.6
Rich 5	237398	95/12829	9-Dec-2010	8-Dec-2060	1,601.0
Rich 6	237399	95/12853	9-Dec-2010	8-Dec-2060	37.2
Roja	213412	321.1/2-00054	11-May-2001	10-May-2051	48.0
San Jose	205217	2/1.3/1323	8-Jul-1997	7-Jul-2047	237.9
San Ramon	214827	95/11734	4-Dec-2001	3-Dec-2051	270.8
Silvia Maria	216419	95/11806	17-May-2002	16-May-2052	19.2
Simon	225867	2/1/02561	4-Nov-2005	3-Nov-2055	245.8

<b>MINERAL CONCESSION STATUS</b>					
Tano	235521	95/13118	11-Dec-2009	10-Dec-2059	596.2
Venado	228013	95/12522	26-Sep-2006	25-Sep-2056	85.5
Venado	228014	95/12523	26-Sep-2006	25-Sep-2056	100.0
Zaida	231635	25/31900	28-Mar-2008	27-Mar-2058	1,141.3
<b>Total in District</b>					<b>29,227</b>

All the existing mineral concessions have been legally surveyed by qualified and government approved surveyors. These surveys have been registered with the mineral concession titles at the Department of Mines in Mexico City and are in compliance with Mexican mining laws.

All of the Company's infrastructure, mineral deposits and tailings pond are located on the Company's mineral concessions listed above or on the two parcels of surface lands purchased by the Company. The camp site, consisting of 24 units, is located on 14 hectares of surface lands purchased from a private individual by the Company, within the Cosalá town limits, and is connected to the town's water and sewage system.

The fresh water pumping facilities for the Nuestra Señora processing plant are located near the mine on the El Angel Tercero concession and its surface supply line to the plant passes over lands belonging to the Universidad Autonoma de Sinaloa (the "University"). The mine workings, surface infrastructure, all mineral deposits, their associated reserves and resources are located on the El Angel Tercero and Anexas del Angel mineral concessions with the surface lands also belonging to the University. The use of surface land for the mine infrastructure and the water supply line is permitted by a surface access agreement entered into with the University, as discussed below.

There are two secure hazardous material storage areas at Nuestra Señora, one located on surface at the mine and the other at the processing plant site. Liquid chemicals including oil and hydraulic fluids are stored in steel containers for recycling. Any contaminated containers such as drums, boxes, bags, etc. are also stored in these areas for disposal. A private contractor certified by the State of Sinaloa, is responsible for collecting and disposing of these materials in an appropriate manner.

The electrical line between the Comoderos power-generating facility and the plant site follows the government utility's right of way and they are responsible for maintaining the line.

The University is the holder of the surface rights covering all of the Nuestra Señora Mine. The University's land has also been designated as an Ecological Reserve by the State of Sinaloa. On February 21, 2005, Minera Cosalá signed an agreement with the University, which gives Minera Cosalá surface access to the property and the right to conduct exploration and mining activities. To date, Minera Cosalá had fulfilled all of its monthly payments to the University under this agreement. The agreement included a commitment of US\$100,000 to build several classrooms at the University's new facility in Cosalá. The construction was completed at the end of March 2009. Minera Cosalá presented the University with its final payment to fulfil this contractual obligation.

In late 2006, Minera Cosalá purchased 118 hectares of surface lands situated 3 km northwest of the Nuestra Señora Mine, as a location for the processing plant facility and tailings pond, from the Ejido (Agrarian Cooperative) of the Cosalá area.

### **Accessibility, Climate, Local resources, Infrastructure and Physiography**

The Nuestra Señora property is located approximately 10 km east of the town of Cosalá in the state of Sinaloa, Mexico. The principal Pacific coast highway is located 55 km to the west of Cosalá, and 18 km further west are a toll highway and the Pacifico railway. The toll highway connects Mazatlán with Los Mochis, and Nogales situated at the Mexican/US border. The ports at Mazatlán, 160 km southwest of Cosalá, Topolobampo (Los Mochis), 300 km northwest, and Manzanillo, 870 km southwest, are all capable of handling bulk materials as well as containers. Currently, all offshore shipments of containerized zinc and copper concentrates produced at the Nuestra Señora Mine are transported by truck to a purchaser located in Manzanillo.

The property is accessible from the town of Cosalá via two heavy equipment access roads that can accommodate standard highway vehicles. A 12 km road that passes through the hamlet of La Seca accesses the Nuestra Señora, Santo Domingo and Santa Teresa workings at river level.

A Bailey bridge over the Habitas River connects the road to the Nuestra Señora Mine portal. A 28 km road that passes through the hamlet of Santa Ana accesses the upper Candelaria workings 120 metres above river level.

The town of Cosalá, with its population of over 17,000, supplies the project with sufficient labour force to fulfil its requirements currently, and for the foreseeable future.

A small airport at the edge of Cosalá serves the mountain towns and large ranches of the Sierra Madre. Chartered flights are available to both Mazatlán and Culiacán. Daily buses run from Cosalá to the main coastal highway, where connections can be made to reach all the major cities in Mexico.

Cosalá is the regional market, educational and governmental centre closest to the Nuestra Señora project. Modern schools are present, teaching through grade 12, and the University of Sinaloa campus offers post-secondary education. The town has internet facilities such as internet cafes and home internet usage. Cellular telephones are widely used and the Banamex Bank has a branch office providing banking and electronic banking services. A local hospital can treat minor trauma and non-threatening illnesses. More serious medical problems require transfer to either Mazatlán or Culiacán.

In 2004, Scorpio purchased the decommissioned San Manuel 1,500 tpd mill in Arizona from Phelps Dodge and in late 2006 began to move it to Cosalá. Scorpio also purchased additional mill components, including a 500 tpd ball mill.

In 2007, 14 hectares of land were purchased near the town of Cosalá for the purpose of housing a permanent camp facility which is currently used. The site has electrical power and is connected to the municipality's water supply and sewage system.

In 2007, the Company completed a 4.3 km bypass road around the town of Cosalá to accommodate all heavy-equipment traffic and the transfer of metal concentrates without impacting the town.

Comisión Federal de Electricidad ("CFE"), the federal government utility, is the supplier of electricity in Mexico. Construction of the Company's 100%-owned, dedicated 34 km power line from the main hydro dam to the Nuestra Señora processing facility and electrical sub-stations at the hydro dam and at the plant site were completed in March 2008. The powerline was connected to the mine in January 2011.

Water rights in Mexico are controlled by the Comisión Nacional del Agua ("CONAGUA"). The Nuestra



Señora/Cosalá area is considered to have excess water supplies and has been designated a “Zona de Libre Alumbramiento” – a free water exploitation zone. The Company has access to all required water for its mining and processing operations on the Nuestra Señora property.

The Habitas River, which runs all year, is located in a steep-sided canyon that traverses the project area. Initially, two bridges (one for pedestrians and the other for vehicles) had been constructed to ensure there would be no disruption to the operation during times of flooding. The former has been dismantled for security reasons and access for vehicles and other traffic is restricted to the Bailey bridge. Flooding due to a hurricane in September 2006 passing directly over the mine site produced significant scouring of the alluvial approaches to each side of the Bailey bridge, but the bridge itself suffered no damage. The approaches were quickly rebuilt and access re-established to the mine. The Company submitted plans to permit the construction of flood protection walls to avoid any potential business interruption.

After previously giving its approval, at the end of 2011 SEMARNAT reversed its prior decision and rejected a design of lower environmental impact for the construction of flood protection walls along the Habitas River, below the Nuestra Señora Mine portal to prevent a repeat of the experience encountered in September 2006. As priorities are better defined and the Nuestra Señora reserves estimated, the Company will determine when a re-submission will be made to SEMARNAT. Regardless of that determination, routine contingency planning will protect mine production capability during future wet seasons.

Water leakage into the mine provides a sufficient supply for the diamond drilling and underground equipment requirements. Dewatering from the mine also supplies water to the processing facility via a six inch pipeline. Wastewater is being recycled, with only minor amounts from the underground workings being pumped into the river. The discharged water is monitored to ensure it conforms to Canadian and Mexican environmental standards.

Commercial production of the plant at Cosalá was achieved in January 2009.

The resource areas lie in the western foothills of the Sierra Madre Mountains, with elevations varying from 330 to 1,000 metres above sea level (“m.a.s.l.”). The Nuestra Señora, Santo Domingo and Santa Teresa deposits are located at the bottom of the steep-sided Habitas River canyon at elevations of between 356 and 366 m.a.s.l, while the Candelaria deposit is situated above the canyon at an elevation of 485 m.a.s.l.

Incised perennial drainages cut through the property, and stream flows are highly variable depending on time of year. Drainage channels are often used for local access, although during the rainy season, many drainages become impassable due to high water flow. The slopes are brush and tree covered making cross-country travel difficult, particularly during the rainy season.

The climate ranges from subtropical to high coastal arid, with rainfall averaging 18 inches per year. Rainfall occurs most commonly from mid-June to late October, usually as intense thunderstorms which last for several hours. Until the end of November, occasional tropical to hurricane-strength storms originating in the Pacific Ocean, or westerly over the Sierra Madre Mountains from the Caribbean, can cause severe flooding which may temporarily isolate the area.

The weather does not impact on the Company’s exploration and development activities except that during severe thunderstorms operations may be suspended temporarily, usually less than a couple of hours, for safety reasons. The exception is for surface drill programs taking place within the canyon. The Habitas River is susceptible to flash flooding during the rainy season and, consequently for safety reasons, surface drilling within the canyon is suspended during times of heavy rain. The mining activities and transporting of the ore to the plant site are not affected by the flooding since the mine entrance and the Bailey bridge

are higher than the level of flooding.

### **History**

The Cosalá mining district, where polymetallic mineralization occurs primarily as skarn-related deposits, was discovered and locally worked by the Spanish approximately 400 years ago. At the turn of the 19th century, French engineers reportedly developed and worked the Nuestra Señora Mine with a 10-stamp mill that produced 800 to 1,000kg of silver per month.

In 1949, American Smelting and Refining Company (“ASARCO”) acquired the Nuestra Señora property and carried out extensive drilling prior to commencing production in 1954. ASARCO undertook an aggressive program of modernization, expansion, development, mining and underground exploitation at three of its mines on the property, the Nuestra Señora, Santo Domingo and Candelaria mines. Minimal development was done at the Santa Teresa deposit. These deposits are all located within 200 metres of each other. A haulage way was built from the Nuestra Señora and Santo Domingo mines to the San Luis shaft, from which the ore was skipped to surface and processed in a plant situated on the south lip of the canyon near the expatriate’s town site.

ASARCO also developed an exploitation drift at the Candelaria mine on the “0” Level and extracted approximately 150,000 tonnes of ore from three zones “Salon 1”, “Salon 2” and “Salon 3”.

The Nuestra Señora Mine was the main producer. ASARCO developed levels from the 3rd to the 10th Levels and extracted approximately 1.5 million tonnes of ore. ASARCO’s mining records and exploration drilling indicate that much of the mineralization remained unexploited from the 8th to 10th Levels and extends below the developed workings. The stope definition drilling done by ASARCO on the 8th, 9th and 10th Levels of Nuestra Señora is recorded on level plans and sections together with assay intervals and values. No documentation in the form of assay certificates, drill logs or drill core is available to the Company.

ASARCO also completed a program of exploration drifting on the 6th Level of Nuestra Señora. Drifts were driven to the south of Nuestra Señora’s main shaft as well as to the Santa Teresa and Candelaria areas where drilling was done from the drill bays established at approximately 100 metre intervals. The Company has no access to the data from this drilling.

ASARCO ceased production at the Nuestra Señora property in February 1965. The main San Luis shaft was capped and all underground equipment and surface plant structures were removed. The property was subsequently acquired via three mineral concessions filed with the Mexican Bureau of Mines by a local miner, Jorge Amador Solis, who undertook sporadic small-scale mining of the deposits. In 1986, the property owner died and the three concessions were left to his remaining family with Sr. Alejandro Octavio Trueba Valenzuela having the power of attorney to represent the family.

There was no exploration drilling or geologic activity in this area from 1965 until 1991, when the Consejo de Recursos Minerales (Mexican government mineral division) drilled three core holes beneath Santo Domingo, intersecting narrow widths of mineralization. Some small-scale mining occurred sporadically from 1980 until 1992 in the Nuestra Señora area, but no records of these activities were filed. Scorpio acquired a right to earn 100% interest in the Nuestra Señora property in 1998 and began an exploration program there in 1999. Since 1999, Scorpio’s exploration at the Nuestra Señora property has included airborne magnetic, electromagnetic, and radiometric surveying; ground magnetic and electromagnetic surveying; geologic mapping; and sampling. Scorpio began underground mine development at Candelaria in 2004 and in the Nuestra Señora Main Zone in 2005. The mill components were moved on-site from San Manuel, Arizona, starting in 2006, and the mill began producing concentrates in 2008 with

commercial production attained in January 2009.

### **Environmental Permitting**

Scorpio's mining activities are subject to regulation by SEMARNAT, the environmental protection agency of Mexico. Regulations require that an environmental impact statement, known in Mexico as a Manifesto Impacto Ambiental ("MIA"), be prepared by a third-party contractor for submission to SEMARNAT. Studies required to support the MIA include a detailed analysis of soil, water, vegetation, wildlife, cultural resources and socio-economic impacts. Proof of local community support for a project must also be provided to gain final approval of the MIA.

Environmental legislation provides for restrictions and prohibitions on spills, releases, or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailing disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards and enforcement. Fines and penalties for non-compliance are more stringent.

Although managed by different departments within SEMARNAT, and as a prerequisite to the approval of the MIA, separate approvals are also required whenever the surface is modified from its existing state and when activities interfere with water flows. The approval for "change of land use" is regulated by the Forestry Department, and water impacts are regulated by CONAGUA.

During the evaluation process of each MIA, SEMARNAT may request further information required for its assessment or may deliver notice that it requires more than the stipulated review time to complete its evaluation. At the conclusion of this process, SEMARNAT issues a resolution that either rejects or approves the proposed project. In the case of rejection, a list of deficiencies will be detailed that would require correction in future MIAs. In the case of approval, the resolution will detail the compliance criteria and restrictions under which operations may proceed.

The MIA for exploration and mining of the Nuestra Señora project was submitted to the SEMARNAT and approved on July 18, 2005. The approval allows Minera Cosalá to conduct exploration and mining activities on the El Angel Tercero, Anexas del Angel and Anexas al Predio exploitation concessions for a period of 10 years. Under the terms of the EIS, Minera Cosalá could extract 27,000 tonnes of waste per month and 650 tonnes of ore per day, which was sufficient for the Company's initial planned operations. However, as production increased, the Company filed an amendment to its MIA which has been approved and Minera Cosalá now has all the permits required to mine and process at the current operating levels and up to an increased capacity of 4,000 tpd.

Since 1999, all the required permits for exploration and underground development have been acquired and kept in good standing. They include:

- Explosives permit;
- Explosives transport permit; and
- Permit for transportation of specialized and dangerous materials.

When ASARCO closed its previous mining operations on the property in 1965, they removed the plant infrastructure but left the two nearby town sites intact. The University owns the surface rights and all the structures therein and is responsible for them and any other associated liabilities. The University uses one of the buildings as a teaching and research centre.

The main San Luis shaft of the Nuestra Señora Mine was capped in May 1965 and has remained so ever since. The shaft and ASARCO's tailings area are located near the former expatriate town site and are the responsibility of the University. The Company's surface access agreement with the University and the mining law protects Minera Cosalá from any environmental liabilities pertaining to ASARCO's infrastructure and tailings since they were present prior to the Company and Minera Cosalá becoming involved with the property in 1998. Locked gates secure all other shafts and entrances to the mine workings, and a watch man is present 24 hours a day.

The total undiscounted cash flows required to settle the current reclamation obligations at the Nuestra Señora property is estimated by the Company at \$2.9 million. These provisions for environmental rehabilitation are not expected to be incurred for several years in the future and are intended to be funded from cash balances at the time of the mine closure.

## **Geological Setting**

### Regional geology

The Cosalá District lies along the western edge of the Sierra Madre Occidental, an extensive volcanic province covering approximately 800,000km<sup>2</sup>. The basement rocks are composed of a variety of tectonic/stratigraphic terranes of Precambrian, Paleozoic, and Mesozoic rocks. In the mid-Cretaceous, a thick sequence of sedimentary units, primarily limestone and pelitic rocks, was deposited over the basement terranes. These marine sedimentary rocks host many of the carbonate replacement/skarn deposits in Mexico. The Cretaceous sedimentary rocks are unconformably overlain by a sequence of Tertiary volcanic rocks, subdivided into a lower andesitic unit (70 to 40 Ma) and an upper rhyolitic unit (40 to 20 Ma). Both volcanic sequences can range up to 1km in thickness. Within the Sierra Madre Occidental, mineral deposits are typically confined to the quartz-sericite-pyrite-altered volcanic units and underlying Mesozoic rocks, which have been altered to recrystallized limestone and skarn. Mineralization within the Cosalá District is related to granodioritic or granitic intrusions emplaced between 140 and 45 million years ago. Most of the intrusive rocks are part of the Sinaloa Batholith, a disrupted, massive gabbroic to granodioritic complex that induced strong contact metamorphism in the host rocks. Exposures of the underlying sedimentary rocks and associated mineralization are limited to eroded inliers surrounded by Tertiary volcanic rocks.

An extensional phase of basin and range-type faulting followed the intrusive event. This mid- to late-Tertiary faulting produced an extensive northwest-trending graben and related parallel fault system along with late northeast-trending dextral faults.

### Local and property geology

The Lower to Middle Cretaceous sediments within the Cosalá District are exposed over roughly 30 per cent of the area and vary from fine-grained massive to medium-bedded carbonates. The town of Cosalá resides in a broad valley of regolith formed by the decomposition of the Sinaloa Batholith. Its emplacement produced high temperature skarn, skarnoid and varying degrees of re-crystallization of the limestones.

The Cretaceous limestones in the immediate area of the deposits dip 40° to 50° northeast. This tilting probably occurred at an early stage of the Laramide Orogeny (D1) associated with northeast-southwest directed compression that roughly coincided with the emplacement of the batholith in Upper Cretaceous and Lower Tertiary times (~90 to 40Ma). There is no evidence of major folding in the area.

Sulphide deposition in the area is coincident with the emplacement of the regional granodiorite batholith,

particularly the late magmatic pulses.

There are four recognized deformation events in the Cosalá District, namely:

- Early Laramide ENE to NE compression (D1) resulting in the main stage of fold-thrust contractional deformation;
- Later Laramide NNE to N-S compression (D2);
- Early post-Laramide NE to ENE extension associated with the initiation of Basin and Range extension (D3); and
- Recent (<12 Ma) to present day WNW extension (D4) associated with the dextral movement of the San Andreas Fault system and the drift of the Baja California peninsula to the NW.

Low-angled, northeast dipping thrust/shear planes are prevalent in both the Candelaria and Nuestra Señora deposits. In some locations these structures were active during the mineralizing events as evident by the mylonitic and cataclastic fabrics that cut the endo-skarn and place it in contact with the silicified granodiorite. The deformation that occurred after mineralization resulted in brecciation, displacement and dislocation of the Candelaria sulphide mineralization often producing a discontinuity to the zones.

The river course between Nuestra Señora and Santo Domingo is controlled by the northeast trending Hoag Fault. It also forms the northwestern limit of the Nuestra Señora mineralization in the development above the 8th Level. This structure dips southeast at 70 - 80° and is exposed in the Santo Domingo crosscut on the 6th Level. The fault is represented by a 28 metre zone of hematized, mylonitic and cataclastic material with calcite veining. This was a persistent structure that was repeatedly re-activated and sealed over a period of time although there is no evidence of any major displacement.

#### Deposit type

Mineralization in the Nuestra Señora area includes mineralized calc-silicate skarns, carbonate replacement deposits, veins, and breccia-hosted deposits that occur within limestone and granodiorite. Pb-Zn-Cu-Ag mineralization is primarily associated with variably retrograde-altered garnet-pyroxene exoskarn with lesser mineralization within pyroxene-garnet endoskarn. Within Nuestra Señora's Main Zone, post-skarn brecciation and calcite emplacement appear to be contemporaneous with mineralization, with sulfides occurring as fracture-fill and large "clots" within the calcite-filled breccia matrix.

Carbonate-replacement mineralization occurs at the Candelaria deposit, where massive-sulfide base-metal bodies occur within relatively unmineralized marble formed by thermal metamorphism distal to the skarn alteration.

Chimney and manto-type mineralization, overprinted by sulfide-bearing and locally gold-enriched quartz veins, occur at the Santo Domingo deposit.

#### Exploration

The following summarises the exploration work conducted by the Company since acquiring the Nuestra Señora property in November 1998.

##### Airborne geophysical surveying

Scorpio's exploration program began with a helicopter airborne geophysical survey flown in May 1999 over an area of 5km by 5km with the Nuestra Señora deposits being centered in the middle of the survey area. The survey included a total of 292.6 line kilometers with a line spacing of 100m. The airborne

surveys flown were total field and vertical derivative magnetics, four channels of horizontal loop electromagnetics (“HLEM”), and radiometrics, comprised of gamma, potassium, thorium, and total-count spectrums.

The following equipment was used for this survey:

- Five-frequency Aerodat kestrel electromagnetic system
- Exploranium GR 820 digital gamma spectrometer
- High-sensitivity cesium vapor magnetometer
- Global Positioning System
- Radar altimeter

The survey identified 1,451 conductive responses, but all of them were considered weak in nature including those over the known mineralization. The Company’s consulting geophysicist reviewed the airborne data and determined that 13 electromagnetic conductive anomalies warranted further evaluation in addition to those in close proximity to known mineralization. To date, only those in proximity to the Candelaria deposit have had ground geophysical follow-up.

#### Ground geophysical surveying

The only ground geophysical follow-up was done in June 1999, when the Company established a 5 km by 5 km grid over and to the east of the Candelaria deposit; an area in which a weak airborne geophysical anomaly is located. The grid was established with a base line parallel to the known mineralization. Traverses were done every 50 metres along the base line.

The survey identified a strong conductor closely associated with the Candelaria deposit. The Company’s consulting geophysicist postulated that that it may be a major structure. Mapping in the Candelaria ramp and regionally has confirmed that the conductor is a major regional thrust fault located immediately northeast of the mineralized zones. According to the consultant, the magnetic survey did not define the zones of mineralization or geological contacts.

#### Borehole geophysical surveying

On February 18, 2008, the Company completed a geophysical program of down-hole pulse electrical magnetic surveying to determine if this system could accurately locate known mineralized bodies within the Nuestra Señora Mine. The survey was successful in identifying the known deposits, particularly in the Main Zone. This geophysical tool greatly enhances the Company’s exploration efforts in under-explored and/or structurally complex areas, and may be used again.

#### Surface and underground exploration and development

In 2004, the Company’s exploration focused on definition drilling and underground development of the Candelaria deposit. A 28 km access road from Cosalá to the former Candelaria workings was constructed and a new portal was collared to access the existing Candelaria workings. Ancillary facilities, including shop buildings, fuel storage and power for the Candelaria site, were completed in March 2004.

Underground development of the Candelaria deposit commenced in early 2004 and as of March 2005 totalled over 700 metres of advance on the main decline ramp to the -45 metre level and 520 metres of sub-drifting on the 0, -7.5 -15 and -30 metre levels. The underground program at Candelaria was suspended in April 2005 due to the erratic nature of the mineralization and difficulty in defining a bulk

mineable deposit.

In late 2004, the Company's exploration focus began to shift to the historically much larger Nuestra Señora deposit. Underground development work and diamond drilling commenced on the deposit in February 2005. The main access portal to the Nuestra Señora workings is located just above river level, 120 metres below the Candelaria portal. Scorpio rehabilitated the 10 km road from Cosalá, which accesses the north side of the Habitas River, and constructed a Bailey bridge to connect with the Nuestra Señora workings.

During 2005, the existing 2 by 2 metre access tunnel on the third level of the Nuestra Señora mine was enlarged to 5 by 4 metres and the ramp commenced towards the 6th Level. Exploration drifts were developed on either side of the ramp and the existing workings on the 6th Level were enlarged to permit exploratory drilling between the 8th and 10th Levels. The development totalled approximately 1,394 metres of which approximately 761 metres (or 54.5%) was ramp advancement.

In 2006, approximately 1,780 metres of development was completed of which 560 metres (or 31.5%) were ramp advancement. The main objective was to advance the ramp to the 8, 9 and 10 Levels and to define mineral resources on these levels by additional drilling.

During 2007, development rose to approximately 2,959 metres. Of this, only 288 metres (or 9.7%) was for the ramp towards Levels 11 and 12. The 2007 development campaign was mainly focused in opening the Hoag Zone and preparing production stopes in several areas of the mine so that the Nuestra Señora mine could commence producing ore to be stockpiled in preparation for the plant start-up.

In 2008, the ramp advanced 655 metres and 2,068 metres of development was completed for a total of 2,723 metres. Five exploration drifts were driven off the 9<sup>th</sup>, 10<sup>th</sup> and 11<sup>th</sup> Level crosscuts for delineation drilling of the Nuestra Señora mineralization. Also several other accesses were driven on various levels of the mine to reach cut & fill stopes. Mine development advanced an internal ramp from Level 9 to reach the Santa Teresa ore body on Level 9.5. Most of the development for the last quarter of 2008 was focused on allowing access to higher grade mineralization.

A small definition drilling program consisting of 582 metres was completed underground during the fourth quarter of 2009 for a total of 2,928 metres for the year. The purpose of the drilling was to define the M-03 stope above and between Levels 11 and 12 to provide a better understanding of the geometry of the mineralization. Work commenced on an access drift from the 12<sup>th</sup> Level crosscut, following the mineralized M-03 structure. This drift would also be used for definition drilling of the M-04, M-05 and M-10 stopes on, above and below Level 12.

In 2011, the Company commenced an aggressive 10,500 metre underground exploration and definition drilling at the Nuestra Señora Mine. Due to the equipment issues detailed below, development for 2011 was 2,848 equivalent metres. The Company engaged a contractor in the key area of production drilling to ensure that adequate long hole stoping tonnes were available in the near term. This contractor commenced drilling in December 2011 and was on site until Q2-2012.

During Q3-2011, the Company maintained a high processing rate with the introduction of profitable lower grade ore from contingent sources despite problems with mobile mining equipment that disrupted production from higher grade mining areas. The Company took delivery of a new jumbo drill which was commissioned at the end of the third quarter and accelerated the advance of development for production and exploration purposes. The Company also made a \$4.5 million purchase of new mining equipment to replace aging machines which was delivered throughout 2012.

Development at Candelaria occurred on three levels with 24,760 tonnes of high grade ore excavated in 2011 via mechanized mining methods.

### **Mineralization**

Mineralization at the Nuestra Señora Mine occurs in four known zones located within a 500m by 250m area – Nuestra Señora, Candelaria, Santa Teresa, and Santo Domingo – that were originally developed and exploited from 1954 to 1965 by ASARCO. Carbonate replacement-style mantos, veins, chimneys, chimney breccias, and mineralized exoskarn and endoskarn occur within limestone and granodiorite. Pyrite, sphalerite, chalcopyrite, galena, and lesser tetrahedrite are the dominant sulfide minerals.

Pb-Zn-Cu-Ag mineralization at Nuestra Señora is primarily associated with variably retrograde-altered garnet-pyroxene exoskarn (bedded limestone protolith) with lesser mineralization within pyroxene-garnet endoskarn. In general, exoskarn mineralization occurs within preferential horizons in the general stratigraphy which strikes northwest and dips to the northeast 30-50°. Thrust faulting sub-parallel to bedding has been proposed to create more favorable fluid pathways and localize mineralization.

Within the Nuestra Señora Main Zone, post-skarn brecciation and calcite emplacement appear to be contemporaneous with mineralization, with sulfides occurring as fracture-fill and large “clots” (up to 10cm across) within the calcite-filled breccia matrix. The breccia texture can be coarse with clasts greater than one meter in width. Though there are some weak disseminated sulfides within the clasts, the majority of sulfides occur within the highly irregular calcite-quartz-chlorite matrix.

In contrast to the skarn-hosted mineralization within the Nuestra Señora mine area, carbonate-replacement mineralization occurs at the Candelaria deposit located about 200m to the northeast and 150m higher in elevation than the Nuestra Señora mineralization. Highly irregular, massive-sulfide base-metal bodies, that can be over one meter across, occur within a coarse crystalline, relatively unmineralized marble which formed by thermal metamorphism distal to the skarn alteration. The sulfide/marble contacts can be knife sharp. The sulfide mineralization is highly erratic, although there is evidence that the more significant mineralization is localized along southeast-dipping structures.

Deposition of sulfides occurred during several cycles, with the presence and relative abundance of chalcopyrite with sphalerite and galena indicating fluctuating temperatures during formation. The order of deposition of the sulfides appears to be pyrite, sphalerite, chalcopyrite, galena, and tetrahedrite. The distribution of silver may be related to deposition of copper and not lead. Deposition of silver, copper, and lead probably occurred independently to that of zinc.

The Nuestra Señora, Santo Domingo, and Santa Teresa deposits all have surface expressions. Scorpio found two additional large mineralized zones – Hoag and Sept 9 – adjacent to the main Nuestra Señora zone and between Nuestra Señora and Santo Domingo-Santa Teresa that do not outcrop. Scorpio’s initial interpretations postulated 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 structural traps for the emplacement of mineralization. The Sept 9 Zone appears to be a mineralized feeder for emplacement of mineralization into the Hoag and Santa Teresa Zones. Recent reinterpretation suggests that the Main, Hoag, and possibly the Santa Teresa Zones appear to have been part of the same, formerly contiguous mineralized zone that has subsequently been offset by a series of northeast-striking, normal and/or strike-slip faults (i.e. Hoag fault).

Mineralization in the Hoag Zone consists predominantly of zinc and lead with over 100g Ag/t and only minor amounts of copper. The zinc and lead sulfides in the Hoag Zone are generally finer grained, and zinc tends to be more enriched and silver slightly less enriched relative to the Nuestra Señora Main Zone.



Mineralization in the Sept 9 Zone consists of coarser-grained sphalerite, galena, and chalcopyrite, similar to that at Nuestra Señora, with higher grades of silver and copper. The mineralization is located at the contact of a skarn and a granodiorite body.

Carbonate replacement mineralization occurs in re-crystallized limestones near or at the faulted contact between granodiorite and limestone at the Candelaria, Santo Domingo, and Santa Teresa deposits, with most of this mineralization occurring at Candelaria. At Candelaria, irregularly shaped massive sulfide pods vary considerably in size, shape, and orientation, making it difficult to define them with widely spaced core drilling. The pods are cut and displaced by steep north-northeast-trending faults. There is a spatial relationship between mineralization and a quartz-feldspar porphyry sill or dike that is from 2 to 10m thick and is predominantly sub-parallel to bedding. In addition to the massive sulfides, disseminated mineralization occurs along the interface between endoskarn and exoskarn developed at the contact between the limestones and intrusion. It is associated with retrograde skarn and mylonitic material within the faulted contact.

The Santo Domingo deposit is located on the north side of the Habitas River, 300m northeast of the Nuestra Señora mine portal. Santo Domingo is situated at the intersection of a regional N50°W-trending fault with the northeast-trending Hoag fault. Chimney and manto-type mineralization is locally disrupted and overprinted by intense silica flooding and discrete quartz veining that contains coarse sphalerite, chalcopyrite, minor pyrite, and locally enriched gold.

Santa Teresa is located about 150m northeast of Santo Domingo and about 200m northwest of Candelaria. The surface expression of skarn mineralization extends over a width of 100m along the river. Alteration consists of epidote, actinolite, tremolite, hornfels, grossular garnets, and silicification.

### **Diamond drilling**

#### **Candelaria deposit 2000-2002**

From March 2000 to January 2002, Scorpio drilled 17 NQ size surface holes (for a total of 2,000 metres) and 44 BQ thin wall size underground holes (totalling 3,000 metres) to test the historical Candelaria workings over a 200 metre strike length and to a 180 metre vertical depth. Of the 61 holes, 8 were abandoned due to bad ground conditions and 15 were designed as exploration holes to test for possible mineralization in the footwall and hanging wall of the interpreted main Candelaria deposit. Of the 36 remaining holes that specifically targeted the Candelaria, 31 were successful at intersecting mineralization.

All assays during the 2000-2002 program were performed by Bondar Clegg de Mexico SA de CV and its parent Bondar Clegg Canada (ISO 9002 certified laboratories). Samples were prepared in Bondar Clegg's Hermosillo lab and 50 gram pulps were sent to Bondar Clegg laboratories in Vancouver, Canada for assay. Gold and silver were analysed by fire assay - gravity finish and copper, lead and zinc by induced coupling plasma (ICP). Re-checks were done on all high-grade values reported as well as random samples to determine the repeatability of the reported values.

#### **Candelaria deposit 2004-2005**

At the Candelaria deposit, 151 BQ size holes for a total of 17,195 metres were drilled between June 2004 and April 2005. Drill hole spacing was 5 metres for the first 28 holes and approximately 50 metres for the remaining 123. Due to the irregular nature of the replacement bodies, the drilling failed to delineate the extent, continuity and shape of the mineralization. It was estimated that the deposit would have to be drilled at 8 metre centres to provide meaningful geological interpretation.

In 2004, the Company enacted a formal quality assurance and quality control (QA/QC) program. The procedure for sample collection, processing and analyzing of the drill core is presented in the “Sampling, Analysis and Security” section below.

#### Nuestra Señora deposit 2004-2008

Since 2000, Scorpio has completed a total of 191 surface drill holes totalling 28,417 metres at Nuestra Señora, of which 12 holes (2,617 metres) were drilled in 2008.

Scorpio commenced underground drilling of the Nuestra Señora deposit in April 2005. A total of 806 underground holes have been drilled totalling 101,102 metres since inception. Underground drilling totalled 33,259 metres for 2008.

The underground drilling of the Nuestra Señora deposit has been highly successful, resulting in the discovery of several new zones and demonstrating a very large mineralizing system. The current understanding of the Nuestra Señora and other related 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. Several of the new zones discovered by drilling do not outcrop at surface.

#### Santo Domingo and Santa Teresa deposits 2006-2008

Surface drilling of the adjacent Santo Domingo and Santa Teresa deposits in 2006-2007 totalled approximately 2,442 metres in 17 holes and 3,282 metres in 25 holes, respectively. As of March 2009, underground drilling of the Santa Teresa deposit totalled 3,281 metres in 25 holes. Good mineralized intersections from underground drilling of the Santa Teresa deposit lay only 17 metres from the Nuestra Señora haulage ramp. This zone was developed for mining in 2008/2009 and is currently part of the mine plan. The Santo Domingo zone requires additional definition drilling and consequently no development is planned for this area at the present time.

#### Nuestra Señora Mine 2010-2012

In 2010 a total of 16,209 metres of exploration and definition drilling was performed underground at the Nuestra Señora Mine. Results of that program were instrumental in improving stope definition and ore control for ongoing operations and assisting in the prioritization of geological targets for further exploration.

More than 14,000 metres of underground exploration and infill drilling were completed at the Nuestra Señora mine during 2011. Recent drilling has focussed on extending Candelaria down dip and along strike as well as extending M07 Main Zone mineralization down dip and southeast along strike. Current drilling is targeting extensions to the Hoag Zone and new mineralization adjacent to the Hoag shear zone into the footwall.

Approximately 38,000 metres of exploration drilling was completed at the Nuestra Señora Mine in 2012. Drilling in 2012 targeted extensions of the Main Zone and Santa Teresa, and exploring for structures parallel to the Hoag and Main Zones. The resource estimation work completed by MDA in mid-2012 highlighted several targets for further exploration as well as prioritized areas to drill for upgrading resources from the inferred category.

Exploration drilling targeted potential new mineralization adjacent to the Hoag shear zone, into the footwall of that zone. Drilling also tested for Main Zone extensions up dip from Level 8, and between

Levels 5 and 8, for mineralization left behind near historical workings. This work encountered sufficient success to justify development of a new access to further test this area for potential exploitation.

### **Sampling, Analysis and Security**

All technical information for the Nuestra Señora project is obtained and reported under a formal quality assurance and quality control (QA/QC) program. All sampling is carried out by Company personnel and in accordance with standard industry practice to ensure sample quality and accurate representation. The procedure for sample collection, processing and analyzing is as follows:

#### **Core samples**

The core samples are split in half and one portion placed in a plastic bag to be sent to ALS Chemex for assaying and the other returned to the core box to be stored at Minera Cosalá's secured enclosure in Cosalá, Mexico. Core sizes range from BQ (hole diameter of 60 mm) to NQ (hole diameter of 75.7 mm) and the samples weight varied between 0.6 to 5 kilograms. Core recoveries within the mineralized zones varied between 90 and 100%. Where no core is recovered within the mineralization an assay value of zero is inserted. When splitting the core, care is given to ensure that each half contains a similar amount of sulphides and therefore both are representative of the mineralized section sampled.

Sample intervals are determined based on the percentage of sulphides, as estimated visually. Sample lengths vary from a minimum of 10 centimetres to a maximum of 2 metres. At least 2 metres of host rock are sampled on either side of the mineralized zone. The complete mineralized zone is sampled, even where a visible estimation indicated that the amount of sulphide is less than one percent. Samples are also constrained by geological boundaries and consequently no sample interval extended across a geological contact.

The core is logged and then sections for splitting are marked and assigned two sample tickets with a designated number at the core shack situated in a secure fenced location in Cosalá. Sample intervals are determined based on the percentage of sulphides.

The core is then cut in half with one section being placed in a plastic bag with one of the tickets and the other returned to the core box with the other ticket for future reference. The plastic bag is sealed and placed in a sugar sack. The core is stored at two secure locations, the first on the Candelaria mine site and the other at the core shack in Cosalá. Both locations have 24-hour security surveillance.

#### **Underground chip samples**

Initially continuous chip samples were taken in the old drifts, development drifts and open stopes of the entire mineralized zone and extending at least two metres beyond it on either side. Samples were collected in plastic bags and assigned a sample ticket with a designated number. One sample ticket was placed in the bag and the other retained for reference. The samples were transported to surface, sealed and placed in a sugar sack. They were either stored in a secure location at the mine site or at the office in Cosalá awaiting transportation to an independent laboratory.

Grade control procedures were changed in 2007 following a comparison between expected and assayed grades from chip and muck samples. It has been established that for grade control purposes, muck samples are more representative due to the very spotty nature of the mineralization, particularly in the Main Zone. At least five muck samples are taken per round of advance (approximately 160 tonnes). Results are compiled and grades per work area are calculated on a weighted average. Recent comparisons with plant throughput grades indicate that muck samples overestimate the true grade by up to 15% for

lower grade areas but underestimate the true grade by up to 15% in high grade areas. Such variations are common particularly where precious metals (in this case silver) have a significant impact on the net value per tonne.

Sample preparation and transport is the same for muck samples as for chips. In 2008, muck samples were sent to the SGS laboratory in Durango. As of January 2009, muck samples are assayed internally at the Company's own laboratory. During the last few months of 2008, tests were done to compare results from SGS and the mine's lab and results were found to be acceptable for this purpose. With a few exceptions, all of the 2012 core samples were processed internally.

#### Sample processing and analysis

Generally, every three to four days, the collected core samples are delivered by courier service to ALS Chemex ("ALS") preparation laboratory in Hermosillo for drying, crushing and pulverizing.

The procedure for sample processing and analyzing are as follows:

- The samples are prepared at the laboratory utilizing ALS' PREP-31 standardized procedure.
- The samples are crushed to more than 70% -2mm then 250 grams (pulp) are split off and this is then pulverized to more than 85% passing 75 microns.
- The pulps are sent by air freight to ALS, Vancouver, for assaying.
- The remaining samples (rejects) are retained by ALS, Hermosillo for shipment back to Minera Cosalá.

Prior to March 2005, high-grade underground and drill core samples were assayed by fire assay and gravimetric finish for gold and silver utilizing ALS' GRA21 standardized procedure, while copper, lead and zinc were prepared using a four acid digestion and assayed by atomic absorption spectrometry (AAS per ALS' standardized procedure AA62).

Other samples were assayed utilizing a four acid digestion followed by analysis using Inductively Coupled Plasma ("ICP") with Atomic Emission Spectroscopy per ALS' procedure ME-ICP61.

In March 2005, the assaying procedure was changed to reduce costs without jeopardizing the analytical accuracy. The mineralized chip and core samples are assayed for gold consisting of 30-gram fire-assay atomic absorption spectrometry (ALS' AA23 procedure) and 27-elements including silver, copper, lead and zinc are analyzed in the ME-ICP61 package. Any samples of silver over the detection limit of 200 ppm are re-assayed by AAS utilizing the AA62 procedure. This also applies to copper, lead and zinc that exceed the detection limit of 10,000 ppm. If the silver exceeds the limit of the AA62 method of 1,000 ppm, then the sample is fire assayed with a gravimetric finish (per GRA21).

In addition to the blank standards, reference standards and duplicate analysis performed by ALS, Scorpio conducts its own data verification by inserting standard and blank samples with the pulps that are shipped to ALS, Vancouver. Scorpio obtains blank samples and commercial medium-grade and low-grade standards and inserts one after every 40th pulp. In addition, two pulps are produced from every 20th sample. One is analyzed by ALS while the other is sent to SGS Lakefield Research Laboratory for comparative analysis. Samples of standards and blanks have also been sent to SGS Lakefield to verify their QA/QC. ALS, SGS Lakefield Research are accredited ISO/IEC 17025 by the Standards Council of Canada.

Currently, for sample preparation, samples are sent to ALS's sample prep labs in either Hermosillo or

Chihuahua, whichever has the more rapid service.

#### Specific gravity determinations

A representative piece of core from each sample interval is marked by the Company's geologist for a specific gravity ("SG") measurement. Since the core sampled extends beyond the mineralized sections and into the weakly mineralized or barren footwall and hanging wall, the samples are representative of ore and waste. The samples range from host rock to massive sulphides. The material is not porous and does not contain vugs or cavities; consequently, it is not necessary to coat the material with wax.

The procedure consists of a technician measuring the weight of the core in air and then measuring the volume of water displaced when it is suspended by a thin string in a litre measuring cylinder containing 500 millilitres of water. After each measurement, water is added to the cylinder to maintain the 500 millilitre volume. The specific gravity is calculated by dividing the weight by the volume. To ensure the specific gravity data is available for all rock types, even those not hosting the mineralized zones, representative samples of the different geological units are also measured but not with the same consistency as the sampled portions of the core.

#### Security

For Scorpio's drilling, samples are kept within a guarded compound until shipping. Samples are delivered by a Company driver and vehicle to a contract shipper, who ships the samples to the laboratory. A signature is acquired from the representative of the contract shipper. On rare occasions, Scorpio's driver will deliver samples directly to the laboratory.

Scorpio has three core storage facilities. All the storage areas are in fenced areas behind locked gates.

#### **Update of Mineral Resource and Reserve Estimates at Nuestra Señora**

On June 29, 2012 the Company reported an independent updated Mineral Resource estimate for the Nuestra Señora Mine, as prepared by MDA. The updated NI 43-101 compliant Mineral Resource estimate was commissioned to allow the Company to prepare a development model that allows for better planning, scheduling, and budgeting, taking into account the most recent information available to it and recognizing more appropriately the current understanding of the ore body's spatial complexity. The table below provides an overview of the resources outlined in this report.

The Company has also commissioned MDA to prepare a mine plan based on the resource estimate and other criteria, in order to present a reserve estimate which is now anticipated to be made available in Q2 2013.

## Updated Mineral Resources, Nuestra Señora Mine

Cutoff	Measured									
Grams AgEq/t	Tonnes	Grams AgEq/t	Grams Ag/t	%Zn	%Pb	%Cu	oz Ag	lbs Zn(x1000)	lbs Pb(x1000)	lbs Cu(x1000)
40.0	423,000	155.13	78.19	1.69	0.84	0.20	1,063,000	15,760	7,833	1,865
50.0	373,000	169.88	85.58	1.85	0.91	0.22	1,026,000	15,213	7,483	1,809
<b>60.0</b>	<b>332,000</b>	<b>184.12</b>	<b>92.76</b>	<b>2.01</b>	<b>0.98</b>	<b>0.24</b>	<b>990,000</b>	<b>14,712</b>	<b>7,173</b>	<b>1,757</b>
70.0	292,000	200.11	100.99	2.18	1.06	0.27	948,000	14,034	6,824	1,738
80.0	262,000	214.45	108.37	2.33	1.12	0.29	913,000	13,458	6,469	1,675
Cutoff	Indicated									
Grams AgEq/t	Tonnes	Grams AgEq/t	Grams Ag/t	%Zn	%Pb	%Cu	oz Ag	lbs Zn(x1000)	lbs Pb(x1000)	lbs Cu(x1000)
40.0	2,771,000	146.79	78.26	1.39	0.74	0.22	6,972,000	84,915	45,207	13,440
50.0	2,398,000	162.62	86.71	1.54	0.82	0.24	6,685,000	81,415	43,351	12,688
<b>60.0</b>	<b>2,088,000</b>	<b>178.62</b>	<b>95.26</b>	<b>1.70</b>	<b>0.89</b>	<b>0.27</b>	<b>6,395,000</b>	<b>78,255</b>	<b>40,969</b>	<b>12,429</b>
70.0	1,840,000	194.00	103.48	1.84	0.97	0.29	6,122,000	74,640	39,348	11,764
80.0	1,627,000	209.58	111.88	1.99	1.04	0.31	5,852,000	71,380	37,304	11,119
Cutoff	Measured and Indicated									
Grams AgEq/t	Tonnes	Grams AgEq/t	Grams Ag/t	%Zn	%Pb	%Cu	oz Ag	lbs Zn(x1000)	lbs Pb(x1000)	lbs Cu(x1000)
40.0	3,194,000	147.89	78.25	1.43	0.75	0.22	8,035,000	100,675	53,040	15,305
50.0	2,771,000	163.60	86.55	1.58	0.83	0.24	7,711,000	96,628	50,834	14,497
<b>60.0</b>	<b>2,420,000</b>	<b>179.37</b>	<b>94.92</b>	<b>1.74</b>	<b>0.90</b>	<b>0.27</b>	<b>7,385,000</b>	<b>92,967</b>	<b>48,142</b>	<b>14,186</b>
70.0	2,132,000	194.84	103.14	1.89	0.98	0.29	7,070,000	88,674	46,172	13,502
80.0	1,889,000	210.26	111.39	2.04	1.05	0.31	6,765,000	84,838	43,773	12,794
Cutoff	Inferred									
Grams AgEq/t	Tonnes	Grams AgEq/t	Grams Ag/t	%Zn	%Pb	%Cu	oz Ag	lbs Zn(x1000)	lbs Pb(x1000)	lbs Cu(x1000)
40.0	2,828,000	129.28	71.97	1.14	0.57	0.20	6,544,000	71,075	35,538	12,469
50.0	2,392,000	144.71	80.22	1.28	0.64	0.23	6,169,000	67,500	33,750	12,129
<b>60.0</b>	<b>2,025,000</b>	<b>160.98</b>	<b>88.98</b>	<b>1.44</b>	<b>0.71</b>	<b>0.26</b>	<b>5,793,000</b>	<b>64,287</b>	<b>31,697</b>	<b>11,607</b>
70.0	1,722,000	177.88	98.20	1.59	0.78	0.29	5,437,000	60,362	29,612	11,009
80.0	1,478,000	194.89	107.58	1.75	0.85	0.32	5,112,000	57,023	27,697	10,427

The Mineral Resource estimate for the Nuestra Señora Mine was prepared by Mr. Steven Ristorcelli, C. P. G. and Mr. Michael Lindholm, C. P. G., of MDA, both of whom are "Qualified Persons", as defined in NI 43-101. Details of this report titled "Resource updates for the Nuestra Señora, San Rafael, and El Cajon Deposits, Sinaloa, Mexico" dated August 10, 2012 and prepared by MDA can be found on the Company's website ([www.scorpionmining.com](http://www.scorpionmining.com)) and on SEDAR ([www.sedar.com](http://www.sedar.com)).

**Nuestra Señora Processing Plant Operations**

The plant throughput for 2012 compared to 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Processed (tonnes)	<b>521,557</b>	509,292
Silver (g/t)	<b>90</b>	101
Zinc grade (%)	<b>1.85</b>	2.16
Copper grade (%)	<b>0.28</b>	0.33
Lead grade (%)	<b>0.87</b>	0.92

The processing plant throughput for 2012 was maintained at or near its capacity of 1,500 tpd due to incremental production improvements made throughout 2011.

An anomalously low copper head grade during July and August (0.18% Cu) led to a poor copper recovery of 39.6% for Q3 2012 and lower copper production. With the increase of long hole stoping capacity coming on line in September 2012, the monthly copper head grade rose to 0.27%, in line with expectations.

During Q3 2012 a flash flotation cell was installed and commissioned. Modifications to the pumping units were on-going through to the end of Q3 2012. In Q4 2012, new cyclone feed pumps were installed enabling further optimization of the flash flotation cell. The benefit of the flash flotation cell has been realized throughout Q4 2012 as demonstrated by slightly improved silver recoveries despite lower head grades. Optimization of the pump controls and flash cell enabled a step change in the throughput capacity of the existing plant, and subsequent to the end of 2012, an additional 5% in throughput is being realized.

During Q4 2012, a small trial column cell has been fabricated and installed to further clean lead from the copper concentrate. This has been successful in reducing the lead reporting to the copper concentrate by approximately 15% in relative terms, or 2% in absolute lead grade in the concentrate. Not only has this resulted in higher lead recovery to the lead concentrate, but has reduced the penalty incurred for lead content in the copper concentrate. Further testing will be performed in H1 2013 to determine whether a commercial column cleaner cell should be purchased to replace the site-fabricated unit on a permanent basis.

**Nuestra Señora Plant Expansion**

Phase I of the work required to increase the Nuestra Señora processing plant capacity was substantially completed in Q2 2012 on time and within its \$5 million budget. Phase I activities included process flow engineering, civil works covering pouring of the major equipment foundations, and the purchasing of long lead time items such as an additional used ball mill and the installation of a flash flotation cell. The decision to proceed with the final Phase II of the plant expansion to increase plant capacity will depend on the reserve estimates and permitting of projects in the Cosalá Norte District.

**EL CAJÓN AND SAN RAFAEL PROJECTS, SINALOA, MEXICO**

The Company's indirectly owned Mexican subsidiary, Minera Platte River S. de R.L. de C.V. ("MPRG"), controls, four significant projects in Mexico, the most important of which is the polymetallic Cosalá

Norte District, near Cosalá, Sinaloa. MPRG controls 9,936 hectares of mineral concessions in this area which includes the El Cajón and San Rafael Projects, and the previously operated La Verde underground silver-copper-gold mine, all contiguous to the northern boundary of Scorpio's Cosalá district land holdings.

The Company has been advancing archaeological, environmental and community issues necessary to enable development of the known resources in the vicinity of Cosalá Norte.

On June 14, 2012, the Company's land access agreements with the owners (Ejidros) at Cosalá Norte were registered with the responsible federal authority, the Registro Agrario Nacional ("RAN"). Under these access agreements, the Ejidos have granted the Company permission to undertake all activities including the construction and operation of open pit mining, waste dumps, tailings storage facilities and mineral processing facilities. This is a prerequisite for subsequent environmental permitting.

During Q2 2012, archaeological studies commenced in the Cosalá Norte area, and eventually were expanded to include a reconnaissance of all of the Company's concessions in the area. A detailed review of the Cosalá Norte area was conducted by experts certified by the National Institute of Archaeology and History ("INAH") and the Company received a clearance certificate in Q3 2012. This clearance is also a prerequisite for environmental permitting.

In Q2 2012 the Company engaged an environmental group based in Mexico City for the development and submission of the Environmental Impact Statement for the Cosalá Norte area. Environmental permissions will be sought in a phased manner such that stand alone permits for underground mining at El Cajón and San Rafael can be processed independently of an eventual request for open pit mining and potential addition of a processing facility at Cosalá Norte, if deemed a valid alternative to expanding the current plant above the slated 2,750 tpd with the Phase II construction program.

The MIA for Phase 1 of the Cosalá Norte mine development program was submitted to SEMARNAT on November 26, 2012. Subsequent to the end of 2012, a request to provide further information had been received, to which the Company will respond before the end of Q1 2013. The timing of environmental approval is not guaranteed, however the existing land access agreements, proven environmental compliance of existing operations and continuing community support gives the Company a high level of confidence that a positive outcome will be expeditious.

The Company has drilled a total of 7,967 meters at the El Cajón Project in 2012. A portion of this total (2,335 meters) was drilled in nine in-fill holes with the intent of raising the confidence level and expanding the previously reported resource estimate. The remainder of the drilling (5,632 meters) was aimed at various targets. It identified a new structurally controlled zone called "La Emma" in 16 holes.

The Company completed a total of 7,425 metres and 3,334 metres of drilling at San Rafael in 2011 and 2012, respectively. Drilling completed by the Company at San Rafael has focused on defining proposed open pit boundaries of the Zone and the in-fill drilling of widely-spaced intersections from prior drilling campaigns. The 2012 program completed in-fill drilling on the known zones and delineated mineralization in the newly discovered NW Extension. An additional 1,774 meters of diamond core was drilled at San Rafael for purposes of collecting geotechnical information to be used in the design of open pit slopes and underground openings of potential mining.



**Property Description and Location**

The Cosalá Norte property consists of 53 mining concessions that cover approximately 10,207 hectares. The concessions occur in four non-contiguous blocks, but 45 of the concessions form one very large block. Within the largest block are at least five separate areas of land that MPRG does not control. Two of the concession blocks not under MPRG control are immediately adjacent to the northwest and southwest boundaries, respectively, of the San Rafael Project, while one of these same blocks covers a significant portion of the El Cajón Project.

MPRG purchased 31 concessions of the Cosalá Norte property from their owner, Minera Real de Cosalá, S.A. de C.V. (“MRC”), through an option agreement made in mid-2004; the final payment to acquire the concessions was made on July 3, 2008. MPRG acquired three additional concessions from MRC in June 2006. An additional 19 concessions were filed by MPRG with the Dirección General de Minas between 2005 and 2008, bringing the total number of concessions controlled by MPRG to 53.

The mineral concessions held by MPRG in the Cosalá district are included in the Nuestra Señora Property Description section.

**Accessibility, Climate, Local Resources, Infrastructure and Physiography**

The Cosalá Norte property is accessible from the town of Cosalá via a rural paved road and then on a dirt road for a total distance of 14 km. It is located about 17 km from the Nuestra Señora mill.

Please refer to the Nuestra Señora property description “Accessibility, climate, local resources, infrastructure and physiography” which is pertinent to the Cosalá Norte district.

**History**

The Cosalá district history is briefly described under the Nuestra Señora property section.

In 1949, ASARCO purchased the Nuestra Señora Mine and property and carried out exploration and development, putting the property into production in 1954. ASARCO also mined some similar material from the La Estrella mine on the Cosalá Norte property. In or about February 1965, ASARCO ceased production, presumably because of anticipated Mexican government policies. They subsequently removed all of the mining equipment. ASARCO let the concessions lapse in 1980.

At about the same time, the small El Mamut and La Verde mines (both Ag-Cu-Au) were operated by Messrs. Vicente Cortez, Alonzo Cortez, and Jaime Garriaga, using some of the ASARCO infrastructure. The El Mamut mine, located in what is now the El Cajón Project, had also apparently been tested by ASARCO with three diamond drill holes. The data from these holes are not available to Scorpio. The Cortez and Garriaga families produced approximately 10 to 15 tpd from the mines and shipped the ore to the Gaitán mill at La Minita.

During the summer of 1973, fieldwork was completed by Duane Allen Cibula towards his Master of Science Degree in the Department of Geology at the University of Iowa. His thesis titled “The Geology and Ore Deposits of the Cosalá Mining District, Cosalá Municipality, Sinaloa, Mexico” was completed and published in 1975. The thesis emphasized the stratigraphy, structure, and mineralization in the district and was financed by Consejo de Recursos Minerales no Renovables.

In the late 1970s or early 1980s, a subsidiary of Peñoles explored the area around La Estrella mine and El Cajón area and reportedly completed some drilling around La Estrella. They subsequently abandoned

their interest in the area. At the same time, Mr. Enrique Gaitán constructed a 100tpd mill near La Estrella mine to process material from that deposit, as well as from La Profesora, a small mine about 0.5km to the southeast. In the early 1980s, Mr. Gaitán moved the mill to the town of Cosalá, supposedly due to his relationship with the ejido that owned the surface in the area and also to procure a more consistent water source.

In 1985, Mr. Jaime Guinea Gonzalez acquired the rights to the La Verde mine concession, from which he processed 50 to 80tpd of dump material and also signed an option to purchase the Gaitán mill in Cosalá. Mr. Guinea developed two new cross cuts to intercept the La Verde zone and increased production to about 190tpd.

Minerales para la Industria, S.A. de C.V. signed an exploration agreement in 1987 with Mr. Guinea and Minera Humaya S.A. de C.V. (“Humaya”), a company controlled by him, and completed mapping and sampling in the area around the La Verde mine and the El Cajón and La Estrella areas. The results of their work were not sufficient to continue exploration in the district. Mr. Guinea subsequently completed 12 reverse circulation (“RC”) drill holes along the La Verde zone, and production over the ensuing years was increased to approximately 200tpd. He also acquired substantial additional concessions in the area at this time.

In mid-1995, Minas de Oro Hemlo, S.A de C.V. (“Hemlo”), subsidiary of Hemlo Gold Mines Inc., the first company to show interest in the San Rafael-Los Manueles areas located northwest of San Rafael, signed an exploration agreement with Mr. Guinea and Humaya. After six months of intense mapping and sampling in those zones, Hemlo decided to build a new road to explore a stockwork zone of Au-Ag mineralization hosted in the rhyolite that overlies the San Rafael base-metal mineralization. On the basis of encouraging rock-sample geochemistry, Hemlo drilled 15 RC holes in 1997 in the San Rafael area and encountered local Au-Ag mineralization in the rhyolite. Scorpio has copies of drill logs and assays, though none of the data is in digital form. Hemlo’s data were not used for the current resource estimate due to QA/QC concerns and a general lack of documentation. Hemlo’s drilling targeted the high-level gold and silver mineralization that overlies the massive-sulfide base-metal mineralization, though a number of holes were drilled deep enough to encounter the base-metal zone. Nine holes contained sample intervals assaying greater than 1% Pb and Zn, while three of these holes had 10m or greater drill intervals that assayed >40g Ag/t and over 1% Pb and Zn. The base-metal assay technique employed by Hemlo had an upper limit of 1%, and further analysis was not conducted on the samples whose results exceeded the upper limit. All of the Hemlo holes which encountered sulfide mineralization were later twinned by MPRG. A few of the holes were drilled deep enough to discover the buried massive-sulfide base-metal mineralization that is the current focus of Scorpio’s drilling. However, since Hemlo was primarily interested in gold and silver and also had unrelated legal issues, they did not continue work in the area.

Early in 1997, Mr. Guinea and Humaya signed an option agreement for the property in the San Rafael-El Cajón-La Verde area with Golden Panther, a Canadian junior company. This agreement included all of the claims staked by Humaya (11,000 ha), as well as the mill plant and the offices and houses located in Cosalá. Golden Panther carried out an IP-resistivity geophysical program over the La Verde mineralization and completed three core holes, two of which attempted to intercept the mineralization beneath the deepest workings of the La Verde mine. A cross cut was developed to intercept another mineralized structure but was stopped short of the area of interest. Along with the exploration program, Golden Panther increased the capacity of the mill in Cosalá to 450tpd. Golden Panther abandoned the project the following year.

In early 2000, Noranda Exploraciones Mexico, S.A. de C.V. (“Noranda”) completed three IP-resistivity lines over the San Rafael zone in the area of the previous Hemlo drilling. Noranda subsequently drilled seven core holes at San Rafael totaling 1,347.5m in 2001.

MPRG became interested in the property in early 2004. On June 1, 2004, MPRG signed a four-year option agreement for 100% of the exploration and mining concessions owned by MRC along with all of the infrastructure and mining equipment used at the La Verde mine and project area but excluding the mill in Cosalá. MPRG made the final payment and acquired the property in July 2008.

The La Verde mine was previously leased to Contratista de Obras Mineras, S.A. de C.V., (“COMSA”), a Mexican contract-mining company, by MPRG prior to its acquisition by Scorpio. The La Verde mine produced 1.4 million tonnes with average grades of approximately 120g/t Ag, 0.53% Cu, and 0.13g/t Au.

Notice of termination of the lease contract was delivered by MPRG to COMSA in January 2011, and in accordance with contractual terms, contract mining ceased at the end of February 2011. The contractor had until May 10, 2011 to complete the acquisition of the Platte processing plant by fulfilling their cumulative lease payments to MPRG of \$3 million which they paid.

In 2011, over 8,000 tonnes of La Verde ore were processed at the Nuestra Señora plant to determine metallurgical performance. The Company drilled a total of 4,618 metres from underground workings and 1,945 metres from surface during 2012. Only small areas of mineralization were identified. Mapping work continues – the data from La Verde is being modelled in 3D in order to evaluate its mineralization with the objective of resuming mining operations, if warranted. A geological review of La Verde will be conducted in H1 2013.

### **Environmental Permitting**

Since inception of exploration at the Cosalá Norte property, MPRG has been exploring under operating plans submitted to SEMARNAT. For MPRG’s Phase I exploration program, a report was submitted to SEMARNAT in September 2004. For Phase II, a second report was submitted in September 2005. This second report included sufficient drill sites to cover the 2007 exploration activities. In 2007, SEMARNAT required an Informe Preventivo III ETAPA del Proyecto de Exploracion Minera Directa to be filed and approved by SEMARNAT. The Informe Preventivo describes the municipality in general, the local project area, current status of all project targets, as well as future drill targets. The document was submitted and approved in July 2007 and was sufficient to allow all 2008 exploration activities at Cosalá Norte.

In 2012 the Company achieved the following milestones as it moves towards the development of its properties in Cosalá Norte:

- Received archaeological clearance for the first phase of development;
- Submitted the Environmental Impact Statement (the acronym in Spanish “MIA”) for exploitation of the El Cajón and San Rafael underground deposits with SEMARNAT; and
- Submitted the Change of Land Use Permit for the Cosalá Norte projects to SEMARNAT.

The Company is currently responding to subsequent requests from SEMARNAT relating to the MIA submission; and has provided additional information to SEMARNAT relating to the Change of Land Use Permit.

### **Geological Setting**

#### Regional geology

Please refer to Nuestra Señora regional geology.

### Property geology

The geology of the San Rafael-El Cajón area is dominated by Tertiary intrusive and extrusive rocks that make up much of the Sierra Madre Occidental. Cretaceous limestone, commonly recrystallized and marbled but only locally skarn-altered, is exposed within windows in the Tertiary volcanic rocks and is the oldest rock identified to date in the San Rafael-El Cajón area. The basal Tertiary unit is a volcanoclastic arenite composed of heterolithic volcanic clasts that are variable in size, sub-angular to sub-rounded, and commonly porphyritic. Clast and grain size generally range from fine-grained sand to medium-sized boulders, and the unit commonly displays graded bedding. The arenite is an extensive rock type on the property and is also the primary host for skarn alteration/mineralization at the original La Verde mine. The protolith at El Cajón was originally believed to be a fine-grained limestone sub-unit within the Tertiary volcanoclastic arenite, although the current interpretation is that the altered limestone is of Cretaceous age. Overlying the basal arenite are andesitic flows/tuffs and dacitic tuffs. At San Rafael, the basal arenite section is missing, and massive sulfide mineralization occurs primarily along the dacite tuff/Cretaceous limestone contact with additional mineralization within the dacite, where the San Rafael Upper Zone is located, and skarn-altered limestone, which is the main host rock for the San Rafael 120 Zone. The youngest rock type is felsic rhyolite tuff. The rhyolite tuff contains quartz phenocrysts and small lithic fragments. Although there are silver-gold veinlets that crosscut the tuff, no strong silver-copper-gold or silver-lead-zinc mineralization has been identified in the rhyolite.

Three types of Tertiary intrusions are present in the San Rafael-El Cajón area. Medium- to coarse-grained granodiorite, which is part of the district-wide batholith, crops out in the western part of the project area and is also intersected at the bottom of a number of MPRG drill holes in the El Cajón area. There are also large local intrusions of diorite, often occurring as sills, that are interpreted to be related to the emplacement of the batholith. Andesitic dikes and sills, which are sometimes weakly magnetic, are also thought to be Tertiary in age.

The skarn alteration in the vicinity of El Cajón and San Rafael covers a broad area of at least 20km<sup>2</sup>. Paragenetically, from earlier to later stage, typical skarn minerals are garnet (especially andradite and grossularite), pyroxene, wollastonite, potassium feldspar, calcite, chlorite, epidote, and quartz-sericite-pyrite. Calcite and chlorite content increase near the mineralized zones. A garnet-pyroxene-calcite alteration assemblage tends to be more strongly associated with the mineralization at El Cajón. The quartz-sericite-pyrite assemblage is associated with the dominant massive-sulfide mineralization at San Rafael.

The property-wide dioritic intrusions are often weakly magnetic and generally only weakly altered, although the dioritic intrusion(s) spatially associated with the El Cajón mineralization exhibit a pervasive skarn alteration assemblage consisting of albite, tourmaline, scapolite, epidote, calcite, titanite/sphene, and minor quartz. Though pervasively altered, the diorite contains only trace amounts of pyrite and chalcopyrite. The skarn-altered diorite was often logged by earlier geologists as quartz monzonite.

### Deposit type

Precious and base-metal mineralization at the El Cajón-San Rafael area is associated with both fracture-controlled and massive-sulfide deposits within variably altered Tertiary andesitic flows, dacite tuffs, and volcanoclastic arenite as well as Cretaceous limestone. Silver-lead-zinc mineralization, associated with quartz-sericite-pyrite alteration, occurs within the Main Zone at San Rafael. This alteration type is believed to be a more distal phase of the skarn system.

Silver-copper-gold mineralization, occurring within garnet-pyroxene-calcite skarn, is typically seen at El Cajón and also in the 120 Zone along the east side of the San Rafael deposit. The strong metasomatic

alteration and the close spatial relationship with a large dioritic intrusion suggest that the El Cajón-style of mineralization represents a proximal skarn deposit.

### **Historical Exploration**

MPRG initiated exploration of the Cosalá Norte property in 2004 and to date has conducted four phases of drilling. Total MPRG drill footage on the Cosalá Norte property through August 2008 was 65,706m in 371 drill holes, which corresponds to the totals found in the database.

The first phase drill program began November 20, 2004, and concluded in June 2005. The Phase I drilling, which consisted of 56 reverse circulation (“RC”) holes for a total of 8,423 m, tested 12 different targets throughout the Cosalá Norte area that had been identified by surface mapping and sampling. The most significant results of this drilling were indications of continuity of massive-sulfide (silver/lead/zinc) mineralization that had been tested by Hemlo and Noranda at San Rafael. The drilling also discovered significant silver-copper mineralization peripheral to the mineralization exposed in old mine workings at El Cajon.

The second drill phase began October 17, 2005, and ended July 6, 2006. Phase II, which consisted of 91 RC and 37 core holes totaling 18,609 m, focused on defining the limits of the San Rafael mineralization and also expanding and defining the El Cajón mineralization. Due to the rugged topography and difficulty in locating drill pads, both vertical and angle holes were used to test the mineralized zones.

The third phase began January 2007, and ended August 2007. Phase III, which consisted of 80 RC and 51 core holes totalling 26,508 m, focused on in-fill and defining the limits of the El Cajon mineralization in preparation for a first-time publicly reported resource estimate and also in-fill on the San Rafael deposit for the purposes of resource classification upgrading. The 120 Zone was recognized while drilling hole SR120 at the San Rafael deposit during Phase III.

The fourth phase of drilling began March 2008, and ended August 2008. Phase IV which consisted of 56 core holes totaling 12,165.1 m, focused on upgrading and further expanding the 120 Zone, defining the limited extents of the oxide mineralization, as well as minor step-out drilling at El Cajon.

As of December 2008, 194 drill holes and 14 surface trenches existed in the San Rafael deposit area, and 95 drill holes existed in the El Cajón deposit area. The El Cajón drill total included 52 drill holes located within the Silvia Maria concession, ground which MPRG does not presently control.

Prior to being acquired by MPRG in 2008, mine production at La Verde was leased to a private contract mining company. Production during 2010 by non-mechanized methods totalled 121,000 tonnes grading 114 g/t silver and 0.44% copper, with silver and copper recoveries of 78% and 82%, respectively. Scorpio assumed control of the operation in early 2011 and commenced refurbishment for improved safety and future production. In addition, over 8,000 tonnes of La Verde ore were processed at the Nuestra Señora plant during 2011 to determine metallurgical performance. The Company drilled a total of 4,618 metres from underground workings and 1,945 metres from surface during 2012. Only small areas of mineralization were identified in the La Verde Mine.

In the Cosalá Norte area, MPRG has drilled 371 holes totalling more than 65,700 metres of core and reverse circulation drilling and has identified several significant deposits. These include the San Rafael deposit, with the related zinc-silver-lead-gold massive sulphide "Main Zone", the silver-copper-gold and zinc/lead “120 Zone” and the silver-gold “Upper Zone” deposits. All of these zones have been drilled out at 25-50 metre drill spacing. In addition, preliminary metallurgical work has been completed on the Main Zone and indicates normal recoveries. Metallurgical test work continues with the objective of optimizing

recoveries of the 120 Zone mineralization.

In addition to drilling, MPRG has conducted geologic mapping, chip-channel sampling of outcrops and road cuts, and various geophysical surveys. Geochemical data from 14 trenches located on the eastern edge of the San Rafael deposit are in the database and were used in the current resource estimate. The geophysical work was completed in 2005 and 2006 by Quantec Geoscience Inc. of Reno, Nevada (USA). IP, resistivity, and ground magnetics data were collected. The IP and resistivity data were collected to map the distribution of pyrite and chalcopyrite, while the ground magnetics data were collected as a test to determine whether the skarn mineralization and intrusive rocks could be identified by their magnetic properties.

A total of five IP lines were acquired at La Verde, four lines at El Habal and 12 lines covering the El Cajón/San Rafael target for a total of 27.4 line-km of IP and resistivity. IP anomalies correlated with mineralization in all areas. Low-amplitude IP anomalies (<5.0 msec.) seem to correspond to the La Verde and El Habal mineralization, while high-amplitude IP anomalies (reaching 20msec. or higher) correlate well with mineralization at El Cajón and San Rafael. This amplitude can indicate disseminated sulfide in the range of 3% to 5% S.

Resistivity was not a good indicator of mineralization. Resistivity values varied between 100 Ohm-m and 500 Ohm-m. Lateral variations in resistivity probably reflect structure, lithology, or the overprint of alteration.

Ground magnetics data were acquired along two IP lines at El Cajón during the 2006 survey. A GEM system (GSM-19) proton precession magnetometer was used for the survey, and a total of 2.5 line-km of data were acquired and plotted in profile format. The results of the magnetic survey were inconclusive. No clear correlation of magnetic anomalies with mineralization was identified. However, the value of ground magnetics is often in its ability to map lithology, structure, and sometimes alteration and is difficult to assess with limited coverage.

In August 2010 a Titan-24 geophysical survey was completed over the San Rafael area. That survey covered a 3 x 3 kilometre area using 100-metre dipole spacing on 200-metres spaced lines. Several anomalies were identified from this survey and follow-up exploration drilling was undertaken on four of these. As a consequence, the discovery of a new mineralized zone was made as reported in the Company's press release dated December 3, 2010. Further exploration drilling was performed during 2011 at the San Rafael area of the Cosalá Norte along with drilling at other high potential projects that the Company has in the Cosalá district.

Following completion of the Titan-24 geophysical survey in August 2010, a total of 2,555 metres of diamond drilling investigated four of the geophysical anomalies identified at the newly acquired Cosalá Norte, and found new areas of mineralization.

### **Mineralization**

Two types of sulfide mineralization have been identified within a broad area of skarn alteration in the vicinity of El Cajón and San Rafael. The San Rafael-type of mineralization consists of massive sulfides that occur at an unconformable contact between what is believed to be Tertiary volcanic tuff and Cretaceous limestone. Although it can be difficult to determine the host rock when total sulfide content is 90 to 100%, most of the massive sulfide mineralization appears to be hosted in the volcanic tuff. San Rafael contains silver, lead, and zinc mineralization with minor gold and copper. The main minerals are pyrite, pyrrhotite, sphalerite, and galena with minor marcasite, chalcopyrite, and magnetite. This mineralization, in the San Rafael Main Zone, is often associated with quartz, sericite, and pyrite alteration

minerals and has been interpreted as more distal skarn alteration. It has also been suggested that San Rafael displays many similarities to volcanogenic massive sulfide deposits, such as those found in the Guerrero Terrane in central Mexico. At San Rafael, a dacite tuff is the primary host for the mineralization.

The El Cajón-type of mineralization, also seen within the San Rafael deposit's 120 Zone, is related to skarn alteration of calcareous sediments and occurs as both mantos and chimneys. It consists of silver-copper-gold mineralization in the form of chalcopyrite and tetrahedrite with minor pyrite, galena, sphalerite, arsenopyrite, chalcocite, jalpaite, native silver, copper, and bismuth. This mineralization is accompanied by garnet-pyroxene-calcite proximal skarn alteration. A skarn-altered limestone is the host at El Cajón and is also believed to be the host at the 120 Zone. Both skarn alteration and sulfide mineralization are spatially associated with intermediate dikes, sills, and small stocks.

In addition to the El Cajón and Main Zone types of mineralization, there is primarily silver-gold mineralization within a number of small tabular zones sub-parallel to and within the hanging wall of the San Rafael Main Zone; this mineralization is called the Upper Zone. The Upper Zone is more erratic than the Main Zone but is also found in volcanic rocks.

Minor oxide mineralization occurs throughout the San Rafael-El Cajón area. Significant gossan horizons are exposed along road cuts located up dip from the San Rafael sulfide mineralization, while a strong gossan surface trend occurs within the Los Manueles area just north of San Rafael. The exposed San Rafael oxide mineralization has been explored by shallow drill holes and surface trenches and has been sampled for metallurgical test work, but it contributes only incrementally to the current San Rafael resource.

In addition to the mineralization at El Cajón and San Rafael, strong mineralization has been mined from the La Verde mine and has been drilled or identified at Magistral, La Buffa, San Antonio, and elsewhere in the neighboring area.

Mineralization within the Main Zone at San Rafael is primarily massive-sulfide material, which can contain greater than 90% sulfides, dominantly pyrite and pyrrhotite. The massive-sulfide body is discrete, tabular, and lies along the shallow-dipping volcanic/limestone contact. The zinc, lead, and silver mineralization, for the most part, lies within the body of massive sulfide and consists of sphalerite and galena. The contacts of all elemental zones generally overlap within the massive sulfide, but mineral-shell boundaries and their internal grade distribution are not necessarily coincident.

A silver-dominant mineralized zone ("Upper Zone") lies within the Tertiary volcanic rocks about 50 to 100m above the massive sulfide along the eastern portion of the San Rafael deposit. The Upper Zone is composed of irregular, sub-horizontal layers sub-parallel to the Main Zone. Mineralization is associated with sulfides, but sulfide content is much less than in the Main Zone massive sulfide. Gold and weak base-metal mineralization occurs with the silver.

The 120 Zone mineralization occurs not as a single horizon but as multiple bedding- and intrusive-contact-related mineralized horizons. The 120 Zone mineralization is interpreted to occur along near-vertical diorite/skarn-altered limestone contacts in the lower parts and in quartz-sericite-pyrite-altered volcanic rocks in the upper parts. The 120 Zone mineralization extends upwards to overlap the Main Zone mineralization. Mineralization is associated with generally 2 to 10% sulfides and, like the El Cajón mineralization, is more irregular in shape and more variable in mineral character than the San Rafael Main Zone.

Silver, copper, and gold mineralization at El Cajón is associated with disseminated sulfide mineralization in a proximal skarn setting along the east and north sides of a diorite intrusion. Mineralization occurs

primarily within the skarn-altered limestone with minor contact-related skarn mineralization within the diorite. Mineralized skarn often follows the diorite/limestone contact and can be very irregular as is typical of many proximal skarn deposits. Contacts within the mineralized skarn and the unmineralized diorite or limestone can be very sharp, with the transition from unmineralized rock to sulfide skarn occurring within less than one-half meter. Preferentially mineralized horizons do occur within the limestone, and skarn mineralization can be found up to 150m away from the diorite contact.

Metal deposition is associated with generally 2% to 5% disseminated sulfides with isolated high metal grades occurring with up to 50% sulfide content. The silver, copper, and gold zones generally overlie each other, but the internal grade distribution is not always coincident.

#### Exploration Conducted by the Company

In addition to drilling and geophysical surveys, MPRG conducted geologic mapping and chip-channel sampling of outcrops and road cuts. Geochemical data from 14 trenches located on the eastern edge of the San Rafael deposit are in the database and were used in the current resource estimate.

Since August 2008, MPRG has conducted regional mapping and sampling outside of the resource areas.

As of August 2008, MPRG had drilled a total of 371 holes (227 RC only, 90 core only, and 54 RC pre-collar to core/core combination) for 65,706 m in the San Rafael-El Cajón area. An additional three RC holes and one core hole (EC5a for 25.9 m, EC11a for 15.2 m, SR139 for 124.97m, and VE9 for 7.5 m) are not included in the total of 371 holes because these four holes were abandoned at shallow depths and re-drilled. The current database has 371 drill holes and 14 surface trenches. Of the 65,706 m drilled total in the database, 34,559 m were RC, 3,830 m were RC pre-collar to core, and 27,317 m were core.

MPRG's Phase I drill program in late 2004 to mid-2005 tested prospects throughout the San Rafael-El Cajón area with the drilling of 56 RC holes for a total of 8,423 m. Phase II, drilled in late 2005 through mid-2006, focused on the El Cajón and San Rafael targets with the drilling of 91 RC holes and 37 core holes for a total of 18,610 m. Seventeen of the core holes were started using RC and changed to core drilling when water was encountered or as the mineralized horizons were approached. Phase III, drilled in early to mid-July 2007, further delineated the El Cajón and San Rafael targets and also tested other exploration targets on the property. Phase III drilling consisted of 80 RC holes and 51 core holes for a total of 26,508m. Thirty of the Phase III core holes were started using RC, and changed to core drilling when water was encountered or as the mineralized horizons were approached. Phase IV drilling consisted of 56 core holes totaling 12,165 m. Phase IV drilling focused on upgrading and further expanding the 120 Zone and defining the limited extents of the oxide mineralization, as well as minor step-out drilling at El Cajón. Seven of the Phase IV core holes were started using RC, and changed to core drilling when water was encountered or as the mineralized horizons were approached.

There were no abandonment procedures upon completion of the Phase I and II drill holes. The holes were left open, and the collar location marked by a large painted rock so as to be identified by the surveyor. The Phase III drill-hole collars have the drill-hole name and number marked on a metal plate attached to a buried rebar post. Phase IV utilized a short piece of PVC tubing with rebar placed in the top to hold the tubing near the top of the hole. The drill-hole locations soon become obscured due to both traffic and slope failures, and then the resulting road reconstruction work, especially after the late summer rainy season.



### **Reverse Circulation Drilling**

MPRG's Phase I RC drilling was done by Layne de Mexico, S.A. de C.V. ("Layne"), which is based out of Hermosillo, Sonora, Mexico. The drilling was completed using a truck-mounted Ingersoll Rand TH-100 RC rig. Due to the large volumes of water encountered in the drill holes, a secondary booster compressor was used in the spring of 2005 to aid in the penetration rate and the ability to complete the holes to desired depth. A total of 56 RC holes for 8,423.2 m was completed in the Phase I drilling.

The Phase II, III, and IV RC drilling was done by Layne and Major Drilling de Mexico, S.A. de C.V. ("Major"). Layne completed 11,273 m of Phase II drilling in 95 holes using a Drill Systems MDP 1500 track-mounted drill. In Phase III, Layne completed 14,355 m of drilling in 72 holes using a Foremost Prospector buggy rig

Major completed 4,498m of Phase II, III, and IV RC drilling using a track-mounted UDR-650 drill with RC- and core-drilling capabilities. Of the Phase II, III, and IV RC drilling completed by Major, six holes were RC only (five in Phase II, and one in Phase III), while 54 were started with RC and then completed with core.

During the Phase I drilling, the general practice was to drill all holes using a 5.25 in.-diameter face-discharge hammer ("FDH") bit to minimize sample loss. However, the high volumes of water encountered in many drill holes exceeded the capacity of the FDH, and the bit was changed to a standard Mission hammer, which has the interchange sub 1.5m above the bit. Even using the Mission hammer, the high water volumes stopped completion of several holes above the desired depth. A tricone bit was attempted in a few holes, but the penetration rate was very slow, and the holes were terminated before the desired depth was reached. When a booster compressor arrived in early 2005, it allowed completion of most of the remaining Phase I holes to desired depth using a hammer bit, although high water flows continued to be a problem.

The Phase II, III, and IV RC drilling was completed using only FDH bits. The Layne RC drill rig was used primarily at San Rafael, where most drill holes were completed at shallow depths, and lower volumes of water were present. The majority of Major's RC holes were at El Cajón, where it was necessary to drill to greater depth, and high water flows were encountered.

In all phases of drilling, the RC holes were drilled using a 5 1/8 in to 5 1/2 in diameter drill bit. Samples were collected every 5 ft or 1.5 m depending on the drill rig. The sample bags were pre-numbered at the drill site, and chip trays were collected as drilling progressed. A geologist logged the hole at the drill site as the hole progressed.

### **Core Drilling**

Major completed a total of 25,420 m of HQ-core drilling, except for very few meters drilled with NQ core, when necessary due to depths of over 400 m or extremely bad ground conditions). Drilling in the Phase II, III, and IV drill programs totalled 6,624 m during Phase II, 8,916m in Phase III, and 9,880 m during Phase IV. A total of 135 core holes were completed using a track-mounted UDR-650 drill, though 54 were started using RC and then changed to core when water was encountered or as the mineralized horizons were approached. Core recoveries were generally greater than 95%, although lower recoveries were obtained when drilling in strongly fractured and void-rich recrystallized limestone. The drill runs are the standard 10 ft (3.05 m) length, and continuous 1m or greater sticks of core are common.

Landdrill International Mexico S. A. de C. V. ("Landdrill") completed nine core holes for a total of 1,897m of HQ- or NQ-diameter core drilling in Phase IV. Landdrill utilized a skid-mounted Longyear 38

core rig and only tested the El Venado anomaly during Phase IV.

Core was put into wooden core boxes (3m/box) with wood blocks marking drill depth (in meters) between each run. The core was picked up twice per day by MPRG personnel and transported to a secure, gated facility in Cosalá, where it was logged, photographed, and split for samples. The geologic logs are fairly comprehensive, with columns for rock quality data (RQD and core recovery) and various geologic characteristics, including lithology, alteration, comments, and most significantly for the project, both total sulfide percentage and individual sulfide-mineral percentages. The geologist marked the intervals to be sampled, and a technician photographed and then split the core. Only the core to be sampled was photographed. After being logged and sampled, the core was stored outside, with no overhead cover to protect the core from the weather, at the secure Cosalá facility. In 2009, the core was moved to a covered storage area at the same Cosalá facility.

### **Drill-Hole Surveying**

Drill-hole collars were surveyed with a Trimble total station survey instrument by Servicio Topographic (now Terra Group) of Hermosillo. The surveyor was on-site every two to three months and surveyed the new drill holes and any other significant surface disturbance. Collar surveys are available on 331 of the total 371 project drill holes and all 14 of the surface trenches used in the San Rafael resource estimate. The majority of drill holes without collar surveys are located away from the El Cajón and San Rafael resource areas. Within the current resource models, collar surveys are not available for one San Rafael and five El Cajón drill holes.

The majority of RC holes in Phase II and Phase III were surveyed down-hole with a Reflex EZ-Shot survey tool that has a single-shot, in-pipe camera giving digital readings. The RC survey readings were taken inside the drill rods due to a concern over losing the survey instrument in the open hole. This procedure provides accurate dips but meaningless azimuth readings due to the magnetic effects of the drill rods. As a result of the unusable azimuth readings, all vertical RC holes remain as undeviating vertical holes in the database. For angle holes, the azimuth reading in the database is the estimated collar reading determined by the geologist using a Brunton compass. In Phase I and Phase II, the drill site was flagged with a predetermined azimuth, and after the rig was set up, there was usually no further reading on orientation. During Phase III and Phase IV, the rig orientation was routinely checked by the responsible geologist using a Brunton compass. Corrections to actual rig orientation were noted and changed on the drill log before being entered into the database.

None of the Phase II core holes were surveyed down-the-hole. The Phase III, and IV core down-hole surveys were taken below the drill rods, and the azimuth and dip readings were used in the database. The magnetic nature of some of the project lithologies, especially the dioritic intrusions both on the east side of San Rafael and also within the centre of the El Cajón deposit, resulted in a number of azimuth readings which had significant deviations from either the collar set-up orientation or from adjacent down-hole readings. To aid in determining the “accepted” survey values, the magnetic field data, as recorded by the driller for each survey reading, were analyzed with particular attention to spurious magnetic field values significantly different from the general magnetic field. This information was recorded and compared to the coincident azimuth values. The result showed a high correlation between spurious magnetic field readings and erratic azimuth values. As a result of this analysis, 13 individual survey readings out of a total of over 1,000 were removed from the database.

As of July 1, 2012, Scorpio had completed a total of 273 core holes for 32,262m in the San Rafael-El Cajón area. Scorpio began core drilling within the San Rafael mineralized area in the fall 2011 and at El Cajón in the spring 2012. Scorpio also drilled four other areas in the vicinity, including surface and underground targets at the historic La Verde mine area. Seven exploration core holes were drilled in the

San Rafael-El Cajón general area from September to November 2010 to test geophysical anomalies.

Scorpio has completed 140 new core holes, including eight geotechnical core holes, in the San Rafael resource area. The drilling has primarily targeted western and northwestern extensions of the Main Zone massive sulfide. There has also been infill and confirmation drilling within both the Upper Zone and the up-dip extent of the Main Zone mineralization on the east side of the deposit. A preliminary evaluation of the drilling indicates the Main Zone mineralization does continue to the northwest, though both sulfide content and metal grades appear to decrease in tenor. The infill drilling on the east side of the deposit confirms and in places may potentially increase the size of the Upper Zone and Main Zone mineralization.

Twenty-seven new core holes have been completed in the El Cajón resource area. Drilling has primarily targeted eastern extensions of the existing resource, while a few infill holes were drilled targeting gaps in the previous drilling. Positive results on the east side of the deposit indicated potential growth in the resource. The infill holes confirm the existing mineralization and also provide greater geologic control on the current geologic model.

During Q3 2011, two core rigs were operating at San Rafael, performing infill and pit-expansion drilling along the west and north sides of the Main and Upper zones (Tietz and Lindholm, 2011). MAZA Drilling out of Mazatlán was the operator, and the rigs were drilling HQ-size core. Core was collected from the rig once or twice per day and transported to Scorpio's camp outside of Cosalá. The wooden core boxes were not covered during transport. Geotechnical and geologic logging and photography of the core were completed there. Overall core recovery appeared to be consistently over 90%.

### **Sampling**

MPRG's core samples were split in half using a hydraulic splitter, a traditional splitter, or a simple hammer; the hardness of the rock makes splitting very difficult. No core was sawed. Half the sample intercept was put into 11x17 inch sample bags, while the remaining half was left in the core box. Once the core hole was completely logged, split, and sampled, appropriate standards and blanks were added to the sample stream, and the samples then shipped to ALS Chemex ("ALS") in Hermosillo, Sonora, Mexico. The remaining split core is stored in Cosalá at a secure site, but until recently was only covered with waterproof tar paper. In 2009, the core was moved to a covered storage area at the same Cosalá facility.

All primary RC and core samples were sent to ALS for sample preparation and analysis. Silver, copper, lead, and zinc were analyzed by four-acid (HF-HNO<sub>3</sub>-HClO<sub>4</sub>-HCl) leach digestion. Gold was analyzed by 30g fire assay ("FA") with an atomic absorption ("AA") finish. Sample preparation took place in ALS' Hermosillo laboratory, and coarse rejects are stored in Hermosillo in a MPRG warehouse. Pulps were sent to Vancouver, B.C., Canada for analysis.

RC rig duplicates were regularly checked by a second lab during drilling Phases I through III. MPRG used SGS de México S.A. de C.V. ("SGS") for the Phase I and II (2005 and 2006) second-lab check assaying of the ALS results. SGS has a sample preparation facility in Durango City, Durango, Mexico, and the pulps are sent to Toronto, Canada for analysis. SGS used a similar multi-acid digestion for the base-metal and silver analysis and a FA-AA process for the gold. MPRG used International Plasma Labs Limited ("IPL") for the Phase III (2007) second-lab check assaying of the ALS results. IPL has a sample preparation facility in Hermosillo, Sonora, Mexico, and the pulps were sent to Richmond, British Columbia, Canada for analysis. IPL used a similar multi-acid digestion for the base-metal and silver analysis and a FA-AA process for the gold.

**El Cajón Deposit****Project Update of Resources**

On September 24, 2012 the Company reported an independent updated Mineral Resource estimate for the El Cajón Project which was prepared by MDA. The new resource estimate demonstrates an increase in tonnage and silver grade as compared to the initial resource estimate prepared by MDA which was filed on SEDAR on December 4, 2009. The new estimate also shows a 3% improvement in the ratio of Indicated Resources compared to total resources. The newly discovered La Emma zone, a northern structural zone trending NE from the El Cajón body, is open at depth, and, along with anomalous values in other drilling clearly shows that El Cajón has significant upside potential for resource expansion.

The Mineral Resource estimate for the El Cajón Project was prepared by Mr. Paul Tietz, C. P. G. of MDA, who is a "Qualified Person", as defined in NI 43-101.

**Updated El Cajón Mineral Resources**

Indicated Resource:								
Cutoff	Tonnes	Ag	Cu	Au	Ag	Cu	Au	AgEq
AgEq (g/t)		(g/t)	(%)	(g/t)	(oz)	(lbs)	(oz)	g/t
50.00	2,877,000	138.5	0.45	0.20	12,810,000	28,708,000	18,000	184.1
54.00	2,748,000	143.2	0.47	0.21	12,653,000	28,282,000	18,000	190.3
58.00	2,644,000	147.2	0.48	0.21	12,516,000	27,911,000	18,000	195.6
<b>60.00</b>	<b>2,597,000</b>	<b>149.1</b>	<b>0.48</b>	<b>0.21</b>	<b>12,451,000</b>	<b>27,742,000</b>	<b>18,000</b>	<b>198.1</b>
62.00	2,552,000	150.9	0.49	0.22	12,386,000	27,573,000	18,000	200.5
66.00	2,472,000	154.3	0.50	0.22	12,265,000	27,254,000	18,000	204.9
70.00	2,391,000	157.9	0.51	0.23	12,135,000	26,917,000	17,000	209.6
80.00	2,225,000	165.6	0.53	0.24	11,840,000	26,170,000	17,000	219.7
90.00	2,087,000	172.4	0.55	0.25	11,563,000	25,456,000	17,000	228.6
100.00	1,957,000	179.1	0.57	0.26	11,270,000	24,711,000	16,000	237.4
110.00	1,834,000	186.00	0.59	0.27	10,965,000	23,932,000	16,000	246.30
120.00	1,713,000	193.10	0.61	0.28	10,638,000	23,118,000	15,000	255.50
130.00	1,595,000	200.50	0.63	0.29	10,285,000	22,263,000	15,000	265.20
140.00	1,471,000	209.10	0.66	0.31	9,886,000	21,272,000	14,000	276.30
150.00	1,353,000	218.10	0.68	0.32	9,483,000	20,257,000	14,000	287.70
160.00	1,224,000	229.10	0.71	0.34	9,017,000	19,037,000	13,000	301.60
200.00	765,000	289.80	0.83	0.41	7,127,000	14,026,000	10,000	375.90

Inferred Resource:								
Cutoff	Tonnes	Ag	Cu	Au	Ag	Cu	Au	AgEq
AgEq (g/t)		(g/t)	(%)	(g/t)	(oz)	(lbs)	(oz)	g/t
50.00	1,053,000	106.2	0.36	0.14	3,594,000	8,362,000	5,000	141.7
54.00	956,000	113.0	0.38	0.15	3,473,000	8,054,000	5,000	150.9
58.00	891,000	118.2	0.40	0.16	3,389,000	7,832,000	5,000	157.7
<b>60.00</b>	<b>850,000</b>	<b>121.8</b>	<b>0.41</b>	<b>0.17</b>	<b>3,331,000</b>	<b>7,679,000</b>	<b>5,000</b>	<b>162.4</b>
62.00	824,000	124.3	0.42	0.17	3,294,000	7,577,000	4,000	165.7
66.00	777,000	129.1	0.43	0.18	3,224,000	7,389,000	4,000	171.9
70.00	733,000	133.9	0.45	0.18	3,157,000	7,201,000	4,000	178.0
80.00	652,000	143.7	0.48	0.19	3,013,000	6,847,000	4,000	190.9
90.00	584,000	153.1	0.50	0.21	2,877,000	6,502,000	4,000	203.2
100.00	526,000	162.2	0.53	0.22	2,746,000	6,181,000	4,000	215.1
110.00	474,000	171.6	0.56	0.23	2,615,000	5,861,000	4,000	227.3
120.00	427,000	181.0	0.59	0.24	2,486,000	5,544,000	3,000	239.7
130.00	387,000	190.20	0.62	0.26	2,364,000	5,259,000	3,000	251.70
140.00	351,000	199.20	0.64	0.27	2,249,000	4,988,000	3,000	263.50
150.00	317,000	209.00	0.67	0.28	2,132,000	4,706,000	3,000	276.20
160.00	284,000	219.80	0.71	0.30	2,007,000	4,425,000	3,000	290.30
200.00	169,000	278.20	0.90	0.36	1,512,000	3,340,000	2,000	366.80

**General methodology used and details on the parameters of the Mineral Resource estimate are as follows:**

- The block model is made up of 3m by 3m by 3m blocks and the resource is fully diluted to that block size.
- Geologic cross sections on 25m intervals and long sections on 3m intervals were interpreted.
- Silver, copper, gold, and percent sulfide were each modeled and estimated separately and each with their own set of mineral-domain interpretations.
- Inverse-distance to the second power estimation was used for the reported resource.
- Specific gravity assigned to the blocks in the model varied by sulfide content and mineral zone and ranges from 2.95 g/cm<sup>3</sup> to 3.23 g/cm<sup>3</sup>.
- The number of assays available varied by metal with 2,047 assays being available for silver, 1,947 for copper and 893 for gold.

**Notes to Mineral Resources Statement:**

1. Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the estimated Mineral Resources will be converted into Mineral Reserves.
2. All Mineral Resources have been classified in accordance with the Canadian Institute of Mining, Metallurgy and Petroleum (CIM), CIM Standards on Mineral Resources and Reserves, Definitions and Guidelines prepared by the Standards Committee on Reserve Definitions and adopted by the CIM Council on December 11, 2005 and updated on November 27, 2010.
3. Mineral Resources estimate is as of September 7, 2012.
4. Silver Equivalent (AgEq) is calculated using metal prices of \$24/oz Ag, \$1,300/oz Au, \$0.85/lb Zn, \$0.85/lb Pb, and \$2.70/lb Cu.
5. Silver Equivalent is calculated on a contained-metal basis using the metal prices noted above, without recovery factors taken into account.
6. Mineral Resources tonnage and contained-metal have been rounded to the nearest thousand and numbers might not add due to rounding.

**San Rafael Deposit**

Project Update of Resources

On October 1, 2012 the Company announced an independent updated Mineral Resource estimate for the San Rafael Project which was prepared by MDA. The new resource estimation demonstrates an increase in tonnage and all contained metals compared to the initial resource estimate prepared by MDA and filed on SEDAR on December 4, 2009. Although a portion of this increase is due to higher metal prices, a large portion is attributable to increased drill density and confidence in the resource.

The Mineral Resource estimate for the San Rafael Project was prepared by Mr. Paul Tietz, C. P. G. of MDA, who is a "Qualified Person", as defined in NI 43-101.

## Updated San Rafael Mineral Resources

Measured Resource:												
Cutoff	Tonnes	Zn	Pb	Ag	Cu	Au	Zn	Pb	Ag	Cu	Au	ZnEq
ZnEq%		(%)	(%)	(g Ag/t)	(%)	(g Au/t)	(lbs)	(lbs)	(oz)	(lbs)	(oz)	(%)
1.00	6,073,000	1.84	0.81	63.4	0.05	0.126	246,676,000	108,532,000	12,374,000	7,323,000	25,000	5.72
1.20	5,685,000	1.94	0.86	67.0	0.06	0.132	243,192,000	107,271,000	12,244,000	7,281,000	24,000	6.03
1.40	5,305,000	2.05	0.90	70.9	0.06	0.137	239,405,000	105,758,000	12,091,000	7,219,000	23,000	6.37
<b>1.50</b>	<b>5,124,000</b>	<b>2.10</b>	<b>0.93</b>	<b>72.9</b>	<b>0.06</b>	<b>0.140</b>	<b>237,277,000</b>	<b>104,906,000</b>	<b>12,013,000</b>	<b>7,187,000</b>	<b>23,000</b>	<b>6.55</b>
1.60	4,944,000	2.16	0.95	75.1	0.07	0.143	235,055,000	103,989,000	11,930,000	7,148,000	23,000	6.73
1.80	4,603,000	2.27	1.01	79.5	0.07	0.149	230,348,000	102,096,000	11,757,000	7,078,000	22,000	7.10
2.00	4,324,000	2.37	1.05	83.4	0.07	0.154	226,174,000	100,425,000	11,593,000	7,003,000	21,000	7.44
2.50	3,749,000	2.62	1.17	92.8	0.08	0.167	216,128,000	96,307,000	11,181,000	6,811,000	20,000	8.24
3.00	3,330,000	2.83	1.26	100.9	0.09	0.178	207,449,000	92,520,000	10,807,000	6,632,000	19,000	8.93
3.50	3,008,000	3.01	1.35	108.3	0.10	0.186	199,460,000	89,237,000	10,472,000	6,467,000	18,000	9.54
4.00	2,740,000	3.18	1.43	115.1	0.10	0.192	191,956,000	86,148,000	10,142,000	6,304,000	17,000	10.10
4.50	2,523,000	3.32	1.50	121.3	0.11	0.197	184,886,000	83,381,000	9,838,000	6,163,000	16,000	10.61
5.00	2,326,000	3.46	1.57	127.5	0.12	0.203	177,397,000	80,554,000	9,534,000	6,018,000	15,000	11.11
6.00	1,999,000	3.68	1.69	139.7	0.13	0.216	162,370,000	74,525,000	8,981,000	5,769,000	14,000	12.03
7.00	1,652,000	3.89	1.82	157.1	0.15	0.237	141,787,000	66,264,000	8,346,000	5,498,000	13,000	13.19
8.00	1,294,000	4.06	1.96	183.5	0.18	0.273	115,925,000	55,847,000	7,635,000	5,189,000	11,000	14.76
9.00	991,000	4.22	2.12	217.0	0.22	0.317	92,246,000	46,239,000	6,918,000	4,843,000	10,000	16.68
10.00	790,000	4.32	2.24	250.9	0.26	0.362	75,203,000	39,085,000	6,376,000	4,534,000	9,000	18.52
Indicated Resource:												
Cutoff	Tonnes	Zn	Pb	Au	Cu	Au	Zn	Pb	Ag	Cu	Au	ZnEq
ZnEq%	0	(%)	(%)	(g Ag/t)	(%)	(g Au/t)	(lbs)	(lbs)	(oz)	(lbs)	(oz)	(%)
1.00	11,486,000	1.70	0.71	46.3	0.04	0.091	431,484,000	178,818,000	17,107,000	10,867,000	34,000	4.66
1.20	10,672,000	1.80	0.75	49.1	0.05	0.096	423,441,000	175,770,000	16,861,000	10,777,000	33,000	4.93
1.40	9,937,000	1.89	0.79	51.9	0.05	0.100	414,978,000	172,589,000	16,592,000	10,674,000	32,000	5.20
<b>1.50</b>	<b>9,691,000</b>	<b>1.94</b>	<b>0.81</b>	<b>53.3</b>	<b>0.05</b>	<b>0.102</b>	<b>410,756,000</b>	<b>170,860,000</b>	<b>16,445,000</b>	<b>10,614,000</b>	<b>31,000</b>	<b>5.33</b>
1.60	9,252,000	1.99	0.83	54.8	0.05	0.104	406,338,000	168,993,000	16,294,000	10,554,000	31,000	5.47
1.80	8,544,000	2.10	0.87	58.1	0.06	0.108	396,060,000	164,757,000	15,947,000	10,410,000	30,000	5.78
2.00	7,885,000	2.22	0.92	61.5	0.06	0.113	385,413,000	160,266,000	15,580,000	10,250,000	29,000	6.11
2.50	6,425,000	2.53	1.05	70.6	0.07	0.127	358,798,000	148,813,000	14,576,000	9,719,000	26,000	6.99
3.00	5,426,000	2.82	1.16	78.7	0.08	0.137	337,377,000	139,200,000	13,734,000	9,205,000	24,000	7.78
3.50	4,755,000	3.06	1.26	85.4	0.08	0.143	321,021,000	131,660,000	13,050,000	8,762,000	22,000	8.42
4.00	4,249,000	3.27	1.34	91.1	0.09	0.146	306,676,000	125,261,000	12,450,000	8,410,000	20,000	8.97
4.50	3,863,000	3.45	1.40	96.1	0.10	0.149	293,711,000	119,646,000	11,932,000	8,168,000	19,000	9.45
5.00	3,530,000	3.61	1.47	100.8	0.10	0.154	280,818,000	114,088,000	11,438,000	7,942,000	17,000	9.89
6.00	2,941,000	3.89	1.58	111.0	0.12	0.163	252,238,000	102,760,000	10,496,000	7,486,000	15,000	10.77
7.00	2,436,000	4.10	1.69	122.8	0.13	0.176	220,448,000	90,648,000	9,617,000	7,104,000	14,000	11.66
8.00	1,750,000	4.30	1.80	149.3	0.17	0.215	165,981,000	69,434,000	8,398,000	6,741,000	12,000	13.29
9.00	1,151,000	4.49	1.92	193.8	0.25	0.280	113,821,000	48,651,000	7,171,000	6,375,000	10,000	15.80
10.00	894,000	4.66	2.00	225.6	0.31	0.322	91,764,000	39,443,000	6,485,000	6,026,000	9,000	17.64
Inferred Resource:												
Cutoff	Tonnes	Zn	Pb	Au	Cu	Au	Zn	Pb	Ag	Cu	Au	ZnEq
ZnEq%	0	(%)	(%)	(g Ag/t)	(%)	(g Au/t)	(lbs)	(lbs)	(oz)	(lbs)	(oz)	(%)
1.00	2,507,000	0.22	0.81	50.5	0.04	0.202	12,422,000	45,001,000	4,067,000	2,179,000	16,000	3.69
1.20	2,320,000	0.24	0.86	53.6	0.04	0.210	12,053,000	44,008,000	3,995,000	2,148,000	16,000	3.90
1.40	2,138,000	0.25	0.91	57.0	0.04	0.217	11,636,000	42,679,000	3,917,000	2,113,000	15,000	4.12
<b>1.50</b>	<b>2,048,000</b>	<b>0.25</b>	<b>0.93</b>	<b>58.8</b>	<b>0.05</b>	<b>0.220</b>	<b>11,425,000</b>	<b>41,938,000</b>	<b>3,875,000</b>	<b>2,096,000</b>	<b>14,000</b>	<b>4.24</b>
1.60	1,955,000	0.26	0.95	60.9	0.05	0.223	11,181,000	41,087,000	3,826,000	2,081,000	14,000	4.37
1.80	1,781,000	0.27	1.00	65.1	0.05	0.231	10,639,000	39,286,000	3,729,000	2,044,000	13,000	4.63
2.00	1,597,000	0.28	1.06	70.4	0.06	0.238	9,870,000	37,242,000	3,614,000	1,994,000	12,000	4.95
2.50	1,193,000	0.29	1.22	86.4	0.07	0.261	7,582,000	32,026,000	3,314,000	1,835,000	10,000	5.86
3.00	930,000	0.29	1.34	102.3	0.08	0.289	5,970,000	27,560,000	3,060,000	1,693,000	9,000	6.75
3.50	763,000	0.30	1.46	116.3	0.09	0.305	4,988,000	24,501,000	2,853,000	1,594,000	7,000	7.53
4.00	633,000	0.31	1.58	130.0	0.11	0.322	4,322,000	22,032,000	2,646,000	1,511,000	7,000	8.31
4.50	521,000	0.34	1.70	145.5	0.13	0.335	3,861,000	19,567,000	2,437,000	1,441,000	6,000	9.18
5.00	432,000	0.37	1.85	161.9	0.14	0.336	3,525,000	17,622,000	2,248,000	1,374,000	5,000	10.10
6.00	314,000	0.42	2.12	193.6	0.18	0.342	2,914,000	14,676,000	1,952,000	1,247,000	3,000	11.85
7.00	242,000	0.46	2.41	222.1	0.21	0.355	2,452,000	12,836,000	1,726,000	1,101,000	3,000	13.46
8.00	199,000	0.45	2.67	246.1	0.22	0.359	1,984,000	11,702,000	1,575,000	971,000	2,000	14.75
9.00	171,000	0.46	2.88	264.5	0.24	0.360	1,735,000	10,849,000	1,453,000	896,000	2,000	15.79
10.00	146,000	0.46	3.11	284.2	0.25	0.362	1,481,000	9,979,000	1,330,000	807,000	2,000	16.88

**General methodology used and details on the parameters of the Mineral Resource estimate are as follows:**

- The block model is made up of 3m by 3m by 3m blocks and the resource is fully diluted to that block size.
- Geologic cross sections on 25m intervals and long sections on 3m intervals were interpreted.
- Silver, zinc, lead, copper, gold and % sulfide were each modeled and estimated separately and each with their own set of mineral-domain interpretations on 25m and 3m intervals for sections and long sections, respectively.
- Inverse-distance to the second power estimation was used for the reported resource.
- Specific gravity assigned to the block model is based on total sulfide content and varied by mineral zone and ranges from 2.55 g/cm<sup>3</sup> to 3.88 g/cm<sup>3</sup>.
- 349 holes, which include 141 new holes drilled by Scorpio, were used to create the geologic model and carry out the estimate.
- The numbers of assays used in the resource estimation are 4,623 assays for Silver, 3,611 for Zinc, 3,329 for Lead, 2,242 for Copper and 1,875 for Gold.

**Notes to Mineral Resource Statement:**

1. Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the estimated Mineral Resources will be converted into Mineral Reserves.
2. All Mineral Resources have been classified in accordance with the Canadian Institute of Mining, Metallurgy and Petroleum (CIM), CIM Standards on Mineral Resources and Reserves, Definitions and Guidelines prepared by the Standards Committee on Reserve Definitions and adopted by the CIM Council on December 11, 2005 and updated on November 27, 2010.
3. Mineral Resource estimates are as of September 7, 2012.
4. Zinc Equivalent (ZnEq) is calculated using metal prices of \$24/oz Ag, \$1,300/oz Au, \$0.85/lb Zn, \$0.85/lb Pb, and \$2.70/lb Cu.
5. Zinc Equivalent is calculated on a contained-metal basis using the metal prices noted above, without recovery factors taken into account.
6. Mineral Resources tonnage and contained-metal have been rounded to the nearest thousand and numbers might not add due to rounding.

**PARRAL DISTRICT, CHIHUAHUA AND DURANGO, MEXICO**

In and around the Parral District, in the states of Chihuahua and Durango, Mexico, MPRG owns 15 mineral concessions covering 2,891 hectares. The 82 hectare La Revancha property, in Parral District, Chihuahua, has a mining history stretching back to colonial times and several 100 million ounce silver mines. The nearby 2,809 ha Tepozán Project is located in Durango State, approximately 20km southwest from La Revancha.



The status of the concessions held in the Parral District is detailed in the following table.

<b>CONCESSION STATUS – La Revancha</b>					
<b>Concession Name</b>	<b>Concession Title No.</b>	<b>DGM File No.</b>	<b>Issue Date</b>	<b>Expiry Date</b>	<b>Area (Ha)</b>
*El Triunfo	166403	19/03158	4-Jun-1980	3-Jun-2030	6.1
*La Revancha	166404	19/03311	4-Jun-1980	3-Jun-2030	4.0
*Ampliacion La Revancha	176658	321.1-9/255	17-Jan-1986	16-Jan-2036	46.7
†San Nicolas	227208	16/33298	26-May-2006	25-May-2056	20.6
San Nicolas 2	227517	16/33352	6-Jul-2006	5-Jul-2056	4.1
San Nicolas 2 Fracc. A	227518	16/33352	6-Jul-2006	5-Jul-2056	0.3
San Nicolas 2 Fracc. B	227519	16/33352	6-Jul-2006	5-Jul-2056	0.7
<b>Total in Project</b>					<b>82</b>
<b>CONCESSION STATUS – El Tepozán</b>					
<b>Concession Name</b>	<b>Concession Title No.</b>	<b>DGM File No.</b>	<b>Issue Date</b>	<b>Expiry Date</b>	<b>Area (Ha)</b>
*San Martin	217225	25/29763	2-Jul-2002	1-Jul-2052	34
*San Luis	218562	25/30770	22-Nov-2002	21-Nov-2052	12
*San Luis	222966	25/31355	30-Sep-2004	29-Sep-2054	12
*San Luis 1	223686	25/31423	3-Feb-2005	2-Feb-2055	0
El Aguila	224738	25/31777	7-Jun-2005	6-Jun-2055	300
El Tepozan	226179	25/31548	25-Nov-2005	24-Nov-2055	843
*El Tepozan 1		25/37326			792
*El Tepozan 2		25/37327			816
<b>Total in Project</b>					<b>2,809</b>

\* Denotes awaiting registration by the Dirección General de Minas

† Denotes concession under option from third parties

### **Parral Area Exploration and Development**

The Company has completed 4,068 metres of its Phase I drilling program at its 100% owned La Revancha property, Chihuahua State, Mexico, and completed a 2,640 metre drilling program at its nearby 100% owned Tepozán property, Durango State. Both projects are located in the Parral Mining District, which has a mining history dating back to colonial times and hosts several 100 million ounce silver deposits.

La Revancha has over 1.5 km of outcropping veins oriented north-south and dipping steeply. Mineralization is hosted in silicified breccia and replacement zones filling fractures and faults. A considerable amount of historic mining has taken place in the vein system. At least three veins are observed: La Revancha, El Alto and San Nicholas. Drilling to date of the La Revancha and El Alto vein systems has indicated reasonably consistent mineralization over a strike length of at least 500 m and possibly up to 700 m, including one identified gap in the mineralization. Mineralization has been tested up to 250 m vertical depths. It remains open at depth, at least 100 m to the south and at least 300 m to the north. The near vertical nature of the mineralizing system, and the fact that nearly all mineralization drilled to date is above the valley floor, indicates the potential for relatively easy development and mining in the future. A follow up program of at least 2,000 m is planned to begin upon receipt of currently active metallurgical sampling and testing designed to determine a suitable cut-off for future calculations and

planning. La Revancha may then receive additional drilling which should allow for an assessment of the entire property.

The Tepozán silver-gold vein system has been traced over a 1.3 km strike length. The vein system has seen limited historical production and offers excellent potential for down-dip, high-grade silver-lead-zinc sulphide mineralization. Mineralized veins mapped on surface range up to 6 m in thickness and are hosted in felsic volcanics. It is postulated that the downward extension of these veins could transect the sedimentary Parral Formation, which is considered to be a more productive horizon by Scorpio Mining's geological team working in the Parral District. The Tepozán program has been completed. The results to date have not been promising, however more work needs to be done as water problems in 2012 inhibited the testing of the more important portions of the target.

Currently, all logging, sampling and database management are up to date and work continues using mapping, geochemistry and geophysics to select targets for upcoming drill programs.

## **TAXES**

Corporate profits in Mexico are taxed only by the Federal Government. Through 2012, there were two federal taxes in Mexico that applied to Scorpio's operations in Mexico; a Flat Rate Business Tax ("IETU") and a corporate income tax. Mexican corporate income tax is calculated based on gross revenue less deductions for all refining and smelting charges, direct operating costs, all head office general and administrative costs, and depreciation deductions. During 2012, the corporate income tax rate in Mexico was 30%. The same rate of 30% is expected for 2013, 29% for 2014 and 28% for 2015. The IETU is a cash based minimum tax that applies in addition to the corporate income tax. The tax is applicable to the taxpayer's net income from the (i) sale of goods; (ii) performance of independent services; and (iii) lease of goods at the rate of 16.5% during 2008, 17% during 2009, 17.5% during 2010, 2011 and 2012. The base to which the IETU is applied is determined by deducting from gross income certain items, such as expenses associated with purchasing goods, rendering independent services, and leasing goods, or expenses incurred in connection with the administration of such activities. Some expenses that are deductible in determining taxable income for income tax purposes, such as salaries, interest in some cases and royalties with foreign related parties are not deductible in determining the IETU. However, certain tax credits are available to offset the IETU, including income tax paid during the same fiscal year; a credit on certain salary-related expenses and social security contributions paid by an employer; a credit on losses, a credit on fixed assets; and monthly IETU payments. The IETU follows a cash flow system, which could distort the crediting of income tax against the IETU. Finally, special rules apply to certain taxpayers, such as corporate groups that file consolidated tax returns.

## **OUTLOOK FOR 2013**

The Nuestra Señora operations continue on their path to improvement with the processing plant operating at full capacity. Cost reduction programs are ongoing and are meeting with success.

The updated reserve estimate for the Nuestra Señora Mine, undertaken by MDA, originally due in October 2012 was subject to repeated delays, and is now expected to be available in Q2 2013. The reserve estimate will utilize the resource estimate as disclosed on June 29, 2012, and be based upon a mine design, production schedule and other criteria in compliance with NI 43-101. The Company anticipates continuing mining and processing ore from Nuestra Señora at a rate of 1,500 tpd.

As an updated reserve estimate and associated mine plan are received, additional controls are envisaged to enable the stabilization of head grades being delivered to the processing plant. In addition to the reserve mine plan, there are significant ongoing efforts to upgrade areas containing Inferred Resources as well as

to define ore sources currently outside of the existing resource model.

The small trial column flotation cell, installed in the Nuestra Señora plant to further reject lead reporting to the copper concentrate, has been successful. Not only has this resulted in higher lead recovery to the lead concentrate, but it has also reduced the penalty incurred for high lead content in the copper concentrate. Further testing will be performed in H1 2013 to determine whether a commercial column cleaner cell should be purchased to replace the site-fabricated unit on a permanent basis.

Subsequent to the end of 2012, the Company took delivery of a mechanized roof bolter (Sandvik DS410), which will provide a step change in safety and efficiency. The Company now has a relatively stable fleet of principal mobile equipment units, in terms of their age and mechanical reliability. It is anticipated that replacement service equipment will be purchased throughout 2013, as justified. It is envisaged that additional production equipment will be purchased upon receipt of the environmental and Change of Land Use Permits for the El Cajón Project, when not available for transfer from the Nuestra Señora operations.

During 2012, Scorpio Mining updated the resource estimates for El Cajón and San Rafael and completed metallurgical studies and geotechnical drilling. A PEA incorporating the eventual exploitation of the El Cajón Underground and the San Rafael Open Pit and Underground started at the end of Q3 2012 and is due for completion in Q2 2013.

In conjunction with the MIA for the Cosalá Norte District underground projects, the corresponding submission was made to obtain the Change of Land Use Permit for the surface footprint of the project. Whilst that submission is also lodged with SEMARNAT, it came under the jurisdiction of a different office at the time. Subsequent to the end of 2012, additional information was requested and that information has already been submitted by the Company. Further notification from SEMARNAT is awaited.

In anticipation of receiving the exploitation permits for El Cajón, the Company has defined the underground development and power requirements and commenced work to improve the haulage road to its Nuestra Señora processing plant. Following the permitting process, the Company's goal is to commence production at El Cajón and feed the ore to its processing plant, initially in conjunction with Nuestra Señora Mine output.

The Company expects to complete the filing of a NI 43-101 Technical Report on SEDAR for the Nuestra Señora Mineral Reserve estimate in conjunction with the Cosalá Norte District PEA in Q2 2013.

The decision to proceed with the final (Phase II) of the Nuestra Señora plant expansion, targeting an increase of the plant capacity by 80% from 1,500 tpd to 2,750 tpd is still on hold pending the Cosalá Norte District PEA, completion of internal trade-off and optimization studies, and permitting of the El Cajón and San Rafael Projects.

On the exploration front, the Company drilled approximately 38,000 meters as part of its 2012 drill program for Nuestra Señora and its properties in the Cosalá and Parral Districts. Underground exploration drilling, in addition to routine definition drilling, is continuing at Nuestra Señora at a rate of approximately 1,000 meters per month.

The discovery of the new La Emma trend at El Cajón in 2012, and the significant increase in resources recently announced at El Cajón and San Rafael demonstrate the exploration and development potential of the Cosalá District.

Scorpio Mining's calendar 2013 exploration program will center around development drilling in and

around the Nuestra Señora Mine and exploration around several outlying properties, within the Cosalá District; Venado, Los Cristos, and San Ramon. To enhance targeting on the remainder of the concession areas in the Cosalá District, a 1,100 line kilometer airborne geophysical survey will be conducted to collect radiometry, magnetometry and EM-VLF data. In addition, an ASTER survey, to map alteration on previously identified structural zones, has been contracted. The Company plans to drill 11,800 meters in and around the Nuestra Señora Mine and 5,000 meters on the Venado, Los Cristos and San Ramon prospects with the purpose of adding to the Company's resource base. Further drilling on these targets in 2013 will be success-driven and the current budget may be expanded.

As at December 31, 2012 the Company had \$23.6 million in its treasury and the cash flow generated from its Nuestra Señora operation continues to allow the Company to finance its immediate capital, development and exploration plans within the Cosalá and Parral Districts, as well as look for growth opportunities.

## **DIVIDENDS**

The Company has not declared any cash dividends or distributions on its shares since inCompany and it has no plans to pay cash dividends for the foreseeable future. The directors of the Company will determine if and when dividends or distributions should be declared and paid in the future based on the Company's financial position at the relevant time. All of the common shares of the Company are entitled to an equal share of any dividends declared and paid.

## **DESCRIPTION OF CAPITAL STRUCTURE**

### **General description of capital structure**

#### Common shares

The Company's authorized capital consists of an unlimited number of common shares without par value. As at December 31, 2012 and March 14, 2013, the Company had 198,388,913 common shares issued and outstanding.

Each common share of the Company ranks equally with all other common shares of the Company with respect to the dissolution, liquidation or winding-up of the Company and the payment of dividends. The holders of common shares of the Company are entitled to one vote for each share of record on all matters to be voted on by such holders and are entitled to receive pro rata such dividends as may be declared by the board of directors of the Company out of funds legally available therefore and to receive pro rata the remaining property of the Company on dissolution. The holders of common shares of the Company have no pre-emptive or conversion rights. The rights attaching to the common shares of the Company can only be modified by the affirmative vote of at least two-thirds of the votes cast by shareholders in person or by proxy at a meeting of shareholders called for that purpose.

#### Constraints

To the best of its knowledge, the Company is not aware of any constraints imposed on the ownership of its securities to ensure that the Company has a required level of Canadian ownership.

#### Ratings

To the best of its knowledge, the Company is not aware of any ratings, including provisional ratings, from rating organizations for the Company's securities that are outstanding and continue in effect.

**MARKET FOR SECURITIES**

The Company's common shares are listed and posted for trading on the Toronto Stock Exchange (the "TSX") under the symbol "SPM".

The price ranges and volume of common shares traded on the TSX for each month of the most recently completed financial year ended December 31, 2012 are as follows:

<b>Month</b>	<b>High</b>	<b>Low</b>	<b>Volume</b>
December, 2012	\$1.09	\$0.88	6,044,800
November, 2012	\$1.17	\$0.82	5,377,300
October, 2012	\$1.28	\$0.93	8,846,100
September, 2012	\$1.17	\$0.81	9,450,000
August, 2012	\$0.94	\$0.52	13,126,700
July, 2012	\$0.67	\$0.48	5,279,700
June, 2012	\$0.86	\$0.63	6,547,300
May, 2012	\$1.19	\$0.80	6,587,400
April, 2012	\$1.28	\$0.83	14,216,800
March, 2012	\$2.08	\$1.18	14,187,800
February, 2012	\$2.18	\$2.01	6,072,300
January, 2012	\$2.19	\$1.90	8,865,700

**PRIOR SALES****Stock Options**

During the most recently completed financial year ended December 31, 2012, the Company granted incentive stock options pursuant to its stock option plan which entitle the holders to purchase up to 300,000 common shares of the Company as follows:

Number of options granted	Date of issuance	Exercise price	Expiry date
		\$	
300,000 <sup>(1)</sup>	January 3, 2012	1.38	January 3, 2017

<sup>(1)</sup> These stock options remain outstanding as at the end of the Company's most recently completed financial year, ended December 31, 2012.

**Name, Occupation and Security Holdings**

The following table sets out the names of the current directors and officers of the Company (as at March 14, 2013), the provinces or states and countries of residence, positions with the Company, principal occupations with the five preceding years and periods during which each director has served as a director of the Company.

The term of each of the current directors of the Company will expire at the next Annual General Meeting of the shareholders of the Company, unless his/her office is earlier vacated in accordance with the

Articles of the Company, or he/she becomes disqualified to act as a director. The Company has an audit committee, compensation committee and nomination and corporate governance committee comprised of the members as indicated in the table below.

Name, position, province/state and country of residence	Principal occupation for the last five years	Current position with the Company and period of service	No. of common shares and percentage of issued capital <sup>(4)</sup>
<b>PETER J. HAWLEY</b> <sup>(2)</sup> Quebec, Canada	President, Chief Executive Officer and Director of the Company from 1998 to November 15, 2010 and July 20, 2012 to present. Chief Executive Officer of Scorpio Gold Company from June 2009 to present.	President, Interim Chief Executive Officer and Director of the Company July 20, 2012 to present. Non-executive Chairman and Director from January 1998 to July 20, 2012	1,843,436  0.93%
<b>JONATHAN BERG</b> <sup>(1)(2)(3)</sup> New York, USA	Corporate Director. From December 2007 until November 2009, Mr. Berg was non-executive Chairman of Colombia Goldfields, Ltd. From April 2005 to May 2010, Mr. Berg was Vice-President, Finance of PeriCor Therapeutics, Inc. From January 2012 to February 2013, Mr. Berg was a director of International Tower Hill Mines, Ltd.	Director January 20, 2011	Nil
<b>EWAN D. MASON</b> <sup>(1)(3)</sup> Ontario, Canada	Owner and Proprietor of Bert's Sports, Mississauga, Ontario, November 2009 to present. Vice President Finance and Director of Tryniti.ca since December 2010. Strategic consultant to the Board of HudBay Minerals Inc., from June 2009 to October 2009. Managing Director and Head of Global Mining Investment Banking at TD Securities, LLC from Jan 2005 to May 2009.	Director January 5, 2010 to present and Chairman since July 20, 2012	20,000 0.01%
<b>PIERRE LACOMBE</b> <sup>(1)</sup> Quebec, Canada	Vice-President, Project Development with Pershimco Resources from May 2012 to present. Principal Process Engineer with AMEC Mining & Metals, March 2000 to May 2012.	Director March 1, 2010	8,000 0.004%
<b>HEMDAT SAWH</b> Ontario, Canada	Chief Financial Officer from May 2011 to present. Chief Financial Officer of Crystallex International Corporation from 2007 – 2011 and Goldbelt Resources Ltd. from 2005 – 2007.	Chief Financial Officer May 1, 2011	10,500 0.005%
<b>THOMAS McGRAIL</b> Mazatlan, Mexico	General Manager for Minas de Oro Nacional, Sa de CV, for Alamos Gold Inc. from June 2011 to February 2013. Vice President of NA Operations, for Aura Minerals from December, 2009	Chief Operating Officer March 1, 2013	Nil

Name, position, province/state and country of residence	Principal occupation for the last five years	Current position with the Company and period of service	No. of common shares and percentage of issued capital <sup>(4)</sup>
	to May, 2011. Independent mining consultant for Colombia Goldfields, Colombia Minera S.A, Bellhaven Copper & Gold , Inc., Bikerman Engineering & Technology Associates, Inc., East Delta Resources, from June, 2006 to November, 2009.		
<b>JOHN SADEK</b> Mazatlan, Mexico	Mexico Country Manager from February 2010 to present. General Manager and Vice President of Operations with Uruguay Mineral Exploration Inc. from October 2004 – January 2010.	Mexico Country Manager February 2, 2010	79,150 0.04%
<b>JAMES STONEHOUSE</b> Mazatlan, Mexico	Vice President, Exploration from January 3, 2012 to present. Consulting Geologist and In-House Advisor from May 2011 – January 2012. Mercer Consolidated from August 2009 – May 2011. Vice President of Operations January 2007 – August 2009.	Vice President - Exploration January 3, 2012	Nil
<b>VICTORIA VARGAS</b> Ontario, Canada	Vice President Investor Relations and Corporate Communications from November 1, 2011 to present. Vice President Investor Relations at Greystar Resources September 2010 – April 2011, Romarco Minerals September 2009 – April 2010, Iberian Minerals Inc. July 2008 – April 2009 and Alamos Gold Inc. from January 2004 – July 2008.	Vice President - Investor Relations November 1, 2011	7,000 0.004%
<b>ERIC LOWY</b> Ontario, Canada	Lawyer, Partner, Irwin Lowy LLP, since August 2007. General Counsel and Corporate Secretary, Syndesis Limited from February 2006 to August 2007. Director of Greencastle Resources Inc.	Corporate Secretary July 20, 2010	Nil

(1) Audit Committee Members

(2) Compensation Committee Member

(3) Nomination and Corporate Governance Committee Member

(4) Based upon the 198,388,913 common shares of the Company issued and outstanding as at March 14, 2013.

As of the date hereof, all the directors and executive officers of the Company, as a group beneficially own, control or direct, directly or indirectly, an aggregate of 1,968,086 common shares of the Company, representing 1.07% of the Company's 198,388,913 common shares outstanding as at March 14, 2013.

**Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

No director or executive officer of the Company is, as at the date of this AIF, or was within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company (including the Company), that:

- (a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
- (b) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

No director or executive officer of the Company and, to the knowledge of the Company, no shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

- (a) is, as at the date of this AIF, or has been within the 10 years before the date of this AIF, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

No director or executive officer of the Company, and, to the knowledge of the Company, no shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

**Conflicts of Interest**

The Company's directors and officers may serve as directors or officers of other companies or have significant shareholdings in other resource companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has



such a conflict will abstain from voting for or against the approval of such participation or such terms. From time to time several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing for their participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the Company making the assignment. The directors are required by law to act honestly and in good faith with a view to the best interests of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at the time.

The directors and officers of the Company are aware of the existence of laws governing the accountability of directors and officers for corporate opportunity and requiring disclosure by the directors of conflicts of interest and the Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors and officers. All such conflicts will be disclosed by such directors or officers in accordance with the Canada Business Companies Act and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

To the best of its knowledge, other than as disclosed below, the Company is not aware of any such conflicts of interest.

In the normal course of operations, the Company enters into various transactions with related parties which have been measured at exchange value and are recognized in the audited consolidated financial statement.

The Company incurred an aggregate amount of \$236,000 as directors' fees during the year ended December 31, 2012.

## **PROMOTERS**

During the two most recently completed financial years, and during the 2012 financial year, the Company did not have or employ any person or company acting or performing as a promoter for the Company.

## **LEGAL PROCEEDINGS**

During the most recently completed financial year, and as at the date of this AIF, the Company is not a party to any material legal proceedings or regulatory actions, except as discussed below.

In November 2010, the Company received a reassessment from the Mexican tax authorities related to its Mexican subsidiary, Minera Cosalá, for the year ended December 31, 2007. The tax authorities disallowed the deduction of transactions with certain suppliers for an amount of approximately \$15.1 million (MXP 196.8 million), of which \$6.5 million (MXP 84.4 million) would be applied against available tax losses. The Company appealed this reassessment and the Mexican tax authorities subsequently reversed \$7.3 million (MXP 94.6 million) of their original reassessment. The remaining \$7.8 million (MXP 102.2 million) consists of \$6.5 million (MXP 84.4 million) related to transactions with certain suppliers and \$1.3 million (MXP 17.8 million) of value added taxes thereon. The Company appealed the remaining reassessment with the Mexican Tax Court in December 2011. The Company may be required to post a bond of approximately \$1.3 million (MXP 17.8 million) to secure the value added tax portion of the reassessment. The deductions of \$6.5 million (MXP 84.4 million), if denied, would be offset by available tax losses. No amount has been recognized in the consolidated financial statements as

the Company believes it is not likely that the reassessment will be upheld by the Tax Court.

The Company is party to certain non-material 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.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as set forth in this AIF and in the Company's audited consolidated financial statements for the period ended December 31, 2012 and other than transactions carried out in the ordinary course of business of the Company or its subsidiaries, within the three most recently completed financial years, subsequently, none of the following:

- (a) director or executive officer of the Company;
- (b) a person or company that beneficially owns or controls or directs, directly or indirectly, more than 10% of any class or series of the outstanding voting securities of the Company; and
- (c) an associate or affiliate of any of the persons or companies referred to in the above paragraph (a) or (b),

has, to the best of the Company's knowledge, any material interest, direct or indirect, in any transaction that has materially affected or is reasonably expected to materially affect the Company and its subsidiaries.

### **TRANSFER AGENT AND REGISTRAR**

The Company's transfer agent and registrar for its common shares, is Computershare Investor Services Inc., ("Computershare"). Computershare's principal location for the common shares of the Company is located at 510 Burrard Street, Third Floor, Vancouver, British Columbia, Canada V6C 3B9. Computershare also has a location in Toronto, Ontario at 100 University Avenue, 11<sup>th</sup> Floor, Toronto, Ontario, M5J 2Y1.

### **MATERIAL CONTRACTS**

There are no contracts, other than those herein disclosed in this AIF and other than those entered into in the ordinary course of the Company's business that are material to the Company and which was entered into in the most recently completed fiscal year ended December 31, 2012 or before the most recently completed financial period but is still in effect as of the date of this AIF.

### **INTERESTS OF EXPERTS**

#### **Name of Experts**

The following prepared or certified a report, valuation, statement or opinion described or included in a filing, or referred to in a filing made by the Company under National Instrument 51-102 – Continuous Disclosure Obligations prescribed by the Canadian Securities Administrators, during or relating to the Company's most recently completed financial year ended December 31, 2012:

1. Deloitte LLP is the independent auditor of the Company and is independent within the meaning

of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

2. Resource Update for the Nuestra Señora, San Rafael and El Cajón Deposits 43-101 Technical Report prepared for Scorpio Mining Company dated August 10, 2012 was prepared by Mr. Steven Ristorcelli, C.P.G. et al, of MDA, and may be obtained from SEDAR under the Company's name at [www.sedar.com](http://www.sedar.com).

### **Interests of Experts**

To the best of the Company's knowledge, the experts named above under "Name of Experts" do not have any registered or beneficial interest, direct or indirect, in any securities or other property of the Company when the experts prepared their respective reports, valuations, statements or opinions, as applicable.

## **ADDITIONAL INFORMATION**

### **Audit Committee**

Pursuant to section 171 of the *Canada Business Corporations Act* (the "CBCA") the Company is required to have an audit committee composed of not less than three directors of the Company, a majority of whom are not officers or employees of the Company or any of its affiliates.

The Company must also, pursuant to the provisions of National Instrument 52-110 Audit Committees ("NI 52-110"), have a written charter which sets out the duties and responsibilities of its audit committee. The following is the Company's Audit Committee Charter.

### **Organization**

This charter governs the operations of the Audit Committee (hereinafter, "Committee") of Scorpio Mining Corporation (the "Company"). The purpose, composition, responsibilities, and authority of the Committee are set out in this Charter.

This Charter and the bylaws of the Company and such other procedures, not inconsistent therewith, as the Committee may adopt from time to time, shall govern the meetings and procedures of the Committee.

### **Purpose**

The Committee shall provide assistance to the Board of Directors in fulfilling their oversight responsibility to the shareholders, potential shareholders, the investment community, and others relating to:

- (a) the integrity of the Company's financial statements;
- (b) the financial reporting process;
- (c) the systems of internal accounting and financial controls and financial risk management strategies;
- (d) the performance of the Company's internal audit function (if applicable) and independent auditors;
- (e) the independent auditors' qualifications and independence; and

- (f) the Company's compliance with ethics policies and legal and regulatory requirements.

#### Composition

The Committee shall be composed of at least three directors of the Company (the "Members"), each of whom is "independent" as defined in National Instrument 52-110 *Audit Committees* or any successor policy.

All Members shall be "financially literate" as defined in National Instrument 52-110 *Audit Committees* or any successor policy. Members shall be appointed by the Board and shall serve until they resign, cease to be a director, or are removed or replaced by the Board.

The Board shall designate one of the Members as chair of the Committee (the "Chair").

The Members shall appoint, from among their number, a secretary of the Committee (the "Secretary").

#### Authority

The Committee is authorized to carry out its responsibilities as set out in this Charter, and to make recommendations to the Board arising therefrom.

In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company and the authority to engage, and to set and pay the compensation of, independent accountants, legal counsel and other advisers as it determines necessary to carry out its duties. The Committee may communicate directly with the internal and independent auditors of the Company and it is the responsibility of the Committee to establish and maintain direct and open communication between the Committee and the independent auditors, the internal auditors, and management of the Company.

The Committee is authorized to invite officers and employees of the Company, and outsiders with relevant experience and expertise, to attend or participate in its meetings and proceedings, if it considers this appropriate.

The Company shall pay directly or reimburse the Committee for the expenses incurred by the Committee in carrying out its responsibilities.

#### Responsibilities

The primary responsibility of the Committee is to oversee the Company's financial reporting process on behalf of the board and report the results of their activities to the board. While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Management is responsible for the preparation, presentation, and integrity of the Company's financial statements and for the appropriateness of the accounting principles and reporting policies that are used by the Company. The independent auditors are responsible for auditing the Company's financial statements and for reviewing the Company's unaudited interim financial statements.

The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The Committee should take appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk

practices, and ethical behaviour. The following shall be the principal direct responsibilities of the Committee:

1. Appointment and termination (subject, if applicable, to shareholder ratification), compensation, and oversight of the work of the independent auditors, including resolution of disagreements between management and the auditors regarding financial reporting. The Committee shall arrange for the independent auditors to report directly to the Committee.
2. Pre-approve all audit and non-audit services provided by the independent auditors and not engage the independent auditors to perform the specific non-audit services prohibited by law or regulation. The Committee may delegate pre-approval authority to a member of the Committee. The decisions of any Committee member to whom pre-approval authority is delegated must be presented to the full Committee at its next scheduled meeting.
3. At least annually, obtain and review a report by the independent auditors describing:
  - (a) The firm's internal quality control procedures.
  - (b) Any material issues raised by the most recent internal quality control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.
  - (c) All relationships between the independent auditor and the Company (to assess the auditor's independence).
4. Establish clear hiring policies for employees, partners, former employees and former partners of the current and former independent auditors of the Company that meet the requirements of applicable securities laws and stock exchange rules.
5. Discuss with the internal auditors (if any) and the independent auditors, the overall scope and plans for their respective audits, including the adequacy of staffing and compensation. Ensure there is rotation of the audit partner having primary responsibility for the independent audit of the Company at such intervals as may be required.
6. Discuss with management, the internal auditors (if any), and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including the Company's policies and procedures to assess, monitor, and manage business risk, and legal and ethical compliance programs (e.g. Company's Code of Business Conduct and Ethics).
7. Periodically meet separately with management, the internal auditors (if any), and the independent auditors to discuss issues and concerns warranting Committee attention. The Committee shall provide sufficient opportunity for the internal auditors and the independent auditors to meet privately with the members of the Committee. The Committee shall review with the independent auditor any audit problems or difficulties and management's response.

The processes set forth represent a guide with the understanding that the Committee may supplement them as appropriate.

#### Specifically delegated duties

For purposes of this charter, specific accounting, financial and treasury related duties delegated to the

Committee by the Company's Board of Directors include:

Accounting and financial

1. Receive regular reports from the independent auditor on the critical policies and practices of the Company, and all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management.
2. Where applicable, review management's assertion on its assessment of the effectiveness of internal controls as of the end of the most recent fiscal year and the independent auditor's report on management's assertion.
3. Review and discuss earnings press releases before the Company publicly discloses this information.
4. Review the interim quarterly unaudited financial statements and disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations with management and, where applicable, the independent auditors prior to the filing of the Company's Quarterly Report or their inclusion in any filing with regulatory authorities. Also, the Committee shall discuss the results of the quarterly review, if any, and any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards. The chair of the Committee may represent the entire Committee for the purposes of this review.
5. Review with management and the independent auditors the financial statements and disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations to be included in the Company's Annual Report to shareholders and any other filing with regulatory authorities, including their judgment about the quality, not just the acceptability of accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements.
6. Committee shall discuss any matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards and shall specifically review with the independent auditors, upon completion of their audit:
  - (a) the contents of their report;
  - (b) the scope and quality of the audit work performed;
  - (c) the adequacy of the Company's financial and auditing personnel;
  - (d) co-operation received from the Company's personnel during the audit;
  - (e) significant transactions outside of the normal business of the Company; and
  - (f) significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems.
7. Establish procedures for the review of the public disclosure of financial information extracted from the financial statements of the Company.
8. Establish procedures for the receipt, retention, and treatment of complaints received by the issuer regarding accounting, internal accounting controls, or auditing matters, and the confidential,

anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.

9. Perform an evaluation of its performance at least annually to determine whether it is functioning effectively.

#### Treasury related

1. Monitor and review risk management strategies as they pertain to the Company's general insurance programs, and foreign exchange and commodity hedging programs, and make recommendations to the Board of Directors with respect to such strategies.
2. Approve investment policies and appoint investment managers, where appropriate, for the Company's retirement and other funded benefit plans, where applicable.
3. Perform such other duties in respect of financial matters as, in the opinion of the Board of Directors, should be performed by the Committee.

#### Meetings and Proceedings

The Committee shall meet as frequently as required, but not less than four times each year. Any Member or the independent auditors of the Company may call a meeting of the Committee. The agenda of each meeting of the Committee will include input from the independent auditors, directors, officers and employees of the Company as appropriate. Meetings will include presentations by management, or professional advisers and consultants when appropriate, and will allow sufficient time to permit a full and open discussion of agenda items.

Unless waived by all Members, a notice of each meeting of the Committee confirming the date, time, place, and agenda of the meeting, together with any supporting materials, shall be forwarded to each Member and the independent auditors of the Company at least three days before the date of the meeting.

The independent auditors of the Company are entitled to attend and be heard at every meeting of the Committee at the expense of the Company.

The quorum for each meeting of the Committee is a majority of the Members. The Chair of the Committee shall chair each meeting. In the absence of the Chair, the other Members may appoint one of their number as chair of a meeting. The chair of a meeting shall not have a second or casting vote.

The Chair of the Committee or his delegate shall report to the Board following each meeting of the Committee.

The Secretary or his delegate shall keep minutes of all meetings of the Committee, including all resolutions passed by the Committee. Minutes of meetings shall be distributed to the Members and the other directors of the Company after preliminary approval thereof by the Chair of the Committee.

The Committee shall meet regularly alone to facilitate full communication.

#### Self-Assessment

The Committee and the Board shall annually assess the effectiveness of the Committee with a view to ensuring that the performance of the Committee accords with best practices.

The Committee shall review and reassess this Charter at least annually and obtain the approval of the Company's Board of Directors for any changes.

Responsibilities of Chair

The Chair of the Committee shall provide leadership to the Committee to enhance the Committee's effectiveness and ensure adherence to this Charter.

The Chair of the Committee is responsible for managing the Committee, including:

- chairing all meetings of the Committee in a manner that promotes meaningful discussion;
- preparing the agenda of the Committee meetings and ensuring pre-meeting material is distributed in a timely manner and is appropriate in terms of relevance, efficient format and detail;
- adopting procedures to ensure that the Committee can conduct its work effectively and efficiently, including committee structure and composition, scheduling, and management of meetings; and
- ensuring meetings are appropriate in terms of frequency, length and content.

Adopted by the Board of the Company effective March 25, 2008

Composition of the Audit Committee

The following are the members of the Committee:

Ewan Mason (Chair)	Independent	Financially literate
Jonathan Berg	Independent	Financially literate
Pierre Lacombe	Independent	Financially literate

Ewan Mason, HBSc, MBA

Mr. Ewan D. Mason, HBSc, MBA received training in accounting principles while studying for his MBA. He is an Owner and Proprietor of Bert's Sports, Mississauga, Ontario and served as Managing Director and Head of Global Mining Investment Banking at TD Securities Inc., Toronto, Ontario, Canada from January 2005 to May 2009. He served as Strategic consultant at HudBay Minerals Inc., from June 2009 to October 2009. He served as Head of Mining investment banking at a large Canadian securities firm and has been in the financial sector for 17 years. He has been Director of Scorpio Mining Corp. since January 5, 2010 and is the current Chairman of the Board since July 20, 2012. Mr. Mason's foundation in financial analysis and his experience in the mining, banking and finance industry have provided him with the detailed experience required to understand accounting principles and financial statements

Jonathan Berg, BS, MBA

Mr. Jonathan Berg, BS, MBA received training in accounting principles while studying for his MBA. Mr. Berg served as non-executive Chairman of Colombia Goldfields, Ltd. from April 2005 to May 2010; he also served as Vice-President, Finance of PeriCor Therapeutics, Inc; and from January 2012 to February 2013 was a director of International Tower Hill Mines, Ltd. Mr. Berg's expertise is in the areas of corporate strategy and structure, capital raising and commercial negotiation.



Pierre Lacombe, BEng, Eng

Mr. Pierre Lacombe, BEng, Eng has been Vice-President, Project Development with Pershimco Resources from May 2012 to present and Principal Process Engineer with AMEC Mining & Metals, from March 2000 to May 2012.

Audit Committee Oversight

At no time since the commencement of the Company's most recently completed financial year was a recommendation of the Committee to nominate or compensate an external auditor not adopted by the Board of Directors.

Reliance on Certain Exemptions

At no time since the commencement of the Company's most recently completed financial year has the Company relied on the exemption in Section 2.4 of NI 52-110 (*De Minimis Non-audit Services*), or an exemption from NI 52-110, in whole or in part, granted under Part 8 of National Instrument 52-110.

Pre-Approval Policies and Procedures

The Committee has not adopted specific policies and procedures for the engagement of non-audit services, other than that the engagement of the independent auditors to perform non-audit services must be pre-approved by the Committee or a delegated member of the Committee.

External Auditor Service Fees

The aggregate fees billed by the Company's external auditors in each of the last two fiscal years are as follows:

<b>Financial year ended</b>	<b>Audit fees</b>	<b>Audit related fees</b>	<b>Tax fees</b>	<b>All other fees</b>
December 31, 2012	\$140,500	Nil	\$45,087	Nil
December 31, 2011	\$140,560	Nil	\$252,090	Nil

Company Information

Additional information relating to the Company is available under the Company's profile on the SEDAR website at [www.sedar.com](http://www.sedar.com). Financial information relating to the Company is provided in the Company's audited consolidated financial statements and management's discussion and analysis for the most recently completed fiscal year.

**FINANCIAL RISK FACTORS**

As at December 31, 2012, the Company's risk exposures and the impact on the Company's financial instruments are summarized below:

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 primarily attributable to cash and cash equivalents and trade and other receivables. The credit risk on cash and cash equivalents is limited because the Company invests its cash in deposits with well-capitalized financial institutions with strong credit ratings. Under current concentrate offtake agreements, risk on trade receivables related to concentrate sales is managed by receiving payments for 80% to 95% of the estimated value of the concentrate shipped at the time of shipment. As of December 31, 2012, the Company's exposure to credit risk with respect to trade receivables amounts to \$5.4 million. The Company believes credit risk for other receivables of \$2.8 million is not significant as they relate to Mexican value added taxes. There are no receivables that are past due and the Company has no allowance for doubtful accounts at December 31, 2012.

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they arise. 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 is to keep cash in bank accounts and term deposits. As at December 31, 2012, the Company had cash and cash equivalents of \$23.6 million to settle trade and other payables of \$2.2 million. The Company's trade payables have contractual maturities of less than 30 days and are subject to normal trade terms.

### **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.

### **Interest Rate Risk**

The Company is not subject to significant interest rate risk.

### **Currency Risk**

As at December 31, 2012, the Company is exposed to foreign currency risk through the following financial assets and liabilities denominated in U.S. dollars ("USD") and Mexican pesos ("MXP"):

	As at December 31, 2012	
	USD	MXP
	(000s)	(000s)
Cash	9,946	3,389
Trade and other receivables	5,457	43,339
Trade and other payables	(250)	(36,240)

As at December 31, 2012, the USD/CAD and CAD/MXP exchange rates were 1.00 and 13.0, respectively. The sensitivity of the Company's net earnings and other comprehensive income due to changes in the exchange rates as at December 31, 2012 is included in the following table (expressed in 000's):

	USD/CAD Exchange rate +/- 10%	CAD/MXP Exchange rate +/- 10%
	\$ (000's)	\$ (000's)
Approximate impact on:		
Net earnings	62	80
Comprehensive income	1,580	-

The Company may, from time to time, employ derivative financial instruments to manage exposure to fluctuations in foreign currency exchange rates as discussed above.

### **Price Risk**

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, 2012, the Company had certain amounts related to the sales of concentrate that have only been provisionally priced. A +/- 10% fluctuation in silver, lead, copper and gold prices would affect trade receivables by approximately \$0.5 million. The Company does not use derivatives to manage its exposure to price risk. The Company sometimes fixes metal prices with the purchaser of its concentrates for specific sales for which concentrates have been delivered.

### **Financial Instruments**

The Company uses a mixture of cash and cash equivalents, available-for-sale securities and shareholder equity to maintain an efficient capital structure and ensure adequate liquidity exists to meet the cash needs of our business.

The Company classifies its financial instruments into one of the following categories: fair value through profit or loss ("FVTPL") (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 FVTPL are subsequently measured at fair value with changes in fair value recognized in net earnings. 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 for FVTPL financial assets and liabilities are recognized in income when incurred.

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

The Company has classified cash and cash equivalents, trade and other receivables as "loans and receivables", trade and other payables are classified as "other financial liabilities", and investment in Scorpio Gold shares as "available-for-sale".

The investment in Scorpio Gold has resulted in a decrease in fair value of \$3.9 million during the year ended December 31, 2012 and an increase in fair value of \$3.4 million during same period in 2011 which are recognized in the consolidated statements of other comprehensive income.

## **RISK FACTORS**

The financing, exploration, development and exploitation of the Company's properties and the operation of the Company's business are subject to a number of factors, including metal prices, laws and regulations, political conditions, currency fluctuations, hiring qualified people and obtaining necessary services in jurisdictions where the Company operates.

The following is a brief discussion of those distinctive or special characteristics of the Company's operations and industry that may have a material impact on, or constitute risk factors in respect of the Company's future financial performance.

### **Current Global Financial Condition**

Global financial markets continue to experience significant volatility following the U.S. led financial crisis in 2008, which negatively impacted numerous financial institutions globally. More recently the escalating financial turmoil in Europe has added to this economic uncertainty and resulted in excessive government debt levels giving rise to the unprecedented steps currently being taken to avert a full blown global crisis. The Company is exposed to various counterparty risks including, but not limited to: (i) through financial institutions that hold the Company's cash and cash equivalents; and (ii) through the Company's insurance providers. The Company is also exposed to liquidity risks in meeting its operating expenditure requirements in instances where cash positions are unable to be maintained or additional financing is unavailable. Although there have been certain signs of economic recovery, these increased levels of volatility and market turmoil may continue and, as a result, the Company's business, financial condition, results of operations and share price could be adversely impacted.

### **Financial Condition and Liquidity**

The primary factors that will affect the future financial condition of the Company include the continued ability to maintain profitable operations at its operating property, the ability to raise equity or debt financing as required and the level of exploration and development expenditures required to meet commitments or commercial production in the case of the Company's non-producing properties.

The Nuestra Señora mine achieved commercial production on January 1, 2009 and, since that date, has generated sufficient cash flows from the sale of concentrates to maintain the Company's cash position. Depending on future metal price levels or needs for prospective investments, the Company may need to rely on share or debt issuances to meet its planned developments of existing properties or growth objectives.

### **Industry and Economic Factors Affecting Performance**

Certain factors affect the Company's 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 and development.

### **The volatility of the prices of metals could have a negative impact on the Company's future operations**

The value of the Company's mineral resources and reserves and its future operating profit will be affected by fluctuations in metals prices, over which the Company has no control. A reduction in the price of silver, or other payable metals may prevent the Company's properties from being economically mined or

result in the write-off of assets whose value is impaired as a result of low metal prices. The price of silver may also have a significant influence on the market price of the Company's common shares.

The price of silver is affected by numerous factors beyond the Company's control, such as the level of inflation, fluctuation of the United States dollar and foreign currencies, global and regional demand, and the political and economic conditions of major silver producing countries throughout the world.

**The Company's material properties are located in Mexico and are subject to changes in political and economic conditions and regulations in that country**

In the past, Mexico has been subject to political instability, changes and uncertainties, which may cause changes to existing governmental regulations affecting mineral exploration and mining activities. The Company's operations and properties are subject to a variety of governmental regulations including, among others: regulations promulgated by the Mexican Department of Economy – Dirección General de Minas, Mexico's Secretary of Environment and Natural Resources ("SEMARNAT"); the Mexican Mining Law; and the regulations of the Comisión Nacional del Agua ("CNA") with respect to water rights. Mexican regulators have broad authority to shut down and/or levy fines against facilities that do not comply with regulations or standards. The Company's mineral exploration and mining activities in Mexico may be adversely affected in varying degrees by changing government regulations relating to the mining industry or shifts in political conditions that increase the costs related to the Company's activities or maintenance of its properties. Operations may also be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, and expropriation of property, environmental legislation and mine safety. Mexico's status as a developing country may make it more difficult for the Company to obtain any required financing for its projects.

The Company is uncertain if all necessary permits will be maintained on acceptable terms or in a timely manner. Future changes in applicable laws and regulations or changes in their enforcement or regulatory interpretation could negatively impact current or planned exploration and development activities on its Cosalá District properties or in any other projects that the Company becomes involved with. Any failure to comply with applicable laws and regulations or failure to obtain or maintain permits, even if inadvertent, could result in the interruption of exploration and development operations or material fines, penalties or other liabilities.

**Title to Properties**

While the Company has diligently investigated the title to all of the mineral concessions making up its properties and to the best of the Company's knowledge title to all of the said mineral concessions is in good standing, this should not be construed as a guarantee that title will not be challenged or impugned by third parties. The Company's properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects or governmental actions.

**Insurance Coverage**

The mining industry is subject to significant risks that could result in damage to, or destruction of, mineral properties or producing facilities, personal injury or death, environmental damage, delays in mining and monetary losses and possible legal liability.

The Company's policies of insurance may not provide sufficient coverage for losses related to these or other risks. The Company's insurance does not cover all risks that may result in loss or damages and may not be adequate to reimburse the Company for all losses sustained. In particular, the Company does not have coverage for certain environmental losses or certain type of earthquake damage. The occurrence of losses or damage not covered by insurance could have a material and adverse effect on the Company's

cash flows, results of operation and financial condition.

### **The Company's business involves uninsurable risks**

In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including rock bursts, cave-ins, fires, flooding and earthquakes may occur. It is not always possible to fully insure against such risks and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company.

### **Surface Rights and Access**

The Company has reached various agreements for surface access and rights with certain Ejidos for mining exploitation activities, including open pit mining, in the project area of Cosalá Norte. In addition, the Company currently has formal agreements for surface access with all Ejidos on whose land its exploration activities are being performed. These agreements are valid for several years and are regularly reviewed in terms of the appropriate level of compensation for the level of work being carried out.

The Nuestra Señora process facility is located on land previously purchased by the Company and is not exposed to disruptions by third party ownership claims.

For future activities the Company will need to negotiate with Ejido and non-Ejido members, as a group and individually, to reach agreements for additional access and surface rights. Negotiations with Ejidos can become time-consuming if demands for compensation become unreasonable. There can be no guarantee that the Company will be able to negotiate satisfactory agreements with any such existing members for such access and surface rights, and therefore it may be unable to carry out planned mining activities. In addition, in circumstances where access is denied, or no agreement can be reached, the Company may need to rely on the assistance of local officials or the courts in such jurisdiction, the outcomes of which cannot be predicted with any certainty. The inability of the Company to secure surface access or purchase required surface rights could materially and adversely affect the timing, cost or overall ability of the Company to develop any mineral deposits it may locate.

### **Future Capital Requirements**

As of March 14, 2013, the Company had cash and cash equivalents of approximately \$26.3 million. The Company expects to use some current cash and future cash flows from operations to fund development work at El Cajón, expansion of the existing processing facility, for exploration on its properties, and to purchase additional required mine capital and for general corporate purposes. There can be no assurance that operating cash flows and asset sale proceeds will be sufficient to cover these expenditures which may require the Company to raise additional financing. The Company may also encounter significant unanticipated liabilities or expenses. The Company's ability to continue its planned exploration, development and mining activities depends in part on its ability to maintain or to generate free cash flow from its operating mine, which is subject to certain risks and uncertainties. The Company may be required to obtain additional financing in the future to fund exploration and development activities, mine capital expenditures or acquisitions of additional projects. The Company has historically raised capital primarily through debt and equity financing and in the future may raise capital through equity or debt financing, joint ventures or other means. There can be no assurance that the Company will be able to obtain the necessary financing in a timely manner, on acceptable terms or at all. If additional funds are not available, the Company may not be able to maintain its rights to all of its properties.

Any future equity financings by the Company for the purpose of raising additional funds will result in dilution to the holdings of existing shareholders.

**Substantially all of the Company's assets are located outside of Canada, and are held indirectly through foreign affiliates**

It may be difficult or impossible to enforce judgements obtained in Canadian courts predicated upon the civil liability provisions of the securities laws of certain provinces against the portion of the Company's management and assets located outside of Canada.

**The Company is dependent on a small number of key personnel and the absence of any of these individuals could have a significantly negative effect on the Company**

The Company strongly depends on the business and technical expertise of its small group of management and key personnel. There is little possibility that this dependence will decrease in the near term. As the Company's operations expand, additional general management resources will be required, especially since the Company encounters risks that are inherent in doing business in several countries. Keyman life insurance is not in place on management and key personnel. If the services of the Company's management and key personnel were lost, it could have a material adverse effect on future operations.

**Directors and Officers of the Company**

Certain directors and officers of the Company are involved as directors or officers of other companies engaged in mineral exploration and mining. They may be presented from time to time with opportunities which give rise to potential conflicts.

**Dividend Record**

The Company has no dividend record and it does not intend to pay any dividends in the foreseeable future.

**The business of exploration for minerals and mining involves a high degree of risk, as few properties that are explored are ultimately developed into producing mines**

The Company is engaged in exploration, mine development and the mining and production of precious and base metals, primarily silver, and is exposed to a number of risks and uncertainties that are common to other companies in the same business. Unusual or unexpected rock formations, rock formation pressures, fires, power outages, labour disruptions, flooding, explorations, cave-ins, landslides and the inability to obtain suitable machinery, equipment or labour are other risks involved in the operation of mines and the conduct of exploration programs. The Company has relied on and may continue to rely upon consultants and others for mine operating and exploration and development expertise.

Substantial expenditures are required to establish mineral reserves through drilling, to develop metallurgical processes to extract the metal from the ore and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineral deposit, the Company may not be able to raise sufficient funds for development.

The Company has one producing mine, the Nuestra Señora located in Cosalá, State of Sinaloa, Mexico, at the present time and projects under development in Cosalá Norte. The economics of developing silver, lead, zinc, copper and other mineral properties is affected by many factors including the cost of

operations, variations in the grade of ore mined, fluctuations in metal markets, costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Properties on which mineral reserves are not found will have to be discarded causing the Company to write each respective property off, thus sustaining a loss on write-off of assets.

The mineral reserve and resource estimates contained or incorporated by reference in this AIF are only estimates and no assurance can be given that any particular level of recovery of minerals will be realized or that an identified reserve or resource will qualify as a commercially mineable (or viable) deposit which can be legally and economically exploited. The Company relies on laboratory-based recovery models and historical performance of its processing plant to project estimated ultimate recoveries by ore type at optimal grind sizes. Actual recoveries in a commercial mining operation may exceed or fall short of projected laboratory test results. In addition, the grade of mineralization ultimately mined may differ from the one indicated by the drilling results and the difference may be material. Production can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations, inaccurate or incorrect geologic, metallurgical or engineering work, and work interruptions, among other things. Short-term factors, such as the need for an orderly development of deposits or the processing of new or different grades, may have an adverse effect on mining operations or the results of those operations. There can be no assurance that minerals recovered in small scale laboratory tests will be duplicated in large scale tests under on-site conditions or in production scale operations and there can be no assurance that historical performance of the processing plant will continue in the future. Material changes, inaccuracies or reductions in proven and probable reserves or resource estimates, grades, waste-to-ore ratios or recovery rates could have a materially adverse impact on the Company's future operations, cash flows, earnings, results of operations, financial condition and the economic viability of projects. The estimated proven and probable reserves and resources described herein should not be interpreted as assurances of mine life or of the profitability of future operations.

The Company has engaged expert independent technical consultants to advise it on, among other things, mineral resources and reserves, metallurgy and project engineering. The Company believes that these experts are competent and that they have carried out their work in accordance with all internationally recognized industry standards. If, however, the work conducted by, and the mineral resource and reserve estimates of these experts are ultimately found to be incorrect or inadequate in any material respect, such events could materially and adversely affect the Company's future operations, cash flows, earnings, results of operations, financial condition and the economic viability of its projects.

### **Production Estimates**

The Company prepares estimates of mine production for the Nuestra Señora and Cosalá Norte project. The Company cannot give any assurance that it will achieve its production estimates. The failure of the Company to achieve its production estimates could have a material and adverse effect on any or all of its future cash flows, results of operations and financial condition. These production estimates are dependent on, among other things, the accuracy of mineral reserve estimates, the accuracy of assumptions regarding ore grades and recovery rates, ground conditions and physical characteristics of ores and the accuracy of estimated rates and costs of mining and processing.

The Company's actual production may vary from its estimates for a variety of reasons, including actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; short-term operating factors such as the need for sequential development of ore bodies and the processing of new or different ore grades from those planned; mine failures, slope failures or equipment failures; industrial accidents; natural phenomena such as inclement weather conditions, floods, droughts,



landslides and earthquakes; encountering unusual or unexpected geological conditions; changes in power costs and potential power shortages; shortages of principal supplies needed for operation, including explosives, fuels, chemical reagents, water, equipment parts and lubricants; labour shortages or strikes; civil disobedience and protests; and restrictions or regulations imposed by government agencies or other changes in the regulatory environments. Such occurrences could result in damage to mineral properties, interruptions in production, injury or death to persons, damage to property of the Company or others, monetary losses and legal liabilities. These factors may cause a mineral deposit that has been mined profitably in the past to become unprofitable, forcing the Company to cease production.

It is not unusual in new mining operations to experience unexpected problems, including during development and expansion stages. As a result of the foregoing risks and, in particular, since the Nuestra Señora project is in a development and expansion stage, expenditures on the project, actual production quantities and rates, and cash costs may be materially and adversely affected and may differ materially from anticipated expenditures, production quantities and rates, and costs. Any such events could materially and adversely affect the Company's business, financial condition, results of operations and cash flows.

### **Mine Development and Expansion**

The Company's ability to sustain its present levels of production and any planned expansion is dependent upon the identification of additional mineral reserves at the Cosalá District properties or otherwise. If the Company is unable to develop new ore bodies, it will not be able to sustain or increase present production levels. Reduced production could have a material and adverse impact on future cash flows, results of operations and financial conditions.

### **The Company's activities are subject to environmental regulations**

The operations of the Company are subject to environmental regulations promulgated by government agencies from time to time. Specifically, the Company's activities related to its Nuestra Señora and Cosalá Norte projects are subject to regulation by SEMARNAT, the environmental protection agency of Mexico. Regulations require that an environmental impact statement, known in Mexico as a MIA, be prepared by a third-party contractor for submittal to SEMARNAT. Studies required to support the MIA include a detailed analysis of the following areas: soil, water, vegetation, wildlife, cultural resources and socio-economic impacts. The Company must also provide proof of local community support for a project to gain final approval of the MIA.

Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailing disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards, and enforcement. Fines and penalties for non-compliance are more stringent.

Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

**Mexico is a developing country and obtaining financing, finding and hiring qualified people or obtaining all necessary services for the Company's operations in Mexico may be difficult**

The Company conducts exploration, mine development and mining and production activities in the State of Sinaloa, Mexico. Mexico is a developing country and obtaining financing, finding and hiring qualified people or obtaining all necessary services for the Company's operations in Mexico may be difficult. Mexico's status as a developing country may make it more difficult for the Company to attract investors or obtain any required financing for its mining projects.

The Company also hires some of its employees or consultants in Mexico to assist it in conducting its operations in accordance with Mexican laws. The Company also purchases certain supplies and retains the services of various companies in Mexico to meet its business plans. It may be difficult to find or hire qualified people in the mining industry who are situated in Mexico or to obtain all the necessary services or expertise in Mexico or to conduct operations on its projects at reasonable rates. If qualified people and services or expertise cannot be obtained in Mexico, the Company may need to seek and obtain those services from people located outside Mexico, which will require work permits and compliance with applicable laws and could result in delays and higher costs to the Company to conduct its operations in Mexico.

**Whether a mineral deposit will be commercially viable depends on a number of factors**

Whether a mineral deposit will be commercially viable depends on a number of factors. These include government regulations, including regulations relating to nationalization, prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot accurately be predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital. Currently the Mexican Government is conducting a highly publicized crack down on the drug cartels resulting in a loss of lives. The operation has been unaffected by the conflict and is unlikely to be in the future. However, if the government's actions lead to civil unrest, the situation could change.

**Mining exploration, development, and operations are highly speculative**

Mining exploration, development, and operations are highly speculative. They are characterized by a number of significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate including, among other things, unprofitable efforts resulting not only from the failure to discover additional mineral deposits but from finding mineral deposits which, though present, are insufficient in quantity and quality to return a profit from production.

The Company will continue to rely upon consultants and others for exploration, development, construction and operating expertise. Substantial expenditures are required to establish and upgrade mineral resources, to establish mineral reserves, to develop metallurgical processes to extract metals from mineral resources and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. No assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis.

**Mining operations generally involve a high degree of risk**

Mining operations generally involve a high degree of risk. The Company's operations are subject to the hazards and risks normally encountered in the mineral exploration, development and production, including environmental hazards, explosions, unusual or unexpected geological formations or pressures

and periodic interruptions in both production and transportation due to inclement or hazardous weather conditions. Such risks could result in damage to, or destruction of, mineral properties or producing facilities, personal injury, environmental damage, delays in mining, monetary losses and possible legal liability.

**Development projects have no operating history upon which to base estimates of future cash operating costs**

Development projects have no operating history upon which to base estimates of future cash operating costs. For development projects, reserve and resource estimates and estimates of cash operating costs are, to a large extent, based upon the interpretation of geologic data obtained from drill holes and other sampling techniques, and feasibility studies, which derive estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, ground conditions, the configuration of the ore body, expected recovery rates of minerals from the ore, estimated operating costs, anticipated climatic conditions and other factors. As a result, actual production, cash operating costs and economic returns could differ significantly from those estimated. Indeed, current market conditions are forcing many mining operations to increase capital and operating cost estimates. It is not unusual for new mining operations to experience problems during the start-up phase, and delays in the commencement of production often can occur, resulting in a material effect not only on cash flow but also on project capital expenditures.

**The marketability of natural resources which may be acquired or discovered by the Company will be affected by numerous factors beyond its control**

These factors include market fluctuations, the proximity and capacity of natural resource markets and processing equipment, and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital and a loss of all or part of an investment in securities of the Company may result.

**Enforcement of Civil Liabilities**

As a portion of the Company's management and operations are located outside of Canada, it may be difficult or impossible to enforce judgements granted by a court in Canada against such assets.

**The Company is subject to currency fluctuations that may adversely affect the financial position of the Company**

The Company's functional currency is the Canadian dollar, which is exposed to fluctuations against other currencies. The Company's primary operations are located in Mexico and many of its expenditures and obligations are denominated in Mexican pesos. The Company maintains its principal office and raises its equity financings in Canada, maintains cash accounts in both U.S. dollars and Canadian dollars and has monetary assets and liabilities in Canadian dollars and Mexican pesos. As such, the Company's results of operations are subject to foreign currency fluctuation risks and such fluctuations may adversely affect the financial position and results of the Company. The Company may, from time to time, employ derivative financial instruments to manage exposure to fluctuations in foreign currency exchange rates.

**The Company is in competition with other mining companies that have greater resources and experience**

The Company's business is intensely competitive, and the Company competes with other mining companies, many of which have greater resources and experience. Competition in the precious metals mining industry is primarily for mineral rich properties which can be developed and produced economically; the technical expertise to find, develop, and produce such properties; the labour to operate the properties; and the capital for the purpose of financing development of such properties. Many competitors not only explore for and mine precious metals, but conduct refining and marketing operations on a worldwide basis and some of these companies have much greater financial and technical resources than the Company. Such competition may result in the Company being unable to acquire desired properties, recruit or retain qualified employees or acquire the capital necessary to fund its operations and develop its properties.

The Company's inability to compete with other mining companies for these mineral deposits could have a material adverse effect on the Company's results of operation and business.

### **Concentrate Sales Risks**

The Company currently sells its concentrates under offtake contracts with a limited number of counterparties, and all of these contracts expire in June 2013. Based on past practice, and the quality of its concentrates, the Company expects to be able to renew these contracts or find alternative purchasers for its concentrates, however there can be no assurance that the existing contracts will be renewed or replaced on reasonable terms.

The Company frequently sells its concentrates on the basis of receiving a sales advance when the concentrates are delivered with the advance based on market prices of metals at the time of the advance. Final settlement of the sale is then made later, based on prevailing metals prices at that time. In an environment of volatile metals prices this can lead to negative cash adjustments, with amounts owing to the purchaser, and such amounts could potentially be substantial. In volatile metals markets the Company may elect to fix the price of a concentrate sale at the time of initial delivery.