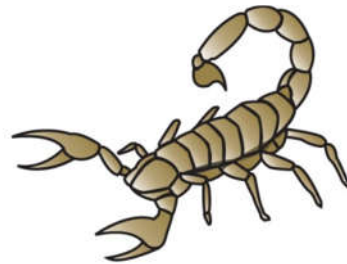


SCORPIO



GOLD CORPORATION

Condensed Interim Consolidated Financial Statements of

Scorpio Gold Corporation

For the three and six months ended
June 30, 2016 and June 30, 2015
(unaudited)

**MANAGEMENT'S COMMENTS ON
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

NOTICE OF NO AUDIT OR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Scorpio Gold Corporation

Condensed interim consolidated statements of operations

Three and six months ended June 30, 2016 and June 30, 2015

(In thousands of US dollars except for shares and per share amounts)

(unaudited)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
	\$	\$	\$	\$
Revenue	12,434	12,083	21,862	24,426
Cost of sales excluding depletion and amortization (Note 5)	(9,164)	(8,640)	(16,580)	(18,195)
Depletion and amortization	(203)	(1,025)	(350)	(1,758)
Mine operating earnings	3,067	2,418	4,932	4,473
Expenses				
General and administrative (Note 6)	(266)	(578)	(530)	(1,684)
Care and maintenance	(193)	-	(377)	-
Gain on disposal of mining assets	-	-	39	-
Write-off of mining assets (Note 11)	(1,048)	-	(1,048)	-
Operating earnings	1,560	1,840	3,016	2,789
Other (expenses) income				
Finance costs (Note 7)	(195)	(25)	(388)	(102)
Foreign exchange gain (loss)	4	13	3	(206)
Finance income	-	1	1	11
Loss on disposal of non-producing mining assets	-	(38)	-	(38)
Gain on disposal of investments	-	-	-	172
	(191)	(49)	(384)	(163)
Earnings before income taxes	1,369	1,791	2,632	2,626
Income tax (expense) recovery				
Current	(230)	(44)	(339)	(124)
Deferred	60	-	(15)	-
	(170)	(44)	(354)	(124)
Net earnings for the period	1,199	1,747	2,278	2,502
Net earnings attributable to:				
Shareholders of the Company	622	1,009	1,191	1,140
Non-controlling interest	577	738	1,087	1,362
	1,199	1,747	2,278	2,502
Basic and diluted earnings per share	0.00	0.01	0.01	0.01
Basic and diluted weighted average number of shares outstanding (Note 8)	124,948,235	124,948,235	124,948,235	124,948,235

See accompanying notes to the condensed interim consolidated financial statements

Scorpio Gold Corporation

Condensed interim consolidated statements of comprehensive income

Three and six months ended June 30, 2016 and June 30, 2015

(In thousands of US dollars)

(unaudited)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
	\$	\$	\$	\$
Net earnings for the period	1,199	1,747	2,278	2,502
Other comprehensive income (loss)				
Items that may subsequently be reversed to statement of operations:				
Change in fair value of available-for-sale investments (net of tax, nil)	-	-	-	98
Reclassification to statement of operations	-	-	-	(101)
Comprehensive income for the period	1,199	1,747	2,278	2,499
Comprehensive income attributable to:				
Shareholders of the Company	622	1,009	1,191	1,137
Non-controlling interest	577	738	1,087	1,362
	1,199	1,747	2,278	2,499

See accompanying notes to the condensed interim consolidated financial statements

Scorpio Gold Corporation

Condensed interim consolidated statements of financial position

As at

(In thousands of US dollars)

(unaudited)

	June 30, 2016	December 31, 2015
	\$	\$
Assets		
Current assets		
Cash	3,470	2,273
Trade and other receivables	128	22
Prepaid expenses and other	443	882
Inventories (Note 9)	8,965	10,538
Total current assets	13,006	13,715
Producing mining assets (Note 10)	6,413	5,024
Non-producing mining assets and other (Note 11)	3,935	2,979
Reclamation bonds	5,737	5,737
Total assets	29,091	27,455
Equity and liabilities		
Current liabilities		
Trade and other payables	4,091	5,575
Income taxes payable	249	43
Current portion of long-term debt and financing lease (Note 12)	158	78
Total current liabilities	4,498	5,696
Long-term debt and financing lease (Note 12)	6,020	5,759
Provision for environmental rehabilitation	5,452	5,408
Deferred income tax liability	459	444
Total liabilities	16,429	17,307
Equity		
Share capital (Note 13)	51,449	51,449
Equity reserve	6,388	6,388
Investment valuation reserve	(2)	(2)
Foreign currency translation reserve	(194)	(194)
Deficit	(45,234)	(46,425)
Equity attributable to shareholders of the Company	12,407	11,216
Non-controlling interest	255	(1,068)
Total equity	12,662	10,148
Total liabilities and equity	29,091	27,455

Contingencies (Note 18)

APPROVED BY THE BOARD

Director

Director

See accompanying notes to the condensed interim consolidated financial statements

Scorpio Gold Corporation

Condensed interim consolidated statements of changes in equity

Three and six months ended June 30, 2016 and June 30, 2015

(In thousands of US dollars, shares in thousands)

(unaudited)

	Share capital		Equity reserve	Investment valuation reserve	Foreign currency translation reserve	Deficit	Non-controlling interest	Total equity
	Number	Amount						
		\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2015	124,948	51,449	6,388	(2)	(194)	(46,425)	(1,068)	10,148
Net earnings for the period	-	-	-	-	-	1,191	1,087	2,278
Distributions to non-controlling interest	-	-	-	-	-	-	(107)	(107)
Contribution by non-controlling interest	-	-	-	-	-	-	343	343
Balance, June 30, 2016	124,948	51,449	6,388	(2)	(194)	(45,234)	255	12,662

	Share capital		Equity reserve	Investment valuation reserve	Foreign currency translation reserve	Deficit	Non-controlling interest	Total equity
	Number	Amount						
		\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2014	124,948	51,449	6,184	1	(194)	(29,821)	(1,268)	26,351
Net earnings for the period	-	-	-	-	-	1,140	1,362	2,502
Distributions to non-controlling interest	-	-	-	-	-	-	(100)	(100)
Contribution by non-controlling interest	-	-	-	-	-	-	600	600
Change in fair value of available-for-sale investments (net of tax)	-	-	-	98	-	-	-	98
Reclassification of gain on available-for-sale investments to statement of operations	-	-	-	(101)	-	-	-	(101)
Share-based compensation	-	-	199	-	-	-	-	199
Balance, June 30, 2015	124,948	51,449	6,383	(2)	(194)	(28,681)	594	29,549

See accompanying notes to the condensed interim consolidated financial statements

Scorpio Gold Corporation

Condensed interim consolidated statements of cash flows

Three and six months ended June 30, 2016 and June 30, 2015

(In thousands of US dollars)

(unaudited)

	Three months ended June 30 2016 \$	Three months ended June 30 2015 \$	Six months ended June 30, 2016 \$	Six months ended June 30, 2015 \$
Operating activities				
Earnings before taxes for the period	1,369	1,791	2,632	2,626
Adjustment for:				
Income tax paid	(89)	-	(132)	(145)
Environmental rehabilitation expenditures	-	-	-	(4)
Items not involving cash:				
Finance costs	195	25	388	102
Finance income	-	(1)	(1)	(11)
Gain on disposal of investments	-	-	-	(172)
Loss (gain) on disposal of mining assets	-	38	(39)	38
Write-off of mining assets (Note 11)	1,048	-	1,048	-
Share-based compensation (Note 13)	-	-	-	177
Depletion and amortization	208	1,026	359	1,761
Cash flows from operating activities before movements				
in working capital:	2,731	2,879	4,255	4,372
Change in working capital items (Note 14)	2,147	1,729	257	4,580
	4,878	4,608	4,512	8,952
Investing activities				
Additions to non-producing mining assets	(1,123)	(4,982)	(2,255)	(8,528)
Proceeds from disposal of non-producing mining assets	-	35	3	35
Proceeds from disposal of mining assets	-	-	191	-
Proceeds from disposal of investments	-	-	-	5,250
Additions to producing mining assets	(957)	(794)	(1,177)	(1,694)
Additions to reclamation bonds	-	(425)	-	(425)
Finance income received	-	-	-	15
	(2,080)	(6,166)	(3,238)	(5,347)
Financing activities				
Repayment of long-term debt and financing lease	(30)	(18)	(49)	(3,469)
Interest paid	(150)	(2)	(300)	(55)
Distributions to non-controlling interest	(71)	-	(71)	(100)
Contribution by non-controlling interest	-	-	343	600
	(251)	(20)	(77)	(3,024)
Effect of foreign exchange rate changes on cash	-	-	-	177
Increase (decrease) in cash	2,547	(1,578)	1,197	758
Cash, beginning of period	923	3,450	2,273	1,114
Cash, end of period	3,470	1,872	3,470	1,872

Supplemental cash flow information (Note 15)

See accompanying notes to the condensed interim consolidated financial statements

Scorpio Gold Corporation

Notes to the condensed interim consolidated financial statements

Three and six months ended June 30, 2016 and June 30, 2015

(Tabular amounts in thousands of US dollars unless otherwise noted)

1. Continuation of operations

Scorpio Gold Corporation (“Scorpio Gold” or the “Company”) and its subsidiaries conduct mineral exploitation, exploration and development activities in the United States.

The Company is incorporated under the Business Corporations Act (British Columbia) and is listed on the TSX Venture Exchange. The address of the Company’s registered office is 206-595 Howe Street, Vancouver, British Columbia, Canada, V6C 2T5 and its administrative office is located at 1462, de la Quebeoise, Val-d’Or, Quebec, Canada, J9P 5H4.

2. Statement of compliance

These condensed interim consolidated financial statements of the Company, including comparatives, have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) using the accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These condensed interim consolidated financial statements do not include all disclosures required by IFRS for annual audited consolidated financial statements and accordingly should be read in conjunction with the Company’s annual audited consolidated financial statements for the year ended December 31, 2015 prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on August 25, 2016.

3. Significant accounting policies, judgments and estimates

The preparation of financial data is based on accounting principles, judgments and estimates consistent with those used in the preparation of the audited consolidated financial statements as at December 31, 2015 except for the following which have been applied in the current period but were not applicable in the 2015 consolidated financial statements.

Leases

Leases in which the Company assumes substantially all risks and rewards of ownership are classified as financing leases. Assets held under financing leases are recognized at the lower of the fair value and the present value of minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. All other leases are classified as operating leases. Operating lease payments are recognized as an operating cost in statement of operations.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

Contingencies

Contingencies can be either possible assets or possible liabilities arising from past events which, by their nature, will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence and potential impact of contingencies inherently involves the exercise of significant judgment and the use of estimates regarding the outcome of future events.

Scorpio Gold Corporation

Notes to the condensed interim consolidated financial statements

Three and six months ended June 30, 2016 and June 30, 2015

(Tabular amounts in thousands of US dollars unless otherwise noted)

4. Financial instruments

a) Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's current policy to manage liquidity risk is to keep cash in bank accounts.

The following table outlines the expected maturity of the Company's significant financial liabilities into relevant maturity grouping based on the remaining period from the date of the statement of financial position to the contractual maturity date:

	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
	\$	\$	\$	\$	\$
Trade and other payables	4,091	4,091	-	-	-
Long-term debt and financing lease	383	158	116	109	-
Provision for environmental rehabilitation	5,848	-	4005	1,371	472

b) Fair Value

The fair value of cash, reclamation bonds and trade and other payables approximate their carrying amount due to their short-term nature. Fair value of long-term debt is not significantly different from its carrying amount since interest rates in the market have not materially changed since the Company entered into the debt facility in August 2015.

5. Cost of sales

Cost of sales excluding depletion and amortization includes the following:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
	\$	\$	\$	\$
Contractor charges	3,197	2,008	6,894	4,847
Labour	1,804	2,255	3,793	4,629
Fuel and reagents	648	450	1,242	1,252
Mechanical parts	727	669	1,599	1,397
Change in ore stockpile, metals in process and finished goods inventories	2,106	2,433	1,478	4,411
Royalties	60	17	120	17
Other	622	808	1,454	1,642
	9,164	8,640	16,580	18,195

Scorpio Gold Corporation

Notes to the condensed interim consolidated financial statements

Three and six months ended June 30, 2016 and June 30, 2015

(Tabular amounts in thousands of US dollars unless otherwise noted)

6. General and administrative

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
	\$	\$	\$	\$
Salaries and benefits	162	448	315	667
Directors fees	35	30	68	60
Professional fees	22	42	61	118
Insurance, travel and office related	23	22	48	78
Consultants	8	13	15	21
Investor relations	5	15	9	51
Project evaluation	8	4	8	4
Transfer agent and listing fees	3	3	5	6
Amortization	-	1	1	3
Share-based compensation	-	-	-	79
Break fee and related costs ⁽¹⁾	-	-	-	597
	266	578	530	1,684

(1) On March 6, 2015, the Company announced a strategic financing to raise \$15 million from the issuance of equity to an affiliate of Coral Reef Capital LLC. This financing was thereafter terminated and as such the Company was obligated to pay a break fee and related due diligence and legal costs.

7. Finance costs

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
	\$	\$	\$	\$
Interest on long-term debt	150	2	300	56
Amortization of debt issue cost	22	-	43	-
Unwinding of discount of provision for environmental rehabilitation	22	23	44	46
Interest on financing lease	1	-	1	-
	195	25	388	102

Scorpio Gold Corporation

Notes to the condensed interim consolidated financial statements

Three and six months ended June 30, 2016 and June 30, 2015

(Tabular amounts in thousands of US dollars unless otherwise noted)

8. Weighted average number of shares and dilutive share equivalents

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Basic weighted average number of shares	124,948,235	124,948,235	124,948,235	124,948,235
Effect of dilutive securities:				
Stock options	-	-	-	-
Diluted weighted average number of shares	124,948,235	124,948,235	124,948,235	124,948,235

All of the potentially dilutive stock options were excluded from the dilutive number of shares outstanding for the periods ended June 30, 2016 and June 30, 2015 as they are anti-dilutive.

9. Inventories

	June 30, 2016	December 31, 2015
	\$	\$
Supplies	1,065	1,015
Ore stockpile	277	2,239
Metals in process	6,769	6,704
Finished goods	854	580
	8,965	10,538

During the six-month period ended June 30, 2016, inventory included as cost of sales is \$16.8 million (2015, \$19.7 million). During the six-month period ended June 30, 2016, write-down of inventory recognized in cost of sales amounts to \$51,331.

Scorpio Gold Corporation

Notes to the condensed interim consolidated financial statements

Three and six months ended June 30, 2016 and June 30, 2015

(Tabular amounts in thousands of US dollars unless otherwise noted)

10. Producing mining assets

	Mining interest	Plant and equipment	Mobile equipment	Furniture and office equipment	Total
Cost	\$	\$	\$	\$	\$
Balance, December 31, 2014	38,430	23,165	1,163	738	63,496
Transfer from non-producing mining assets	25,789	173	-	-	25,962
Additions	3,978	46	376	41	4,441
Write-off	-	(54)	(19)	-	(73)
Change in provision for environmental rehabilitation	(391)	-	-	-	(391)
Balance, December 31, 2015	67,806	23,330	1,520	779	93,435
Transfer from non-producing mining assets	594 ⁽¹⁾	96	-	-	690
Additions	1,044	-	469	12	1,525
Disposal	-	(431)	(3)	-	(434)
Balance, June 30, 2016	69,444	22,995	1,986	791	95,216

Accumulated depreciation and impairment

	Mining interest	Plant and equipment	Mobile equipment	Furniture and office equipment	Total
Balance, December 31, 2014	38,243	16,764	680	631	56,318
Transfer from non-producing mining assets	16,186	-	-	-	16,186
Depletion and amortization	5,122	187	154	87	5,550
Impairments	8,217	1,994	156	58	10,425
Write-off	-	(53)	(15)	-	(68)
Balance, December 31, 2015	67,768	18,892	975	776	88,411
Transfer from non-producing mining assets	238	81	-	-	319
Depletion and amortization	336	4	14	2	356
Disposal	-	(280)	(3)	-	(283)
Balance, June 30, 2016	68,342	18,697	986	778	88,803

Net book value

December 31, 2015	38	4,438	545	3	5,024
June 30, 2016	1,102	4,298	1,000	13	6,413

⁽¹⁾ The Missouri pit at the Mineral Ridge project entered into the production phase during 2016, and therefore the related asset and impairment balances were transferred from non-producing mining assets to producing mining assets.

Scorpio Gold Corporation

Notes to the condensed interim consolidated financial statements

Three and six months ended June 30, 2016 and June 30, 2015

(Tabular amounts in thousands of US dollars unless otherwise noted)

10. Producing mining assets (Continued)

Producing mining assets is detailed by property as follows:

	Mineral Ridge	Goldwedge	Total
Cost	\$	\$	\$
Balance, December 31, 2014	60,890	2,606	63,496
Transfer from non-producing mining assets	25,940	22	25,962
Additions	4,441	-	4,441
Write-off	(73)	-	(73)
Change in provision for environmental rehabilitation	(391)	-	(391)
Balance, December 31, 2015	90,807	2,628	93,435
Transfer from non-producing mining assets	678	12	690
Additions	1,525	-	1,525
Disposal	(429)	(5)	(434)
Balance, June 30, 2016	92,581	2,635	95,216
Accumulated depreciation and impairment			
	Mineral Ridge	Goldwedge	Total
Balance, December 31, 2014	56,212	106	56,318
Transfer from non-producing mining assets	16,186	-	16,186
Depletion and amortization	5,506	44	5,550
Impairments	8,609	1,816	10,425
Write-off	(68)	-	(68)
Balance, December 31, 2015	86,445	1,966	88,411
Transfer from non-producing mining assets	319	-	319
Depletion and amortization	350	6	356
Disposal	(279)	(4)	(283)
Balance, June 30, 2016	86,835	1,968	88,803
Net book value			
December 31, 2015	4,362	662	5,024
June 30, 2016	5,746	667	6,413

Scorpio Gold Corporation

Notes to the condensed interim consolidated financial statements

Three and six months ended June 30, 2016 and June 30, 2015

(Tabular amounts in thousands of US dollars unless otherwise noted)

11. Non-producing mining assets and other

	Mining interest	Plant and equipment	Mobile equipment	Furniture and office equipment	Construction in progress	Total
Cost	\$	\$	\$	\$	\$	\$
Balance, December 31, 2014	28,865	1,185	589	43	547	31,229
Transfer to producing mining assets	(25,789)	-	-	-	(173)	(25,962)
Disposal	-	(500)	-	-	-	(500)
Transfer	73	-	-	-	(73)	-
Additions	12,043	-	15	-	443	12,501
Change in provision for environmental rehabilitation	(15)	-	-	-	-	(15)
Balance, December 31, 2015	15,177	685	604	43	744	17,253
Transfer to producing mining assets	(594)	-	-	-	(96)	(690)
Additions	2,355	-	-	-	28	2,383
Write-off of exploration costs	(1,343)	-	-	-	-	(1,343)
Disposal	-	-	-	(6)	-	(6)
Balance, June 30, 2016	15,595	685	604	37	676	17,597

Accumulated depreciation and impairment

	Mining interest	Plant and equipment	Mobile equipment	Furniture and office equipment	Construction in progress	Total
Balance, December 31, 2014	18,895	462	12	29	-	19,398
Transfer to producing mining assets	(16,186)	-	-	-	-	(16,186)
Disposal	-	(427)	-	-	-	(427)
Impairments	9,840	464	438	-	721	11,463
Amortization	-	16	5	5	-	26
Balance, December 31, 2015	12,549	515	455	34	721	14,274
Transfer to producing mining assets	(238)	-	-	-	(81)	(319)
Write-off	(295)	-	-	-	-	(295)
Amortization	-	2	1	1	-	4
Disposal	-	-	-	(2)	-	(2)
Balance, June 30, 2016	12,016	517	456	33	640	13,662

Net book value

December 31, 2015	2,628	170	149	9	23	2,979
June 30, 2016	3,579	168	148	4	36	3,935

Scorpio Gold Corporation

Notes to the condensed interim consolidated financial statements

Three and six months ended June 30, 2016 and June 30, 2015

(Tabular amounts in thousands of US dollars unless otherwise noted)

11. Non-producing mining assets and other (Continued)

Non-producing mining interest is detailed by property as follows:

	Mineral Ridge	Goldwedge	Other	Total
Cost	\$	\$		\$
Balance, December 31, 2014	20,351	10,338	540	31,229
Transfer to producing mining assets	(25,940)	(22)	-	(25,962)
Disposal	-	-	(500)	(500)
Additions	11,695	806	-	12,501
Change in provision for environmental rehabilitation	-	(15)	-	(15)
Balance, December 31, 2015	6,106	11,107	40	17,253
Transfer to producing mining assets	(678)	(12)	-	(690)
Additions	2,219	164	-	2,383
Write-off of exploration costs	(1,247)	(96)	-	(1,343)
Disposal	-	-	(6)	(6)
Balance, June 30, 2016	6,400	11,163	34	17,597

Accumulated depreciation and impairment

	Mineral Ridge	Goldwedge	Other	Total
Balance, December 31, 2014	18,895	48	455	19,398
Transfer to producing mining assets	(16,186)	-	-	(16,186)
Disposal	-	-	(427)	(427)
Impairments	3,377	8,086	-	11,463
Amortization	-	22	4	26
Balance, December 31, 2015	6,086	8,156	32	14,274
Transfer to producing mining assets	(319)	-	-	(319)
Write-off	(295)	-	-	(295)
Amortization	-	3	1	4
Disposal	-	-	(2)	(2)
Balance, June 30, 2016	5,472	8,159	31	13,662

Net book value

December 31, 2015	20	2,951	8	2,979
June 30, 2016	928	3,004	3	3,935

Scorpio Gold Corporation

Notes to the condensed interim consolidated financial statements
 Three and six months ended June 30, 2016 and June 30, 2015
 (Tabular amounts in thousands of US dollars unless otherwise noted)

12. Long-term debt and financing lease

	June 30, 2016	December 31, 2015
	\$	\$
Senior secured credit facility, bearing interest at a rate of 10% per annum payable quarterly, secured by a first priority security interest over all of the Company's assets, repayable in August 2018, net of debt issue cost of \$205,000 ^(a)	5,795	5,752
Loan secured by mobile equipment having a net book value of \$100,000, payable by monthly instalments of \$6,731 including interest at 4.8% per annum, until January 2017	46	85
Financing lease on mobile equipment having a net book value of \$343,956, payable by monthly installments of \$10,115 including interest at a rate of 3.2% per annum, until May 2019.	337	-
Current portion	(158)	(78)
Long-term portion	6,020	5,759

Future long-term debt principal repayments are as follows:

2017	\$46
2018	\$6,000

- a) On August 14, 2015, the Company executed definitive agreements with Waterton Precious Metals Fund II Cayman, LP ("Waterton Fund"), an affiliate of Elevon, LLC, ("Elevon") for a loan in the principal amount of \$6 million (the "Loan"). The Company paid Waterton Fund a \$0.12 million structuring fee and incurred \$0.16 million of other related issue costs. The Loan matures and is payable 36 months after the date of advancement, but may be voluntarily prepaid by the Company at any time, provided that upon such prepayment the Company shall pay the lesser of 24 months of interest on the principal amount, or such interest as would be payable between the date of such prepayment and the maturity date of the Loan. Also, the Loan is subject to mandatory prepayment in certain circumstances, including upon a change of control of the Company. There are certain restrictions placed on the Company pursuant to the Loan, including, among others, a limitation on additional debt that can be incurred by the Company and the requirement that the Company's trade payables not exceed \$8.0 million. The Company has complied with all restrictions pursuant to the Loan at June 30, 2016.

Future minimum capital payments on financing lease

	June 30, 2016	December 31, 2015
	\$	\$
2017	121	-
2018	121	-
2019	112	-
Total minimum lease payments	354	-
Less: amount representing interest	(17)	-
	337	-

Scorpio Gold Corporation

Notes to the condensed interim consolidated financial statements

Three and six months ended June 30, 2016 and June 30, 2015

(Tabular amounts in thousands of US dollars unless otherwise noted)

13. Share capital

(a) Authorized

Authorized share capital consists of an unlimited number of common shares without par value.

(b) Stock option plan

A summary of changes in the Company's outstanding stock options for the six months ended June 30, 2016 and the year ended December 31, 2015, are as follows:

	Six months ended June 30, 2016		Year ended December 31, 2015	
	Number	Weighted average exercise price	Number	Weighted average exercise price
	(in thousands)	CAD\$	(in thousands)	CAD\$
Outstanding, beginning of period	10,545	0.49	9,170	0.65
Granted	-	-	3,225	0.14
Expired	(3,710)	0.70	(1,850)	(0.67)
Outstanding, end of period	6,835	0.38	10,545	0.49

	Six months ended June 30, 2016	Six months ended June 30, 2015
	\$	\$
Weighted average fair value as at grant date	-	0.07

The following table summarizes information about stock options outstanding and exercisable as at June 30, 2016:

Exercise price	Weighted average remaining contractual life	Outstanding and exercisable
CAD\$	(in years)	(in thousands)
0.10	4.17	100
0.145	3.54	2,765
0.205	2.02	100
0.275	6.94	2,140
0.91	0.57	1,730
		6,835

Scorpio Gold Corporation

Notes to the condensed interim consolidated financial statements

Three and six months ended June 30, 2016 and June 30, 2015

(Tabular amounts in thousands of US dollars unless otherwise noted)

13. Share capital (Continued)

(c) Share-based compensation

The Company used the Black-Scholes model to estimate fair value using the following weighted average assumptions. Expected stock price volatility is based on the historical share price volatility.

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Expected dividend yield	-	-	-	Nil %
Expected stock price volatility	-	-	-	76%
Risk free interest rate	-	-	-	1.21%
Expected life	-	-	-	4 years
Expected forfeiture rate	-	-	-	0.00%
Share-based compensation:	\$	\$	\$	\$
Included in general and administrative expenses	-	-	-	79
Included in cost of sales	-	-	-	98
Capitalized to non-producing mining assets	-	-	-	22
Total share-based compensation	-	-	-	199

14. Change in working capital items

Information regarding change in working capital items is as follows:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
	\$	\$	\$	\$
(Increase) decrease in trade and other receivables	(116)	3	(107)	72
Decrease in prepaid expenses and other	256	171	438	57
Decrease in inventories	2,248	2,401	1,573	4,435
(Decrease) increase in trade and other payables	(241)	(846)	(1,647)	16
	2,147	1,729	257	4,580

Scorpio Gold Corporation

Notes to the condensed interim consolidated financial statements

Three and six months ended June 30, 2016 and June 30, 2015

(Tabular amounts in thousands of US dollars unless otherwise noted)

15. Supplemental cash flow information

Supplementary information regarding other non-cash investing and financing transactions

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
	\$	\$	\$	\$
Acquisition of mobile equipment financed by financing lease	347	-	347	-
Acquisition of mobile equipment financed by long-term debt	-	-	-	154
Share-based compensation capitalized to non-producing mining assets	-	-	-	22
Depreciation of fixed assets capitalized to non-producing mining assets	-	7	-	13

Scorpio Gold Corporation

Notes to the condensed interim consolidated financial statements

Three and six months ended June 30, 2016 and June 30, 2015

(Tabular amounts in thousands of US dollars unless otherwise noted)

16. Segmented information

(a) Industry information

The Company is engaged in mining exploitation, exploration and development and has one operating mine and a toll milling facility. The Company has two reportable segments being Mineral Ridge and Goldwedge. The Other category is composed of head office, Scorpio Gold (US) Corporation and Pinon LLC. Segments are operations reviewed by the CEO who is considered to be the chief operating decision maker.

Operating segment details are as follows:

	Three months ended June 30, 2016			
	Mineral Ridge	Goldwedge	Other	Total
	\$	\$	\$	\$
Revenue from precious metal sales	12,434	-	-	12,434
Inter-segment (expense) - management fees	(282)	-	282	-
Cost of sales excluding depletion and amortization	(9,164)	-	-	(9,164)
Depletion and amortization	(203)	-	-	(203)
Mine operating earnings (loss)	2,785	-	282	3,067
Expenses				
General and administrative	-	(8)	(258)	(266)
Care and maintenance	-	(189)	-	(189)
Care and maintenance amortization	-	(4)	-	(4)
Write-off of mining assets	(952)	(96)	-	(1,048)
Operating earnings (loss)	1,833	(297)	24	1,560
Other (expenses) income				
Finance costs	(22)	-	(173)	(195)
Foreign exchange gain	-	-	4	4
	(22)	-	(169)	(191)
Earnings (loss) before income taxes	1,811	(297)	(145)	1,369
Income tax expense	(170)	-	-	(170)
Net earnings (loss) for the period	1,641	(297)	(145)	1,199

Scorpio Gold Corporation

Notes to the condensed interim consolidated financial statements

Three and six months ended June 30, 2016 and June 30, 2015

*(Tabular amounts in thousands of US dollars unless otherwise noted)***16. Segmented information (Continued)**

	Three months ended June 30, 2015			
	Mineral Ridge	Goldwedge	Other	Total
	\$	\$	\$	\$
Revenue from precious metal sales	12,083	-	-	12,083
Inter-segment (expense) - management fees	(372)	-	372	-
Cost of sales excluding depletion and amortization	(8,554)	(86)	-	(8,640)
Depletion and amortization	(1,013)	(12)	-	(1,025)
Mine operating earnings (loss)	2,144	(98)	372	2,418
Expenses				
General and administrative	-	-	(577)	(577)
Amortization	-	-	(1)	(1)
Operating earnings (loss)	2,144	(98)	(206)	1,840
Other (expenses) income				
Finance costs	(23)	(2)	-	(25)
Foreign exchange loss	-	-	13	13
Finance income	-	-	1	1
Loss on disposal of non-producing mining assets	-	-	(38)	(38)
	(23)	(2)	(24)	(49)
Earnings (loss) before income taxes	2,121	(100)	(230)	1,791
Income tax expense	(44)	-	-	(44)
Net earnings (loss) for the period	2,077	(100)	(230)	1,747

Scorpio Gold Corporation

Notes to the condensed interim consolidated financial statements

Three and six months ended June 30, 2016 and June 30, 2015

*(Tabular amounts in thousands of US dollars unless otherwise noted)***16. Segmented information (Continued)**

	Six months ended June 30, 2016			
	Mineral Ridge	Goldwedge	Other	Total
	\$	\$	\$	\$
Revenue from precious metal sales	21,862	-	-	21,862
Inter-segment (expense) - management fees	(574)	-	574	-
Cost of sales excluding depletion and amortization	(16,580)	-	-	(16,580)
Depletion and amortization	(350)	-	-	(350)
Mine operating earnings (loss)	4,358	-	574	4,932
Expenses				
General and administrative	-	(8)	(521)	(529)
Care and maintenance	-	(369)	-	(369)
Care and maintenance amortization	-	(8)	-	(8)
Gain (loss) on disposal of mining assets	40	(1)	-	39
Write-off of mining assets	(952)	(96)	-	(1,048)
Amortization	-	-	(1)	(1)
Operating earnings (loss)	3,446	(482)	52	3,016
Other (expenses) income				
Finance costs	(43)	(1)	(344)	(388)
Foreign exchange gain	-	-	3	3
Finance income	-	-	1	1
	(43)	(1)	(340)	(384)
Earnings (loss) before income taxes	3,403	(483)	(288)	2,632
Income tax expense	(354)	-	-	(354)
Net earnings (loss) for the period	3,049	(483)	(288)	2,278

Scorpio Gold Corporation

Notes to the condensed interim consolidated financial statements

Three and six months ended June 30, 2016 and June 30, 2015

(Tabular amounts in thousands of US dollars unless otherwise noted)

16. Segmented information (Continued)

	Six months ended June 30, 2015			
	Mineral Ridge	Goldwedge	Other	Total
	\$	\$	\$	\$
Revenue from precious metal sales	24,426	-	-	24,426
Inter-segment (expense) - management fees	(752)	-	752	-
Inter-segment (cost of sales) - revenue	(123)	123	-	-
Cost of sales excluding depletion and amortization	(17,867)	(328)	-	(18,195)
Depletion and amortization	(1,729)	(29)	-	(1,758)
Mine operating earnings (loss)	3,955	(234)	752	4,473
Expenses				
General and administrative	-	-	(1,681)	(1,681)
Amortization	-	-	(3)	(3)
Operating earnings (loss)	3,955	(234)	(932)	2,789
Other (expenses) income				
Finance costs	(45)	(4)	(53)	(102)
Foreign exchange loss	-	-	(206)	(206)
Finance income	-	-	11	11
Loss on disposal of non-producing mining assets	-	-	(38)	(38)
Gain on disposal of investments	-	-	172	172
	(45)	(4)	(114)	(163)
Earnings (loss) before income taxes	3,910	(238)	(1,046)	2,626
Income tax expense	(124)	-	-	(124)
Net earnings (loss) for the period	3,786	(238)	(1,046)	2,502

As at June 30, 2016

	Mineral Ridge	Goldwedge	Other	Total
	\$	\$	\$	\$
Total assets	24,643	3,926	522	29,091
Total liabilities	9,882	365	6,182	16,429

As at December 31, 2015

	Mineral Ridge	Goldwedge	Other	Total
	\$	\$	\$	\$
Total assets	21,667	3,911	1,877	27,455
Total liabilities	10,826	370	6,111	17,307

Scorpio Gold Corporation

Notes to the condensed interim consolidated financial statements

Three and six months ended June 30, 2016 and June 30, 2015

(Tabular amounts in thousands of US dollars unless otherwise noted)

16. Segmented information (Continued)

(b) Geographic information

All revenue from the sale of precious metals for the periods ended June 30, 2016 and June 30, 2015 was earned in the United States. Substantially all of the Company's revenues are with one customer.

The Company's non-current assets by geographic locations are as follows:

	June 30, 2016	December 31, 2015
	\$	\$
Canada	4	9
USA	16,081	13,731
	16,085	13,740

17. Related party transactions

a) Compensation of key management personnel and directors

The Company considers its key management personnel to be the CEO and the individuals having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly.

The remuneration of directors and key management personnel during the three and six months periods ended June 30, 2016 and June 30, 2015 is as follows:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
	\$	\$	\$	\$
Salaries and directors fees	202	220	406	485
Severance	-	250	-	250
Consulting fee paid to a director	-	12	-	44
Share-based compensation ⁽¹⁾	-	-	-	80
	202	482	406	859

⁽¹⁾ Share-based compensation is the fair value of options expensed during the period to key management personnel and directors.

As at June 30, 2016, an aggregate of \$107,261 resulting from transactions with key management is included in trade and other payables.

Other than the severance payment indicated above, key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the three and six months ended June 30, 2016 and June 30, 2015.

Scorpio Gold Corporation

Notes to the condensed interim consolidated financial statements

Three and six months ended June 30, 2016 and June 30, 2015

(Tabular amounts in thousands of US dollars unless otherwise noted)

17. Related party transactions (Continued)

b) Waterton Precious Metals Fund II Cayman, LP (“Waterton Fund”)

Waterton Fund, the Company’s lender, controls Elevon, LLC (“Elevon”) which owns a 30% non-controlling interest in Mineral Ridge Gold, LLC. Management considers that Waterton Fund and Elevon are related parties of the Company.

Related party transactions entered into with Waterton Fund during the three and six months periods ended June 30, 2016 and June 30, 2015 are as follows:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Interest on long-term debt	\$ 149	\$ -	\$ 298	\$ -

c) Elevon

In connection with the Loan with Waterton Fund completed in 2015 (Note 12a)), on August 14, 2015, the Company modified the Mineral Ridge operating agreement so that the Company would owe and accrue to Elevon an amount equal to 10% of aggregate amounts actually distributed to the Company and Elevon by Mineral Ridge Gold, LLC (the “Accrued Distribution Amount”). The Accrued Distribution Amount shall become due and payable by the Company upon a change of control of the Company, or if the settlement price of gold on the LBMA PM fix is equal to or exceeds US\$1,350 per ounce. The Company and Elevon also agreed that following payment of the Accrued Distribution Amount, Elevon will remain entitled to receive 30% of all further distributions by Mineral Ridge Gold, LLC.

As at June 30, 2016, an amount of \$35,714 is owed and accrued to Elevon as the Accrued Distribution Amount. The Accrued Distribution Amount was paid in early July 2016 after the settlement price of gold on the LBMA PM exceeded US\$1,350 per ounce. As a consequence, Elevon, LLC is entitled to receive 30% of cash distributions from Mineral Ridge Gold, LLC.

Scorpio Gold Corporation

Notes to the condensed interim consolidated financial statements

Three and six months ended June 30, 2016 and June 30, 2015

(Tabular amounts in thousands of US dollars unless otherwise noted)

18. Contingencies

On August 3, 2016, the Second Judicial District Court of Washoe County, Nevada issued an oral ruling for summary judgment awarding a drilling company, National EWP, Inc. ("National"), \$2.3 million in its lawsuit against Mineral Ridge Gold, LLC. The dispute centers on a 2012 contract in which National agreed to drill a water production well for the Mineral Ridge mine at an original contract price of \$1.145 million. National was ultimately paid more than \$1.2 million based on the contract and three approved change orders. At the conclusion of drilling, National sent a letter requesting additional compensation for the well and proposing that Mineral Ridge pay \$2.3 million for the well. The District Court concluded that the letter constituted a change order request which, based on the Court's interpretation of Nevada's Prompt Payment Act, automatically became part of the contract because, the Court concluded, Mineral Ridge's responses to the request were insufficient to reject the request. The Court did not directly address the fact that Mineral Ridge had already paid National \$1.2 million under the contract.

National has been tasked with preparing a written judgment consistent with the District Court's oral ruling, which has not yet been done, and thus no formal judgment has been entered by the Court. The Company and its legal advisors strongly disagree with both the Court's legal conclusions and its factual findings, and it is currently evaluating its options to contest the ruling and stay execution of the judgment, once entered. The Company remains confident that it has satisfied its obligations under the contract with National and as such believes it will ultimately not have to pay any additional amount.

Should developments cause a change in the Company's determination as to an unfavorable outcome, or result in a final adverse judgment or a settlement for a significant amount, there could be a material adverse effect on the Company's results of operations, cash flows and financial position in the period in which such change in determination, judgment or settlement occurs. The amount or timing of any outflow is uncertain.

Furthermore, due to the complexity and nature of the Company's operations, various legal and tax matters arise in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. In the opinion of management, these matters will not have a material effect on the condensed interim consolidated financial statements of the Company.