SCORPIO MINING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014
DATED MARCH 30, 2015

Scorpio Mining Corporation
Management's Discussion and Analysis
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Unless otherwise indicated, in this Management Discussion and Analysis all reference to "dollar" or the use of the symbol "$" are to the United States of America dollar and all references to "C$" are to the Canadian dollar. Additionally, percentage changes in this Management Discussion and Analysis are based on dollar amounts before rounding.

Forward-Looking Statements

Statements contained or incorporated by reference in this Management's Discussion and Analysis ("MD&A") that are not current or historical factual statements may constitute forward-looking information within the meaning of applicable Canadian securities laws. All statements other than statements of historical fact included in this MD&A that address activities, events or developments that the Company expects or anticipates will or may occur in the future, including without limitation, statements regarding any objectives, expectations, intentions, plans, results, levels of activity, goals or achievements, estimates of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, production guidance, costs of production, capital expenditures, costs and timing of development, success of exploration activities, permitting timelines, government regulation of mining operations, environmental risks, and timing and possible outcomes of pending litigation, negotiations or regulatory investigations, including, the final determination of the boundaries of the concessions encompassing the El Cajón deposit are or involve forward-looking statements. Although forward-looking statements contained in this MD&A are based on what management considers to be reasonable assumptions based on information currently available to it, there can be no assurances that actual events, performance or results will be consistent with these forward looking statements, and management's assumptions may prove to be incorrect. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "anticipates", "assumes", "believes", "budget", "could", "estimates", "expects", "forecasts", "guidance", "indicates", "intends", "likely", "may", "objective", "outlook", "plans", "potential", "predicts", "scheduled", "should", "target", "trends", "will", or "would" or the negative or other variations of these words or other comparable words or phrases. This MD&A, including those set out under "Risk Factors" in this MD&A and any documents incorporated herein by reference, contain forward-looking statements including, but not limited to those relating to the Company. All such forward-looking statements are subject to important risks, uncertainties and assumptions. These statements are forward-looking because they are based on current expectations, estimates and assumptions. It is important to know that: (i) unless otherwise indicated, forward-looking statements in this MD&A including any documents incorporated herein by reference describe expectations as at the date hereof; (ii) actual results and events could differ materially from those expressed or implied in the forward-looking statements in this MD&A, including the documents incorporated herein by reference, if known or unknown risks affect the respective businesses of the Company, or if their estimates or assumptions turn out to be inaccurate. As a result, the Company cannot guarantee that the results or events expressed or implied in any forward-looking statement will materialize, and accordingly, you are cautioned not to place undue reliance on these forward-looking statements; and (iii) the Company disclaims any intention and assumes no obligation to update or revise any forward-looking statement even if new information becomes available, as a result of future events or for any other reason, except in accordance with applicable Canadian securities laws. The Company has made a number of assumptions in making forward-looking statements in this MD&A including any documents incorporated herein by reference.

Cautionary Note to Investors in the United States Regarding Resources and Reserves

Information concerning the mineral properties of the Company has been prepared in accordance with the requirements of Canadian securities laws, which differ in material respects from the requirements of U.S. securities laws applicable to U.S. companies subject to the reporting and disclosure requirements of the U.S. Securities Exchange Commission (the "SEC"). Under SEC standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time of the reserve determination, and the SEC does not recognize the reporting of mineral deposits which do not meet the SEC Industry Guide definition of "Reserve". In accordance with Canadian National Instrument 43-101 - Standards of Disclosure for Mineral Projects ("NI 43-101"), the terms "mineral reserve", "proven mineral reserve", "probable mineral reserve", "mineral resource", "measured mineral resource", "indicated mineral resource" and "inferred mineral resource" used in this AIF are defined in the Canadian Institute of Mining, Metallurgy and

Petroleum (the "CIM") Definition Standards for Mineral Resources and Mineral Reserves adopted by the CIM Council on December 11, 2005. While the terms "mineral resource", "measured mineral resource", "indicated mineral resource" and "inferred mineral resource" are recognized and required by the NI 43-101, the SEC does not recognize them. Shareholders who are U.S. persons are cautioned that, except for that portion of the mineral resources classified as mineral reserves, mineral resources do not have demonstrated economic value. Inferred mineral resources have a high degree of uncertainty as to their existence as to whether they can be economically or legally mined. Under Canadian securities laws, estimates of inferred mineral resources may not form the basis of an economic analysis. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Therefore, shareholders who are U.S. persons are cautioned not to assume that all or any part of an inferred mineral resource exists, that it can be economically or legally mined, or that it will ever be upgraded to a higher category. Likewise, shareholders who are U.S. persons are cautioned not to assume that all or any part of measured or indicated mineral resources will ever be upgraded to mineral reserves.

Management's Discussion and Analysis

This MD&A of the results of operations, liquidity and capital resources of Scorpio Mining Corporation ("Scorpio Mining" or the "Company") constitutes management's review of the Company's financial and operating performance for the year ended December 31, 2014, the Company's financial condition and future prospects. Except as otherwise noted, this discussion is dated March 27, 2015 and should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the years ended December 31, 2014 and 2013. The audited consolidated financial statements for the years ended December 31, 2014 and 2013 are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Company prepared its latest financial statements in U.S. dollars and all amounts in this MD&A are expressed in U.S. dollars, unless otherwise stated. These documents along with additional information relating to the Company including the Company's most recent annual information form are available on SEDAR at www.sedar.com and on the Company's website at www.scorpiomining.com.

In this report, the management of the Company presents operating highlights for the year ended December 31, 2014 compared to the year ended December 31, 2013 as well as comments on plans for the future.

Securities regulators encourage companies to disclose forward-looking information to help investors understand a company's future prospects. This discussion contains statements about the Company's future financial condition, results of operations and business. See the cover page of this report for more information on forward-looking statements.

The Company was incorporated under the Canada Business Corporations Act on May 12, 1998 and conducts mining exploration, development and production in the Americas. The merger of the Company and U.S. Silver & Gold Inc. ("U.S. Silver") was completed on December 23, 2014 pursuant to a plan of arrangement under the Business Corporations Act (Ontario). The merger was accounted for as a business combination in accordance with IFRS 3, Business Combinations. Scorpio Mining was considered the acquirer of U.S. Silver for accounting purposes. As a result, the consolidated financial statements include U.S. Silver's results subsequent to December 23, 2014 only. All comparative information in this MD&A and the consolidated financial statements omit any U.S. Silver results pre-December 23, 2014 or prior period comparatives, unless otherwise stated.

Overview

The Company is formed under the Canada Business Corporations Act with its head office at 145 King Street West, Suite 2870, Toronto, Ontario, Canada, M5H 1J8. The Company is a reporting issuer in the jurisdictions of Ontario, British Columbia, Alberta, and Quebec, and is listed on the TSX trading under the symbol "SPM".

The Company has operations in two of the world's leading silver camps: the Cosalá Operations in Sinaloa, Mexico and the Galena Complex, located in Idaho, USA.

In Sinaloa, Mexico, the Company operates the 100%-owned producing Nuestra Señora silver-zinc-copper-lead mine located in the Cosalá District. The Company declared commercial production in January 2009 following development of the Nuestra Señora Mine and commissioning of the Los Braceros processing facility. The Cosalá area land holdings also host several other known deposits and prospects including the San Rafael zinc-lead-silver project and the past producing La Verde silver-copper mine.

The Company is a significant concession holder in the Cosalá District, with holdings of approximately 24,657 hectares ("ha"), containing numerous mineral concessions including previously producing mines. On April 1, 2010, the Company completed the acquisition of all of the outstanding shares of Platte River Gold Inc. ("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 and the La Verde Mine. These properties are located close to the Los Braceros processing plant.

In Idaho, USA, the Company operates the 100%-owned producing Galena Complex which was added following the business combination with U.S. Silver. The Galena Complex's primary assets are the operating Galena Mine, the Coeur Mine, and the contiguous Caladay development project in the Coeur d'Alene Mining District of northern Idaho. The Galena Complex has recorded production of over 220 million ounces of silver along with associated by-product metals of copper and lead over a modern production history of more than sixty years. The Coeur Mine and Caladay development project have been put on care and maintenance pending an improvement in the silver price.

The Company's mission is to profitably expand its silver production through the development of its own projects and consolidation of complimentary projects. The Company's current strategy is focused on developing the San Rafael Project while continuing to operate the Galena Complex and the Cosalá Operations. Exploration will continue on prospective targets with an emphasis directed at the Cosalá District.

The Company's management and Board of Directors (the "Board") are comprised of senior mining executives who have extensive experience identifying, acquiring, developing, financing, and operating precious metals deposits globally.

Recent Developments

On December 23, 2014, the Company announced the closing of the combination of Scorpio Mining and U.S. Silver by way of a plan of arrangement. The resulting consolidated company is a growth-oriented precious metals producer with Scorpio Mining's producing Cosalá Operations in State of Sinaloa, Mexico and U.S. Silver's producing Galena Complex in Idaho, United States. The merger created a leading junior silver producer in the Americas while removing redundant costs in a lower silver price environment.

The merger was completed by the Company acquiring all of the outstanding common shares of U.S. Silver and exchanging each outstanding U.S. Silver common share for 1.68 common shares of the Company. Outstanding U.S. Silver options were exchanged for options of the Company and outstanding U.S. Silver warrants became exercisable for warrants of the Company under the same exchange ratio.

As of December 23, 2014, the former shareholders of Scorpio Mining held approximately 60% of the outstanding common shares of the Company and the former shareholders of U.S. Silver held approximately 40% of the outstanding common shares of the Company. Additional information can be obtained from the Management Information Circular available on the Company's website and on SEDAR at www.sedar.com.

Cosalá Operations

Subsequent to the merger, the new Board and management team took decisive action from its assessment of current operations and brownfield expansion opportunities at the Cosalá District:

- El Cajón deposit was put on care and maintenance pending an improvement in silver prices;
- Implemented a workforce reduction of almost 25% at the Cosalá Operations;
- San Rafael development project to be brought forward in the development pipeline;
- Completed the evaluation of highest potential exploration targets; and
- Focused on improving margins and transitioning the Cosalá Operations into a near-term cash flow generator.

Over the course of 2015, the Cosalá Operations will transition into a near-term cash flow generator through further productivity improvements, implementation of systematic cost controls, and reduction in workforce. The transition has already commenced and is expected to last through the first half of the year. As a result, the first quarter of 2015 is expected to be the lowest silver production and highest cost per ounce quarter of the year while the third and fourth quarters will be the highest silver production and lowest cost per ounce quarters of the year. The long-term benefit of the transition should allow for multi-year low cost production going forward.

Management is focused on bringing forward the San Rafael deposit in the development pipeline. Approximately 1,000 meters of geotechnical drilling was completed to assess and better define the characteristics of the host rocks and mineralization. The deposit hosts a large resource and current efforts are focused on updating geological models, confirming metallurgy and establishing preliminary mine design. The Company expects that this work will be completed in the second half of 2015.

The Company identified discrepancies between registered data and mapped information relative to the boundaries of the concessions encompassing the Company's El Cajón resource online. A significant change to the boundaries of concessions from what the Company had historically believed them to be may result pending final resolution from Dirección General de Regulación Minera ("DGRM"), the Mexican government bureau responsible for administering mining concessions. The Company's review of available information indicates a potential reduction of total resources at El Cajón of 40% to 50%.

The El Cajón mine was placed on care and maintenance in January 2015 in light of the boundary issue and prevailing metal prices. The halt in development resulted in a gradual staffing reduction of approximately 90 jobs representing almost 25% of the workforce at the Cosalá Operations over the first quarter of 2015. Prior to suspension, metallurgical performance was confirmed through a milling campaign which processed approximately 7,700 tonnes of development muck. With considerable underground infrastructure already in place, the project can be reactivated on short notice pending an improvement in economic conditions.

There was evidence of the potential impairment of the carrying value of the Cosalá Operations due to the cessation of El Cajón Project and due to the continuing decline in metal prices as at December 31, 2014. As a result of these events, the Company assessed the recoverability of the carrying amount of its producing and non-producing properties in the Cosalá Operations. The recoverable amount of the Company's Cosalá Operations mining properties was determined based on the after-tax discounted cash flows expected to be derived from this property's fair-market value less estimated costs to sell. The after-tax discounted cash flows were determined based on life-of-mine cash flow projections which incorporate management's best estimates of foreign exchange rates, commodity prices, future capital requirements and production costs along with geological assumptions and judgments made in estimating the size, grade and recovery of the ore bodies. As a result of impairment tests performed as at December 31, 2014, the Company recorded an impairment loss of $53.3 million which is allocated against the Nuestra Señora Mine and the Company's non-producing properties.

One-time acquisition costs of approximately $2.0 million have been charged to corporate general and administrative expenses in the consolidated statement of loss during the year from the merger between Scorpio Mining and U.S. Silver.

Galena Complex

U.S. Silver's management has significantly transformed operations at the Galena Complex in response to the ongoing decline in precious metals price since early 2013. The focus of the transformation was to maintain cash flow positive operations in the current and rapidly-changing silver price environment. The foundation for this was to be accomplished by mining higher equivalent grade ore at lower tonnage with the appropriately-sized workforce. The reduction in workforce was completed in Q3-2013 through the Small Mine Plan ("SMP") implementation that reduced staffing levels at Galena from approximately 390 to 240 employees. Since that time, mine management has been focused on the identification, development and production of sustainable, multi-year, lower cost production by mining the highest value per tonne of ore regardless of silver content for the lowest possible operating cost.

During the second half of calendar year, U.S. Silver completed the transition of its production from one based predominantly on silver-copper ore to silver-lead ore. The Galena Mine's silver-lead ore resources offer overall higher silver equivalent grades and lower mining costs as these mining areas are typically wider and may allow for a greater contribution from mechanized mining in the future. This focus led to lower near-term production in 2014 in order to develop the infrastructure for accessing silver-lead resources in 2015 and beyond.

Additionally in Q3-2014, U.S. Silver moved the processing of silver-lead ore to the 900 tonne per day Galena mill in order to handle the greater tonnage, with silver-copper ore now being processed at the 450 tonne per day Coeur mill. During calendar 2014, lead production increased by 39% while silver and copper production decreased by 24% and 41%, respectively, when compared to 2013.

Despite processing both lower tonnage and lower silver grades, cash costs in 2014 declined compared to 2013 as U.S. Silver continued cost cutting and identifying areas for improvement. In calendar 2014, the Galena Complex produced 1,621,765 ounces of silver with a by-product cash cost of $15.79/oz silver. Compared to 2013, these results are a decrease of 11% in cash costs, though with 24% fewer ounces of silver.

Cost initiatives implemented last year continue to show improvement with the reduction in workforce and related expenses being the main contributor to the reductions. In Q1-2013, the Galena Complex employed approximately 390 hourly and salaried staff, whereas in Q4-2014, the mine employed approximately 240 hourly and salaried staff, representing a reduction of 38%. As noted above, this decrease in staffing only impacted silver production by 24% when compared to 2013.

Guidance

The Company's guidance for 2015 is production of 2.6 – 3.0 million silver ounces and 4.6 – 5.2 million silver equivalent ounces at cash costs of $11.50 – $12.50 per ounce and all-in sustaining costs of $16.50 – $17.50 per ounce.

Discussion of Consolidated Operations

	Fiscal Year Ended December 31	
	2014 [1]	**2013**
Revenues ($ M)	$ 31.5	$ 30.2
Silver Ounces Produced (oz)	1,206,603	969,025
Zinc Pounds Produced (lbs)	12,625,526	14,535,952
Lead Pounds Produced (lbs)	6,489,087	6,762,344
Copper Pounds Produced (lbs)	1,197,934	1,312,472
Total Silver Equivalent Ounces Produced (oz) [2]	2,262,673	2,034,207
Cash Cost/Ag Oz Produced ($/oz) [3]	$11.31	$12.55
Net Loss ($ M)	$ (78.7)	$ (8.9)
Comprehensive Loss ($ M)	$ (79.1)	$ (9.8)

1 Production from Galena Complex operations included since December 23, 2014.
2 Silver equivalent ounces produced is based on prices of $20 per ounce silver, $0.90 per pound zinc, $0.95 per pound lead, and $3.00 per pound copper for fiscal 2014, and $22 per ounce silver, $0.90 per pound zinc, $0.90 per pound lead, and $3.25 per pound copper for fiscal 2013.
3 Refer to "Non-IFRS Measures: Cash Cost per Ounce" section in this MD&A.

The Company produced 2,262,673 silver equivalent ounces, including 1,206,603 ounces of silver, at by-product cash cost of $11.31/oz silver during 2014. These results compare to 2,034,207 silver equivalent ounces, including 969,025 ounces of silver, at a by-product cash cost of $12.55/oz silver during 2013, a 11% and 24% increase in production of silver equivalent ounces and silver ounces, respectively, and a 10% decrease in by-product cash cost.

The consolidated operations above include U.S. Silver results from December 23, 2014 to December 31, 2014. If U.S. Silver had been consolidated from January 1, 2014, the Company would have produced 4,367,649 silver equivalent ounces, including 2,799,404 ounces of silver, at by-product cash cost of $13.75/oz silver during 2014. These results compare to the production of 4,571,694 silver equivalent ounces, including 3,089,849 ounces of silver, at by-product cash cost of $16.13/oz silver during 2013, a 4%, 9%, and 15% decrease in production of silver equivalent ounces, silver ounces and by-product cash cost, respectively.

The Company recorded a net loss of $78.7 million for the year ended 2014 compared to net loss of $8.9 million for the year ended 2013. The increase in net loss was primarily attributable to lower realized metal prices, higher depletion and amortization, higher corporate general and administrative expenses, higher impairment of mining interests, higher unrealized loss on derivative liability, and higher income tax expense, partially offset by lower impairment of investment. These variances are further discussed in the following sections.

For the purposes of this "Discussion of Consolidated Operations" section of the MD&A, the calculation of silver equivalent ounces produced is based on prices of $20 per ounce silver, $0.90 per pound zinc, $0.95 per pound lead, and $3.00 per pound copper for fiscal 2014, and $22 per ounce silver, $0.90 per pound zinc, $0.90 per pound lead, and $3.25 per pound copper for fiscal 2013.

Cosalá Operations Production and Operating Costs

	Fiscal Year Ended December 31	
	2014	2013
Tonnes Milled	536,336	534,043
Silver Head Grade (g/t)	82	70
Zinc Head Grade (%)	1.44	1.65
Lead Head Grade (%)	0.78	0.82
Copper Head Grade (%)	0.20	0.23
Silver Recoveries (%)	82.9	81.0
Zinc Recoveries (%)	78.6	74.8
Lead Recoveries (%)	72.4	70.0
Copper Recoveries (%)	50.4	48.5
Silver Ounces Produced (oz)	1,177,639	969,025
Zinc Pounds Produced (lbs)	12,625,526	14,535,952
Lead Pounds Produced (lbs)	6,298,897	6,762,344
Copper Pounds Produced (lbs)	1,190,947	1,312,472
Total Silver Equivalent Ounces Produced (oz)[1]	2,223,627	2,034,207
Silver Ounces Sold (oz)	1,171,540	942,542
Zinc Pounds Sold (lbs)	12,743,155	14,285,005
Lead Pounds Sold (lbs)	6,162,566	6,625,143
Copper Pounds Sold (lbs)	1,177,387	1,297,715
Realized Silver Price ($/oz)	$18.85	$22.71
Realized Zinc Price ($/lb)	$0.97	$0.85
Realized Lead Price ($/lb)	$0.92	$0.97
Realized Copper Price ($/lb)	$3.03	$3.31
Cash Cost/Ag Oz Produced ($/oz)[2]	$11.12	$12.55

1 Silver equivalent ounces produced is based on prices of $20 per ounce silver, $0.90 per pound zinc, $0.95 per pound lead, and $3.00 per pound copper for fiscal 2014, and $22 per ounce silver, $0.90 per pound zinc, $0.90 per pound lead, and $3.25 per pound copper for fiscal 2013.

2 Refer to "Non-IFRS Measures: Cash Cost per Ounce" section in this MD&A.

The Cosalá Operations mined 536,336 tonnes of ore at an average grade of 82 g/t of silver to produce 1,177,639 ounces of silver at a cash cost of $11.12/oz during 2014, compared to 534,043 tonnes of ore at an average grade of 70 g/t of silver to produce 969,025 ounces of silver at a cash cost of $12.55/oz during 2013, a 1% and 22% increase in tons of ore mined, ounces of silver produced, respectively, and a 11% decrease in cash cost per ounce. Silver recovery to concentrate was 82.9% in 2014 (2013 – 81.0%).

Cash costs of $11.12/oz for fiscal 2014 were lower than cash costs of $12.55/oz for fiscal 2013 primarily due to processing ore with higher average silver head grades resulting in increased production of silver during fiscal 2014. By-product credits was lower for fiscal 2014 as zinc, lead and copper production decreased due to lower head grades when compared to fiscal 2013.

Realized silver prices at $18.85/oz for 2014 (2013 – $22.71/oz) is comparable to the London silver spot price average of $19.08/oz for 2014 (2013 – $23.79/oz). The realized silver price declined by 17% from $22.71/oz during 2013 to $18.85/oz during 2014 due to the drop in silver prices.

Galena Complex Production and Operating Costs

	Fiscal Year 2014 [1]	Calendar Year 2014	Calendar Year 2013
Tonnes Milled	2,706	144,773	176,479
Silver Head Grade (g/t)	349	365	388
Lead Head Grade (%) [4]	6.26	5.75	6.90
Copper Head Grade (%) [4]	0.28	0.42	0.36
Silver Recoveries (%)	95.4	95.5	96.4
Lead Recoveries (%)	90.3	91.7	94.0
Copper Recoveries (%)	97.5	95.9	96.2
Silver Ounces Produced (oz)	28,964	1,621,765	2,120,824
Lead Pounds Produced (lbs)	190,190	9,143,751	6,567,821
Copper Pounds Produced (lbs)	6,987	586,190	1,001,710
Total Silver Equivalent Ounces Produced (oz) [2]	39,046	2,144,022	2,537,487
Silver Ounces Sold (oz)	9,824	1,658,272	2,207,106
Lead Pounds Sold (lbs)	178,047	8,992,826	6,676,254
Copper Pounds Sold (lbs)	-	632,618	1,041,625
Realized Silver Price ($/oz)	$16.28	$19.08	$24.10
Realized Lead Price ($/lb)	$0.83	$0.95	$0.98
Realized Copper Price ($/lb)	-	$3.11	$3.37
Cash Cost/Ag Oz Produced ($/oz) [3]	$19.18	$15.79	$17.76

1 Production from Galena Complex operations included since December 23, 2014.
2 Silver equivalent ounces produced is based on prices of $20 per ounce silver, $0.95 per pound lead, and $3.00 per pound copper for fiscal 2014, and $22 per ounce silver, $0.90 per pound lead, and $3.25 per pound copper for fiscal 2013.
3 Refer to "Non-IFRS Measures: Cash Cost per Ounce" section in this MD&A.
4 Lead and silver grades only refer to grades in silver-lead and silver-copper ores, respectively.

The Galena Complex mined 144,773 tonnes of ore at an average grade of 365 g/t of silver to produce 1,621,765 ounces of silver at a cash cost of $15.79/oz during calendar 2014, compared to 176,479 tonnes of ore at an average grade of 388 g/t of silver to produce 2,120,824 ounces of silver at a cash cost of $17.76/oz during 2013, a 18%, 24%, and 12% decrease in tons of ore mined, ounces of silver produced, and cash cost per ounce, respectively. Approximately 36% of the tons were processed through the Coeur mill (2013 – 26%). Combined silver recoveries from the Galena and Coeur mills were 95.5% for 2014 (2013 – 96.4%). Production of lead during 2014 increased 39% as compared to 2013. The Galena Complex swapped the milling of silver-lead ore from Coeur mill to the Galena mill in July 2014 in order to handle the greater silver-lead tonnage.

Cash costs of $15.79/oz for calendar 2014 were lower than cash costs of $17.76/oz for calendar 2013 primarily due to the implementation of the SMP as tons milled decreased 18% and production decreased 24%. Direct mining costs (i.e. labour, supplies, utilities, etc.) and smelting and refining expenses were reduced on a silver produced per ounce basis as average equivalent grades increased during calendar 2014, resulting in the lower cash costs experienced.

Realized silver prices at $19.08/oz for calendar 2014 (2013 – $24.10/oz) is comparable to the London silver spot price average of $19.08/oz for 2014 (2013 – $23.79/oz). The realized silver price declined by 21% from $24.10/oz during 2013 to $19.08/oz during calendar 2014 due to the drop in silver prices.

Exploration Update

Cosalá Operations Exploration Update

Nuestra Señora

Over 7,000 m of diamond drilling was completed at Nuestra Señora in support of short term mining activities. The main area for this work was in the upper levels (above Level 8) where previous operators appear to have left material suitable for mining and processing.

Surface mapping was carried out near the portal of the Nuestra Señora mine following up on outcropping mineralization for which no records of previous work existed. Two areas, Santo Domingo and Santa Helena were mapped and sampled. Both areas were determined to be prospective. The area was preliminarily tested by drill holes were drilled from underground. Further drilling is contemplated.

A concession (Cosalá II) was acquired which touches the company's property holding at Nuestra Señora on three sides. Preliminary contacts were made to gain surface access to this ground. Archeological studies have been completed.

San Rafael

Exploration permits covering parts of the San Rafael and El Cajón areas were received in early November 2014. Drilling commenced soon thereafter and approximately 1,000 meters of a 2,400 meter geotechnical drill program were completed in 2014.

Management is focused on advancing the San Rafael deposit to a production decision. The Company expects this work will be completed in the second half of 2015.

El Cajón

Approximately 1,060 meters of drilling was completed to provide geotechnical information for the design of the underground program. Several short holes were drilled near the current portal to aid in tunnel design and one deeper hole in this area was a pilot hole for a ventilation raise. Three deeper holes were drilled from surface to depths of approximately 250 meters to collect data for stope design in the Main Cajón ore body. As previously stated, the El Cajón mine was placed on care and maintenance in January 2015.

No resources from the El Cajón deposit have been included in the current reserve and resource estimates disclosed for the company. Management again cautions that the mineral resource estimate or any future development plans with respect to the El Cajón deposit contained in the Cosalá Technical Report dated April 12, 2013 should no longer be relied upon. The Company will make a decision as to whether to prepare an updated mineral resource estimate for the El Cajón deposit and a revised technical report, prepared in accordance with NI 43-101, following the DGRM's final confirmation of the concession boundaries underlying the El Cajón deposit.

La Verde

Approximately 84 holes and 10,800 meters of previous drilling was re-logged and resampled in order to develop a better geological model of the La Verde deposits. Re-mapping of the underground workings was performed. In analyzing this information, several previously identified ore zones were found to be faulted extensions or duplications of two principle ore zones with some minor intervening zones. The majority of mineralization was found to be contained within two coalescing faults.

Drilling totalling approximately 2,000 meters was completed to investigate potential extensions of known mineralized zones and to explore for additional zones in areas where some discontinuous mineralization was detected. This work determined there were some extensions of known zones which could be developed and identified the presence of a previously unknown mineralized area (South Zone). Further investigation is warranted.

A second program of 2,000 meters was completed to pursue definition of these zones. The Company expects this program will be completed in Q2-2015.

Humaya/La Estrella

A program of mapping and sampling was begun in an area north of San Rafael in order to assess the potential in this area. In conjunction with this program, dumps and other unprocessed material were sampled and quantified. Based on this program, a permit was sought to recover this material. A reclamation program is ongoing whereby profitable material is reclaimed for processing at the Los Braceros plant. No mineral resource has been reported for the remaining material.

In conjunction with this work, mapping is leading to a working model for the area which suggests there may be significant in-situ mineralized material available in a NW trending block of material. Further drilling may be necessary after additional mapping to explore this potential.

Regional Mapping

The entire region including and surrounding our claims was remapped taking into account the results of a satellite based structural analysis performed in 2012 and 2013. The result is an improved understanding of the geology. Additional work remains to incorporate older regional geology which implies vertical movements of faults and may impact interpretation.

Galena Complex Exploration Update

Drilling during the fourth quarter of calendar 2014, U.S. Silver continued to focus on near-term resources and to provide information to the mining operations to assist with defining the highest value per tonne of ore for mining. Drilling at the Galena Complex has been accomplished totally by in-house drilling with four drill crews currently operating. In-house drilling continues to be a cost effective method to explore and define resources at the Galena Mine.

The focus of the exploration work at the Galena Complex continues to be:

- Develop immediate and near-term, minable, high-grade equivalent silver resources in proximity to existing infrastructure to support the mine operations;
- Define silver-lead areas between 3000, 3700 and 5000 levels for mining going forward; and
- Complete block modelling on priority veins and evaluate all drill results in preparation for an updated reserve and resource estimate based on results to the end of 2014.

U.S. Silver drilled 2,462 meters (8,007 feet) underground at the Galena Complex in the fourth quarter bringing the year-to-date total to 5,105 meters (16,748 feet) for 2014. A portion of this drilling was completed to advance block modeling of the newly, re-evaluated series of veins in the upper part of the mine. Geologists now have an improved picture of potentially high-grade, minable silver/lead veins in the 3000 to 3700 level area. Five of these veins have been delineated by the recent drilling and are now modeled. These silver-lead veins underwent limited historical development prior to the mine's decades-long focus on silver-copper ore. As a result, only a small amount of production mining took place and the resource was left readily available via established development and infrastructure. Initial work has commenced in preparation for renewed mining in these new areas. Meaningful production from this area is expected to begin in 2015.

The Company's exploration staff is continuing work to confirm and upgrade the existing resources through block modeling and drilling. The technical report dated March 22, 2013 can be obtained from the

Company's website at www.scorpiomining.com and on SEDAR at www.sedar.com. A new reserve and resource update has been completed by mine staff based on results to the end of 2014.

Mr. Jim Atkinson, Vice President, Exploration and a 'qualified person' under NI 43-101 guidelines ("Qualified Person"), has approved the applicable contents of this section.

Results of Operations

Analysis of the year ended December 31, 2014 vs. the year ended December 31, 2013

The Company recorded a net loss of $78.7 million for the year ended 2014 compared to net loss of $8.9 million for the year ended 2013. The increase in net loss was primarily attributable to lower realized metal prices ($1.3 million), higher depletion and amortization ($4.5 million), higher corporate general and administrative expenses ($2.4 million), higher impairment of mining interests ($52.2 million), higher unrealized loss on derivative liability ($0.5 million), and higher income tax expense ($13.2 million), partially offset by lower impairment of investment ($4.6 million), each of which are described in more detail below:

Revenues increased by $1.3 million from $30.2 million for the year ended 2013 to $31.5 million for the year ended 2014. The increase is primarily due to increase in production of silver equivalent ounces offset by lower average realized metal prices for the periods involved. At the Cosalá Operations for the fiscal year ended 2014, silver equivalent ounces of 2.2 million ounces were produced compared to 2.0 million ounces produced for the fiscal year ended 2013. The ounces of silver were sold for the year ended 2014 at an average realized price of $18.85/oz compared to $22.71/oz for the year ended 2013.

Cost of Sales increased by $2.6 million from $23.5 million for the year ended 2013 to $26.1 million for the year ended 2014. The increase is primarily due to increase in production of silver equivalent ounces by approximately 11% offset by decrease in direct mining costs on a per silver ounce basis during 2014.

Depletion and amortization increased by $4.5 million from $6.5 million for the year ended 2013 to $11.0 million for the year ended 2014. The increase is primarily due to increase in production during the year and the estimated remaining mine life of Nuestra Señora.

Corporate general and administrative expenses increased by $2.4 million from $2.9 million for the year ended 2013 to $5.4 million for the year ended 2014. The increase is primarily due to $2.0 million incurred in acquisition costs on the U.S. Silver merger plus $0.9 million incurred on shareholder action costs during the year, offset by a decrease in share-based payments of $0.3 million during the year.

Impairment of mining interests increased by $52.2 million from $1.1 million for the year ended 2013 to $53.3 million for the year ended 2014. The increase is primarily due to indicators of impairment from the continuing decline of precious metals prices, the limited remaining mine life of Nuestra Señora and the care and maintenance of El Cajón.

Unrealized loss on derivative liability of $0.5 million was recognized during the year ended 2014 from the decreased value of foreign exchange derivatives on Mexican pesos as at year-end. This impact has no effect on the Company's cash flows until the foreign exchange derivatives are settled.

Impairment of investment decreased by $4.6 million from $5.3 million for the year ended 2013 to $0.7 million for the year ended 2014. The decrease is primarily due to the change in fair value of the Company's available-for-sale investment in the common shares of Scorpio Gold Corporation.

Income tax expense increased by $13.2 million from $0.5 million recovery for the year ended 2013 to $12.7 million expense for the year ended 2014. The increase is primarily due to recognizing valuation allowance against Mexican non-capital losses carried forward which may be used to reduce future taxable income.

Analysis of the three months ended December 31, 2014 vs. the three months ended December 31, 2013

The Company recorded a net loss of $73.5 million for the three months ended December 31 2014 compared to net loss of $1.8 million for the three months ended December 31, 2013. The increase in net loss was primarily attributable to lower realized metal prices ($1.2 million), higher depletion and amortization ($1.1 million), higher corporate general and administrative expenses ($2.0 million), higher impairment of mining interests ($53.3 million), higher unrealized loss on derivative liability ($0.4 million), and higher income tax expense ($13.9 million), each of which are described in more detail below:

Revenues decreased by $0.4 million from $7.2 million for the three months ended December 31, 2013 to $6.8 million for the three months ended December 31, 2014. The decrease is primarily due to lower average realized metal prices for the periods involved.

Cost of Sales increased by $1.0 million from $6.0 million for the three months ended December 31, 2013 to $6.9 million for the three months ended December 31, 2014. The increase is primarily due to increase in production of silver equivalent ounces by approximately 18% offset by decrease in direct mining costs on a per silver ounce basis during the period.

Depletion and amortization increased by $1.1 million from $2.0 million for the three months ended December 31, 2013 to $3.1 million for the three months ended December 31, 2014. The increase is primarily due to increase in production during the period and the estimated remaining mine life of Nuestra Señora.

Corporate general and administrative expenses increased by $2.0 million from $0.5 million for the three months ended December 31, 2013 to $2.5 million for the three months ended December 31, 2014. The increase is primarily due to $2.0 million incurred in acquisition costs on the U.S. Silver merger during the period.

Impairment of mining interests of $53.3 million was recognized during the three months ended December 31, 2014 primarily due to indicators of impairment from the continuing decrease in metals prices, the limited remaining mine life of Nuestra Señora and the care and maintenance of El Cajón.

Unrealized loss on derivative liability of $0.4 million was recognized during the three months ended December 31, 2014 from the decreased value of foreign exchange derivatives on Mexican pesos as at year-end. This impact has no effect on the Company's cash flows until the foreign exchange derivatives are settled.

Income tax expense increased by $13.9 million from $0.2 million for the three months ended 2013 to $14.1 million for the three months ended 2014. The increase is primarily due to recognizing valuation allowance against Mexican non-capital losses carried forward which may be used to reduce future taxable income.

Selected Annual Financial Information

Fiscal Year Ended December 31	**2014** [1]	**2013**	**2012**
Revenues ($ M)	$ 31.5	$ 30.2	$ 45.8
Net Income (Loss) ($ M)	(78.7)	(8.9)	7.1
Comprehensive Income (Loss) ($ M)	(79.1)	(9.8)	3.2
Net Income (Loss) per Common Share - Basic	$ (0.39)	$ (0.04)	$ 0.04
Net Income (Loss) per Common Share - Diluted	(0.39)	(0.04)	0.04
Silver Ounces Produced (oz)	1,206,603	969,025	1,184,964
Zinc Pounds Produced (lbs)	12,625,526	14,535,952	16,463,134
Lead Pounds Produced (lbs)	6,489,087	6,762,344	6,550,418
Copper Pounds Produced (lbs)	1,197,934	1,312,472	1,608,276
Cash Cost/Ag Oz Produced ($/oz) [2]	$ 11.31	$ 12.55	$ 10.21
Cash ($ M)	$ 15.2	$ 15.4	$ 23.7
Receivables ($ M)	6.8	9.3	8.3
Inventories (Concentrates and Supplies) ($ M)	12.4	8.5	7.0
Property, Plant and Equipment ($ M)	81.3	92.5	90.4
Current Assets ($ M)	36.9	36.3	47.1
Current Liabilities ($ M)	15.8	2.6	2.2
Working Capital ($ M)	21.1	33.7	44.9
Total Assets ($ M)	118.6	139.8	148.3
Total Liabilities ($ M)	33.2	4.4	3.9

[1] Production from Galena Complex operations included since December 23, 2014.
[2] Refer to "Non-IFRS Measures: Cash Cost per Ounce" section in this MD&A.

Summary of Quarterly Results

The following table presents a summary of the consolidated operating results for each of the most recent eight quarters ending with December 31, 2014.

	Q4 2014 [1]	**Q3 2014**	**Q2 2014**	**Q1 2014**	**Q4 2013**	**Q3 2013**	**Q2 2013**	**Q1 2013**
Revenues ($ M)	$ 6.8	$ 7.7	$ 8.8	$ 8.2	$ 7.2	$ 8.3	$ 5.6	$ 9.0
Net Income (Loss) ($ M)	(73.5)	(2.3)	(1.8)	(1.1)	(1.8)	(5.2)	(3.1)	1.2
Comprehensive Income (Loss) ($ M)	(72.9)	(3.5)	(1.2)	(1.5)	(1.3)	(0.1)	(7.1)	(1.3)
Silver Ounces Produced (oz)	318,137	277,796	316,722	293,948	262,380	240,499	214,926	251,220
Zinc Pounds Produced (lbs)	3,329,584	2,830,816	3,478,500	2,986,626	3,406,341	4,737,785	3,198,082	3,193,744
Lead Pounds Produced (lbs)	1,771,927	2,130,746	1,388,750	1,197,664	1,443,955	2,036,142	1,474,544	1,807,703
Copper Pounds Produced (lbs)	339,144	274,213	256,913	327,664	333,023	200,633	338,862	439,954
Cash Cost/Ag Oz Produced ($/oz) [2]	$11.60	$9.25	$10.62	$13.71	$15.18	$11.01	$15.91	$8.42
Current Assets (qtr. end) ($ M)	$ 36.9	$ 29.7	$ 33.6	$ 35.7	$ 36.3	$ 37.9	$ 39.4	$ 46.7
Current Liabilities (qtr. end) ($ M)	15.8	4.4	4.1	3.4	2.6	2.9	3.5	2.8
Working Capital (qtr. end) ($ M)	21.1	25.3	29.5	32.3	33.7	35.0	35.9	43.9
Total Assets (qtr. end) ($ M)	118.6	135.7	138.7	139.3	139.8	141.3	141.7	147.8
Total Liabilities (qtr. end) ($ M)	33.2	6.3	5.9	5.2	4.4	4.6	5.1	4.5
Total Equity (qtr. end) ($ M)	85.4	129.4	132.8	134.1	135.4	136.7	136.6	143.3

1 Production from Galena Complex operations included since December 23, 2014.
2 Refer to "Non-IFRS Measures: Cash Cost per Ounce" section in this MD&A.

Liquidity

As of December 31, 2014, the Company's cash totalled $15.2 million, compared to $15.4 million at December 31, 2013. Working capital decreased to $21.1 million at December 31, 2014 from $33.7 million at December 31, 2013, a decrease of $12.6 million. Current liabilities as at December 31, 2014 were $15.8 million which is $13.2 million higher than at December 31, 2013 mainly due timing of payments including the monthly redemption of credit facility expected to commence second half of 2015.

The change in cash since December 31, 2013 can be summarized as follows (in millions of U.S. dollars):

Opening cash as at December 31, 2013	$ 15.4
Cash used in operations	(0.4)
Capital expenditures	(14.5)
Cash from acquisition of U.S. Silver & Gold Inc.	4.3
Decrease in receivables due to timing of shipments	5.7
Increase in payables during the period	4.7
Closing cash as at December 31, 2014	$ 15.2

The Company believes that it will have sufficient cash flow to fund its 2015 operations and development and exploration plans while meeting production targets at current commodity price levels. In the longer term, as the Cosalá Operations and Galena Complex are optimized and if the outlook for silver prices remains positive, the Company believes that cash flows will be sufficient to fund ongoing operations. Management is continuously evaluating viable financing alternatives to ensure sufficient liquidity including private equity financing, debt instruments, concentrate offtake agreements, sales of non-core assets, and the issuance of equity.

The Company's financial instruments consist of cash, trade receivables, restricted cash, long-term investments, trade and other payables, credit facility, and other long-term liabilities. The fair value of these financial instruments approximates their carrying values, unless otherwise noted. The Company is not exposed to significant interest or credit risk arising from financial instruments. The majority of the funds of the Company are held in accounts at major banks in Canada, Mexico and the United States.

The Company's liquidity has been, and will continue to be, impacted by pension funding commitments as required by the terms of the defined benefit pension plans offered to both its hourly and salaried workers (See note 14 in the audited consolidated financial statements of the Company and the notes thereto for the years ended December 31, 2014). Although both pension plans are under-funded due to actuarial losses incurred from current market conditions, the Company intends to fund to the minimum levels required by applicable law. The Company currently estimates total annual funding requirements for both pension plans to be approximately $0.8 million per year for each of the next 5 years.

Capital Resources

The Company's cash flow is dependent on delivery of its concentrates to its smelters and concentrate traders. The Company's contracts with these parties provide for provisional payments based on timing of concentrate deliveries. The Company has not had any problems collecting payments from smelters in a reliable and timely manner and expects no such difficulties in the foreseeable future. However, this cash flow is dependent on continued mine production which can be subject to interruption for various reasons including fluctuations in metal prices and concentrate shipment difficulties. Additionally, unforeseen cessation in the counterparty's capabilities could severely impact the Company's capital resources.

The Company made capital expenditures of $14.5 million in 2014 and $9.7 million for the same period of 2013, of which $12.4 million was spent towards drilling and underground development costs while $2.1 million was spent on purchase of property, plant and equipment. All of these projects are dependent upon the Company maintaining a strong capital position. The Company plans to continue underground exploration utilizing diamond core drilling.

The following table sets out the Company's contractual obligations as of December 31, 2014:

	Total	**Less than 3 months**	**3 months to 1 year**	**2-5 years**	**Over 5 Years**
Trade and other payables	$ 13,070	$ 13,070	$ -	$ -	$ -
Derivative liability	502	502	-	-	-
Credit facility	7,747	-	2,155	5,592	-
Interest on credit facility	1,130	223	625	282	-
Leases	70	7	21	42	-
Other long-term liabilities	559	-	-	-	559
Decommissioning provision	4,832	32	96	833	3,871
Total	$ 27,910	$ 13,834	$ 2,897	$ 6,749	$ 4,430

1 - All leases can be cancelled upon proper notice periods by the Company.

2 - Certain of these estimates are dependent on market conditions and assumed rates of return on assets. Therefore, the estimated obligation of the Company may vary over time.

Off-Balance Sheet Arrangements

As of the date of this filing, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

Transactions with Related Parties

There were no related party transactions for the year ended December 31, 2014.

Risk Factors

The business of the Company is subject to a substantial number of risks and uncertainties. In addition to considering the information disclosed in the financial statements and in the other publicly filed documentation regarding the Company available at www.sedar.com, the reader should carefully consider the following information. Any of these risk elements could have material adverse effects on the business of the Company. **See "Note 7 – Financial Risk Management" of the Company's audited financial statements for the year ended December 31, 2014.**

Current Global Financial and Economic Conditions

Current global financial and economic conditions remain fragile following the 2008/2009 financial crisis. Several major international financial institutions and other large, international enterprises either filed for bankruptcy or were actively rescued by governmental intervention at that time and access to public and private capital and financing continues to be challenging. Such factors may impact the Company's ability to obtain financing in the future on favourable terms. Additionally, global economic conditions may cause a long-term decrease in asset values. If such global volatility and market uncertainty continue, the Company's operations and financial condition could be adversely impacted.

Risks Associated with Market Fluctuations in Commodity Prices

The majority of the Company's revenue is derived from the sale of silver, copper, zinc and lead contained in concentrates. Fluctuations in the prices of these commodities represent one of the most significant factors affecting the Company's results of operations and profitability. If the Company experiences low silver, copper, zinc, and lead prices, it may result in decreased revenues and decreased net income, or losses, and may negatively affect the Company's business.

The market price for silver, copper, zinc and lead continues to be volatile and is influenced by a number of factors, including, among others, levels of supply and demand, global or regional consumptive patterns, sales by government holders, metal stock levels maintained by producers and others, increased production due to new mine developments, improved mining and production methods, speculative trading activities, inventory carrying costs, availability and costs of metal substitutes, international economic and political conditions, interest rates and the relative exchange rate of the US dollar with other major currencies. The aggregate effect of such factors (all of which are beyond the control of the Company) is impossible to predict with any degree of accuracy, and as such, the Company can provide no assurances that it can effectively manage such factors. In addition, the price of silver, has on occasion been subject to very rapid short-term changes due to speculative activities. Fluctuations in silver and other commodity prices may materially adversely affect the Company's financial performance or results of operations. The world market price of commodities has fluctuated during the last several years. Declining market prices for silver and other metals could have a material adverse effect on the Company's results of operations and profitability. If the market price of silver and other commodities falls significantly from its current levels, the operation of the Company's properties may be rendered uneconomic and such operation and exploitation may be suspended or delayed.

In particular, if the price of silver is depressed for a sustained period and net losses accumulate, the Company may be forced to suspend some or all of its mining until the price increases, and record asset impairment write-downs. Any lost revenues, continued or increased net losses, or asset impairment write-downs would adversely affect the Company's results of operations.

Operational Risks

Substantial risks are associated with mining and milling operations. The Company's commercial operations are subject to all the usual hazards and risks normally encountered in the exploration, development and production of silver, copper, zinc and lead, including, among other things: unusual and unexpected geologic formations, inclement weather conditions, seismic activity, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, catastrophic damage to property or loss of life, labour disruptions, equipment failure or failure of retaining dams around tailings disposal areas which may result in environmental pollution and legal liability. The Company will take appropriate precautions as are applicable to similar mining operations and in accordance with general industry standards to help mitigate such risks. However, the Company can provide no assurances that its precautions will actually succeed in mitigating, or even reducing the scope of potential exposure to, such operational risks.

There can be no Certainty that the Company's Exploration and Development Activities will be Commercially Successful

Substantial efforts and compliance with regulatory requirements are required to establish mineral reserves through drilling and analysis, to develop metallurgical processes to extract metal and, in the case of development properties, to develop and construct the mining and processing facilities and infrastructure at any site chosen for mining. Shareholders cannot be assured that any reserves or mineralized material acquired or discovered will be in sufficient quantities to justify commercial operations.

Mineral Reserves and Resources, Development and Production

The estimation of ore reserves is imprecise and depends upon a number of subjective factors. Estimated ore reserves or production guidance may not be realized in actual production. The Company's operating results may be negatively affected by inaccurate estimates. Reserve estimates are a function of geological and engineering analyses that require the Company to make assumptions about production costs and the market price of silver and other metals. Reserve estimation is based on available data, which may be incomplete, and subject to engineering and geological interpretation, judgment and experience. Market price fluctuations of metals, as well as increased production costs or reduced recovery rates may render ore reserves containing relatively lower grades of mineralization uneconomic and may ultimately result in a restatement of reserves. Moreover, short-term operating factors relating to the ore reserves, such as the need for orderly development of the ore bodies and the processing of new or different ore grades may cause a mining operation to be unprofitable in any particular accounting period. Should the Company encounter mineralization or geologic formations at any of its mines different from those predicted adjustments of reserve estimates might occur, which could alter mining plans. Either of these alternatives may adversely affect the Company's actual production and operating results.

The mineral reserve and resource estimates contained or incorporated 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. 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 process 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 internal and 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.

The Company's ability to sustain or increase present production levels depends in part on successful exploration and development of new ore bodies and/or expansion of existing mining operations. Mineral exploration, particularly for silver, involves many risks and is frequently unproductive. If mineralization is discovered, it may take a number of years until production is possible, during which time the economic viability of the project may change. Substantial expenditures are required to establish ore reserves, extract metals from ores and, in the case of new properties, to construct mining and processing facilities and infrastructure at any site chosen for mining. The economic feasibility of any development project is based upon, among other things, estimates of the size and grade of ore reserves, proximity to infrastructures and other resources (such as water and power), metallurgical recoveries, production rates and capital and operating costs of such development projects, and metals prices. Development projects are also subject to the completion of positive feasibility studies, issuance of necessary permits and receipt of adequate financing, which may be difficult to obtain on terms reasonably acceptable to the Company.

The Company's future silver, copper, zinc and lead production may decline as a result of an exhaustion of reserves and possible closure of work areas. It is the Company's business strategy to conduct silver exploratory activities at the Company's existing mining operations as well as at new exploratory projects, and to acquire silver mining properties and businesses or reserves that possess mineable ore reserves and are expected to become operational in the near future. However, the Company can provide no assurance that its future silver production will not decline. Accordingly, the Company's revenues from the sale of silver may decline, which may have a material adverse effect on its results of operations.

Government Regulation and Environmental Compliance

The Company is subject to significant governmental regulations, and costs and delays related to such regulations may have a material adverse effect on the Company's business.

The Company's mining activities are subject to extensive federal, state, local and foreign laws and regulations governing environmental protection, natural resources, prospecting, development, production, post-closure reclamation, taxes, labour standards and occupational health and safety laws and regulations including mine safety, toxic substances and other matters related to the Company's business. The costs associated with compliance with such laws and regulations could be substantial. Possible future laws and regulations, or more restrictive interpretations of current laws and regulations by governmental authorities could cause additional expense, capital expenditures, restrictions on or suspensions of the Company's operations and delays in the development of the Company's properties. Moreover, governmental authorities and private parties may bring lawsuits based upon damage to property and injury to persons resulting from the environmental, health and safety impacts of the Company's past and current operations, which could lead to the imposition of substantial fines, penalties and other civil and criminal sanctions. Substantial costs and liabilities, including for restoring the environment after the closure of mines, are inherent in the Company's operations. Although the Company believes it is in substantial compliance with applicable laws and regulations, the Company can give no assurance that any such law, regulation, enforcement or private claim will not have a material adverse effect on the Company's business, financial condition or results of operations.

In the United States, some of the Company's mining wastes are currently exempt to a limited extent from the extensive set of federal Environmental Protection Agency (the "EPA") regulations governing hazardous waste under the *Resource Conservation and Recovery Act* (the "RCRA"). If the EPA designates these wastes as hazardous under the RCRA, the Company would be required to expend additional amounts on the handling of such wastes and to make significant expenditures to construct hazardous waste disposal facilities. In addition, if any of these wastes causes contamination in or damage to the environment at a mining facility, such facility may be designated as a "Superfund" site under the *Comprehensive Environmental Response, Compensation and Liability Act* (the "CERCLA"). Under the CERCLA, any owner or operator of a Superfund site since the time of its contamination may be held liable and may be forced to undertake extensive remedial clean-up action or to pay for the government's clean-up efforts. Additional regulations or requirements are also imposed upon the Company's tailings and waste disposal areas in Idaho under the federal *Clean Water Act* (the "CWA"). Airborne emissions are subject to controls under air pollution statutes implementing the *Clean Air Act* in Idaho. Compliance with the CERCLA, the CWA and state environmental laws could entail significant costs, which could have a material adverse effect on the Company's operations.

In the context of environmental permits, including the approval of reclamation plans, the Company must comply with standards and regulations, which entail significant costs and can entail significant delays. Such costs and delays could have an adverse impact on the Company's operations.

The Company's mining operations are subject to environmental regulations promulgated by government agencies from time to time. Specifically, the Company's activities at the Galena Complex are subject to regulation by the U.S. Department of Labor's Mine Safety Health Administration and related regulations under applicable legislation and the Company's activities at the Cosalá Operations projects are subject to regulation by SEMARNAT (defined below), the environmental protection agency of Mexico. Such regulations can result in citations and orders which can entail significant costs or production interruptions and have an adverse impact on the Company's operations and profitability. SEMARNAT 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, vegetarian, 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.

In the ordinary course of business, the Company is required to obtain or renew governmental permits for the operation and expansion of existing mining operations or for the development, construction and commencement of new mining operations. Obtaining or renewing the necessary governmental permits is a complex and time-consuming process involving numerous jurisdictions, which often involves public hearings and costly undertakings. The duration and success of the Company's efforts to obtain or renew permits are contingent upon many variables not within our control including the interpretation of applicable requirements implemented by the permitting authority. The Company may not be able to obtain or renew permits that are necessary to its operations, or the cost to obtain or renew permits may exceed what the Company believes it can recover from the property once in production. Any unexpected delays or costs associated with the permitting process could delay the development or impede the operation of a mine, which could have a material adverse effect on the Company's operations and profitability.

Some of 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 National del Aqua 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 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.

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.

Substantially all of the Company's Assets are Located Outside of Canada, and Impact on Enforcement of Civil Liabilities

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.

Employee Recruitment, Retention, Pension Funding and Labour Relations

Recruiting and retaining qualified personnel is critical to the Company's success. The number of persons skilled in acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As the Company's business activity grows, the Company will require additional key executive, financial, operational, administrative and mining personnel. Although the Company believes that it will be successful in attracting, training and retaining qualified personnel, there can be no assurance of such success. If the Company is not successful in attracting and training qualified personnel, the efficiency of its operations could be affected, which could have a material adverse effect on the Company's results of operations and profitability. 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. Key man 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.

The Company may experience labour disputes, work stoppages or other disruptions in production that could adversely affect its operations. 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.

The declines in the equity markets over the last several years and other financial impacts have affected the Company's costs and liquidity through increased requirements to fund the Company's defined benefit pension plans for its employees. There can be no assurance that financial markets will sufficiently recover in the future with the effect of causing a corresponding reduction in the Company's future pension funding requirements. Furthermore, there can be no assurance that unforeseen changes in pensioner longevity, government regulation or other financial market uncertainties will not cause pension funding requirements to differ from the requirements projected by professional actuaries. The Company intends to continue to fund its pension plan for hourly and salary employees of the Company pursuant to all relevant regulatory requirements.

Mining Property and Title Risks

Third parties may dispute the Company's mining claims, which could result in losses affecting the Company's business. The validity of unpatented mining claims, which constitute a significant portion of the Company's property holdings in Idaho, is often uncertain and may be contested. Although the Company has attempted to acquire satisfactory title to undeveloped properties, the Company, in accordance with mining industry practice, does not generally obtain title opinions until a decision is made to develop a property. As a result, some titles, particularly titles to undeveloped properties, may be defective. Defective title to any of the Company's mining claims could result in litigation, insurance claims, and potential losses affecting the Company's business.

The validity of mining or exploration titles or claims, which constitute most of the Company's property holdings, can be uncertain and may be contested. No assurance can be given that applicable governments will not revoke or significantly alter the conditions of the applicable exploration and mining titles or claims and that such exploration and mining titles or claims, will not be challenged or impugned by third parties. The Company has not conducted surveys of all the claims in which it holds direct or indirect interests and therefore, the precise area and location of such claims may be in doubt. The

Company's properties may be subject to prior unregistered liens, agreements or transfers, native land claims or undetected title defects.

In light of the DGRM's Resolution, and based on the survey work carried out by the Company's independent contractors and its own personnel since the boundary discrepancy at El Cajón first became known to the Company, there is a strong likelihood of a material change to the positions of the boundaries of the concessions encompassing the Company's El Cajón mineral deposit. When any such variation to the concessions boundaries is finally confirmed by the DGRM, the Company's management expects that it may be necessary to prepare a revised mineral resource estimate based on the confirmed boundaries, which will likely result in a significant reduction of the quantity of estimated mineral resources compared to the Company's estimate disclosed in the Cosalá Technical Report.

Surface Rights and Access

The Company has reached various agreements for surface access and rights with certain local groups, including, 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.

Competition

Competition in the mining sector is intense. Mines have limited lives and as a result, the Company may in the future seek to replace and expand its reserves through the acquisition of new properties. In addition, there is a limited supply of desirable mineral lands available in areas where the Company would consider conducting exploration and/or production activities. Because the Company faces strong competition for new properties from other mining companies, some of which have greater financial resources than it does, the Company may be unable to acquire attractive new mining properties on terms that it considers acceptable. Competition in the mining business for limited sources of capital could adversely affect the Company's ability to acquire and develop suitable silver mines, gold mines, silver developmental projects, gold developmental projects, silver producing companies, gold producing companies or properties having significant exploration potential. As a result, there can be no assurance that the Company's acquisition and exploration plans will yield new mineral reserves to replace or expand current mineral reserves.

Concentrate Sales Risks

The Company currently sells its concentrates under offtake contracts with a limited number of counterparties. 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 metal prices, this can lead to negative cash adjustments, with amounts owing to the purchaser, and such amounts could potentially be substantial. In volatile metal markets, the Company may elect to fix the price of a concentrate sale at the time of initial delivery.

The Company is Subject to Currency Fluctuations that may Adversely Affect the Financial Position of the Company

One of 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.

Financing Risks

Should financing be sought in the future, there can be no assurances that the Company will be able to obtain adequate funding or that the terms of such financing will be favourable. Failure to obtain additional financing could result in delay or indefinite postponement of further exploration and development of its projects and the possible loss of such properties. The Company has a limited history of earnings, has never paid a dividend, and does not anticipate paying dividends in the near future.

The Company may Require Significant Capital Expenditures

Substantial expenditures will be required to maintain, develop and to continue with exploration at the Company properties. In order to explore and develop these projects and properties, the Company may be required to expend significant amounts for, among other things, geological, geochemical and geophysical analysis, drilling, assaying, and, if warranted, mining and infrastructure feasibility studies.

The Company may not benefit from any of these investments if it is unable to identify commercially exploitable mineralized material. If successful in identifying reserves, it will require significant additional capital to construct facilities necessary to extract recoverable metal from those reserves.

The ability of the Company to achieve sufficient cash flows from internal sources and obtain necessary funding depends upon a number of factors, including the state of the worldwide economy and the price of silver, copper, zinc and lead. The Company may not be successful in achieving sufficient cash flows from internal sources and obtaining the required financing for these or other purposes on terms that are favourable to it or at all, in which case its ability to continue operating may be adversely affected. Failure to achieve sufficient cash flows and obtain such additional financing could result in delay or indefinite postponement of further exploration or potential development.

Risks Associated with the Company's Business Objectives

The Company's strategy to create shareholder value through the acquisition, exploration, advancement and development of its mineral properties will be subject to substantive risk. While the Company may seek to acquire additional mineral properties that are consistent with its business objectives, there can be no assurance that the Company will be able to identify suitable additional mineral properties or, if it does identify suitable properties, that it will have sufficient financial resources to acquire such properties or that such properties will be available on terms acceptable to the Company or at all. Any partnership or joint venture agreements with respect to mineral properties that the Company enters into will be subject to the typical risks associated with such agreements, including disagreement on how to develop, operate or finance a property and contractual and legal remedies of the Company's partners in the event of such disagreement.

Absolute Assurance on Financial Statements

The Company prepares its financial statements in accordance with accounting policies and methods prescribed by International Financial Reporting Standards. In the preparation of financial statements, management may need to rely upon assumptions, make estimates or use their best judgment in determining the financial condition of the Company. In order to have a reasonable level of assurance that financial transactions are properly authorized, assets are safeguarded against unauthorized or improper use and transactions are properly recorded and reported, the Company has implemented and continues to analyze its internal control systems for financial reporting. Although the Company believes that its financial reports and financial statements are prepared with reasonable safeguards to ensure reliability, the Company cannot provide absolute assurance in that regard.

Conflicts of Interest

Certain of the Company's directors and officers also serve as directors and/or officers of other companies involved in natural resource exploration and development, and consequently there exists the possibility for such directors and officers to have interests that conflict with the Company's interests. Situations may arise in connection with potential investments where the other interests of the Company's directors conflict with its interests. As such, conflicts of interest may arise that may influence these persons in evaluating possible acquisitions or in generally acting on the Company's behalf, as they may pursue opportunities that would then be unavailable to the Company. In the event that the Company's directors are subject to conflicts of interest, there may be a material adverse effect on its business.

Uninsured or Uninsurable Risks

In the course of exploration, development and production of mineral properties, several risks and, in particular, unexpected or unusual geological or operating conditions, 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 an increase in costs and a decline in value of the Common Shares.

As of the date of this MD&A, the Company is not insured against environmental risks. Insurance against environmental risks (including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from exploration and production) has not been generally available to companies within the industry. Without such insurance, and if the Company becomes subject to environmental liabilities, the payment of such liabilities would reduce or eliminate its available funds or could exceed the funds the Company has to pay such liabilities and result in bankruptcy. Should the Company be unable to fund fully the remedial cost of an environmental problem, it might be required to enter into interim compliance measures pending completion of the required remedy.

Tax Considerations

Corporate profits in Mexico are taxed only by the Federal Government. During 2013, there were two federal taxes in Mexico that applied to Scorpio's operations in Mexico; corporate income tax and a Flat Rate Business Tax ("IETU"). 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 2013, the corporate income tax rate in Mexico was 30%. The same rate of 30% is expected for 2014 and onwards with no reduction to 28% in 2015 as previously contemplated. The IETU is a cash-based minimum tax that applies in addition to the corporate income tax. This tax has been eliminated by the Mexican Government as of January 1, 2014. 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 2013.

In late 2013, a new income Tax Law was enacted in Mexico ("Mexican Tax Reform") which became effective January 1, 2014. Key provisions of the Mexican Tax Reform that may affect the Company consist of:

- New 7.5% mining royalty. This royalty is deductible for tax purposes and is calculated as 7.5% of a royalty base which is computed as taxable revenues (except interest and inflationary adjustments), less allowable deductions for income tax purposes (except interest, inflationary adjustment, depreciation and mining fees), less prospecting and exploration expenses for the year;
- New environmental duty of 0.5% of gross income arising from the sale of gold and silver;
- Corporate income tax rate to remain at 30%, eliminating the scheduled reduction to 29% in 2014 and to 28% in 2015;
- Elimination of the IETU
- Elimination of the option for depreciation of capital assets on an accelerated basis;
- Elimination of 100% deduction on exploration expenses for locating and quantifying new deposits in pre-operating periods. These exploration costs will be amortized on a straight-line basis over 10 years;
- Reduction of deductibility for various employee fringe benefits; and imposes a 10% withholding tax on dividends distributed to resident individuals or foreign residents (including foreign corporations). According to the Mexico-Canada tax treaty, this dividend withholding tax rate may be reduced to 5%.

The Company believes that, pursuant to Section 7874 of the United States Internal Revenue Code of 1986, even though U.S. Silver is organized as an Ontario corporation, U.S. Silver will be treated as a U.S. domestic corporation for U.S. federal income tax purposes. As a result, U.S. Silver will be subject to U.S. federal income tax in the same manner as a corporation organized in the U.S. The Company believes that U.S. Silver likely is a United States real property holding corporation, or "USRPHC", as defined for United States federal income tax purposes. If U.S. Silver were classified as a USRPHC, any gain from the sale or other disposition, including a redemption, of its common shares would be subject to U.S. federal income taxation and U.S. Silver would be required to file a United States federal income tax return. In such circumstances, the purchaser of such common shares would be required to withhold from the purchase price an amount equal to 10% of the purchase price and remit such amount to the U.S. Internal Revenue Service. In addition, since, as noted above, U.S. Silver is classified as a U.S. domestic corporation, the gross amount of dividends paid by U.S. Silver will be subject to U.S. withholding tax at the current rate of 5% under the Canada-United States Convention with Respect to Taxes on Income and on Capital. U.S. Silver will only be eligible for foreign tax credits under the Canadian *Income Tax Act* to the extent it has qualifying income from a source in the U.S. in the year any U.S. tax or withholding tax is paid by or on behalf of U.S. Silver in respect of a gain on the sale or other disposition of its common shares or a dividend paid on such shares. Any gain from the sale or other disposition, including a redemption, of the common shares of U.S. Silver and dividends received on such shares by U.S. Silver will likely not be treated as income sourced in the United States for these purposes.

Critical Accounting Policies and Estimates

Adoption of new accounting standards

The Company has adopted the following new standards effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

(i) Levies imposed by governments

In May 2013, the IASB issued IFRIC 21 – *Levies* ("IFRIC 21"), an interpretation of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past activity or event ("obligating event") described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The adoption of IFRIC 21 did not have an impact on the Company's consolidated financial statements.

(ii) Recoverable amount disclosures

In May 2013, the IASB issued amendments to IAS 36 – *Impairment of Assets* ("amendments to IAS 36"). The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or cash generating unit ("CGU") to periods in which an impairment loss has been recognized or reversed. The amendments also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less cost of disposal. The amendments are effective for annual periods beginning on or after January 1, 2014 and should be applied retrospectively. See note 12 for disclosures on impairment of mining interests in the Company's consolidated financial statements.

Accounting standards issued but not yet applied

Management is evaluating the impact the adoption of the following new and revised standards and amendments will have on the consolidated financial statements of the Company.

(i) Financial instruments

IFRS 9 - *Financial Instruments* - The standard was issued in its final version by the IASB in July 2014 bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, "Financial instruments: recognition and measurement" ("IAS 39"). The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is assessing the impact of this Standard.

(ii) Revenue from contracts with customers

IFRS 15 - *Revenue from Contracts with Customers* - The final standard on revenue from contracts with customers was issued in May 2014 and is effective for annual reporting periods beginning after December 15, 2016 for public entities with early application not permitted. The standard covers principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt the guidance. The Company is assessing the impact of this Standard.

Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

(i) Reserves and resources

Proven and probable reserves are the economically mineable parts of the Company's measured and indicated mineral resources. The Company estimates its proven and probable reserves and measured and indicated and inferred mineral resources based on information compiled by appropriately qualified persons. The information relating to the geological data on the size, depth and shape of the ore bodies requires complex geological judgments to interpret the data. The estimation of future cash flows related to proven and probable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs along with geological assumptions and judgments made in estimating the size, grade and recovery of the ore bodies.

Changes in the proven and probable reserves or measured, indicated and inferred mineral resources estimates may impact the carrying value of mining properties and equipment, depletion and amortization, impairment assessments and the timing of decommissioning provisions.

(ii) Depletion and amortization

Mining properties are depleted using the unit-of-production method over a period not to exceed the estimated life of the ore body based on estimated recoverable reserves.

Property, plant and equipment are depreciated, net of residual value over their estimated useful life but do not exceed the related estimated life of the mine based on estimated recoverable mineral reserves.

The calculation of the units of production rate, and therefore the annual depletion and amortization expense, could be materially affected by changes in the underlying estimates. Changes in estimates can be the result of actual future production differing from current forecasts of future production and expansion of mineral reserves through exploration activities.

Significant judgment is involved in the determination of useful life and residual values for the computation of depletion and amortization. No assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

(iii) Decommissioning provision

The Company assesses its decommissioning provision on an annual basis or when new material information becomes available. Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for decommissioning provision requires management to make estimates of the time and future costs the Company will incur to complete the rehabilitation work required to comply with existing laws and regulations at each mining operation. Also, future changes to environmental laws and regulations could increase the extent of rehabilitation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for decommissioning provision. The provision represents management's best estimate of the present value of the future decommissioning provision. The actual future expenditures may differ from the amounts currently provided.

(iv) Share-based payments

The amount expensed for share-based compensation is based on the application of a recognized option valuation formula, which is highly dependent on, amongst other things, the expected volatility of the Company's registered shares, estimated forfeitures, and the expected life of the options. The Company uses an expected volatility rate for its shares based on past stock trading data, adjusted for future expectations, and actual volatility may be significantly different.

The resulting value calculated is not necessarily the value that the holder of the option could receive in an arm's length transaction, given that there is no market for the options and they are not transferable. It is management's view that the value derived is highly subjective and dependent entirely upon the input assumptions made.

(v) Income taxes

Preparation of the consolidated financial statements requires an estimate of income taxes in each of the jurisdictions in which the Company operates. The process involves an estimate of the Company's current tax exposure and an assessment of temporary differences resulting from differing treatment of items, such as depletion and amortization, for tax and accounting purposes, and when they might reverse.

These differences result in deferred tax assets and liabilities that are included in the Company's consolidated statements of financial position.

An assessment is also made to determine the likelihood that the Company's future tax assets will be recovered from future taxable income. To the extent that recovery is not considered likely, the related tax benefits are not recognized.

Judgment is required to continually assess changing tax interpretations, regulations and legislation, to ensure liabilities are complete and to ensure assets, net of valuation allowances, are realizable. The impact of different interpretations and applications could be material.

(vi) Impairment of mining interests

Mining interests are reviewed and evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Common indicators of impairment in the mining industry include:

- a significant deterioration in expected future commodity prices;
- a significant adverse movement in foreign exchange rates;
- a significant increase in production costs;
- a large cost overrun during the development and construction of a new mine;
- a significant increase in the expected cost of dismantling assets and restoring the site;
- a significant reduction in the mineral content of ore reserves/resources;
- serious mine accidents;
- a significant increase in market interest rates; and
- adverse changes in government regulations and environmental law, including a significant increase in the taxes payable by the mine.

The recovery of amounts recorded for mining interests depends on the Company's interpretation of its interest in the underlying mineral claims based on existing regulations, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof. Management relies on the life-of-mine plans and comparable market valuations in its assessments of economic recoverability and probability of future economic benefit.

(vii) Purchase price allocation

Business combinations require judgment and estimates to be made at the date of acquisition in relation to identifying the acquirer, determining assets and liability fair values and the allocation of the purchase consideration over the fair value of the assets and liabilities.

In respect of mining company combinations, such as the combination of U.S. Silver in December 2014, excess purchase consideration is typically allocated to the mineral reserves and resources being acquired. The estimate of reserves and resources is subject to assumptions relating to life of the mine and may change when new information becomes available. Changes in reserves and resources as a result of factors such as production costs, recovery rates, grade or reserves or commodity prices could impact depreciation rates, asset carrying values and decommissioning provision. Changes in assumptions over long-term commodity prices, market demand and supply, and economic and regulatory climates could also impact the carrying value of assets, including goodwill.

Financial Instruments

At December 31, 2014, the Company had foreign exchange derivatives to buy 60 million Mexican pesos extendable month to month at an exchange rate of 13.13 MXP/USD valued at approximately $4.6 million. The spot rate at December 31, 2014 was 14.75 MXP/USD with the contracts having a value of approximately $4.1 million. Accordingly, the Company recorded an unrealized loss of $0.5 million (2013: nil) on these contracts. This impact would have no effect on the Company's cash flows until the forward contracts mature or the Company terminates the contract.

Capital Structure

The Company is authorized to issue an unlimited number of common shares, where each common share provides the holder with one vote. As at December 31, 2014, there were 336,057,650 common shares issued and outstanding.

As at March 27, 2015, there were 336,057,650 common shares of the Company issued and outstanding and 27,721,365 options outstanding which are exchangeable in common shares of the Comapny. Adjusting for the share consolidation and merger, the number of common shares issuable on the exercise of warrants is 38,757,377.

Controls and Procedures

Management is responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"), as those terms are defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109").

The Company's DC&P are designed to ensure that all important information about the Company, including operating and financial activities, is communicated fully, accurately and in a timely way and that they provide the Company with assurance that the financial reporting is accurate.

ICFR means a process by or under the supervision of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

As at December 31, 2014, the Company's CEO and CFO have certified that the DC&P are effective and that during the year ended December 31, 2014 the Company did not make any material changes in the ICFR during the last quarter that materially affected or are reasonably likely to materially affect the Company's ICFR.

The internal controls are not expected to prevent and detect all misstatements due to error or fraud.

Non-IFRS Measures: Cash Cost per Ounce

The Company reports the cash cost per ounce of silver produced, a non-IFRS measure, in accordance with measures widely reported in the silver mining industry as a benchmark for performance measurement. Management uses these measures internally to better assess performance trends and understands that a number of investors, and others who follow the Company's performance, also assess performance in this manner.

These measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. These measures do not have any standardized meaning and may differ from methods used by other companies with similar descriptions. The method does not include depletion, depreciation, exploration or corporate administrative costs and is therefore not directly reconcilable to costs as reported under International Financial Reporting Standards.

Reconciliation of Consolidated Cash Cost per Ounce

	2014	2013
Direct mining costs ('000)	$ 26,047	$ 25,274
Smelting, refining and royalty expenses ('000)	7,405	7,988
	33,452	33,262
Less by-product credits ('000)	(19,802)	(21,096)
Total cash costs ('000)	$ 13,650	$ 12,166
Divided by silver produced (oz)	1,206,603	969,025
Silver cash costs ($/oz)	$ 11.31	$ 12.55

Reconciliation of Cosalá Cash Cost per Ounce

	2014	2013
Direct mining costs ('000)	$ 25,393	$ 25,274
Smelting, refining and royalty expenses ('000)	7,340	7,988
	32,733	33,262
Less by-product credits ('000)	(19,638)	(21,096)
Total cash costs ('000)	$ 13,095	$ 12,166
Divided by silver produced (oz)	1,177,639	969,025
Silver cash costs ($/oz)	$ 11.12	$ 12.55

Reconciliation of Galena Complex Cash Cost per Ounce

	Since Dec 23 2014	2014	2013
Direct mining costs ('000)	$ 654	$ 30,373	$ 41,970
Smelting, refining and royalty expenses ('000)	65	5,335	5,342
	719	35,708	47,312
Less by-product credits ('000)	(164)	(10,101)	(9,646)
Total cash costs ('000)	$ 555	$ 25,607	$ 37,666
Divided by silver produced (oz)	28,964	1,621,765	2,120,824
Silver cash costs ($/oz)	$ 19.18	$ 15.79	$ 17.76

Reconciliation of Consolidated All-In Sustaining Cost per Ounce

		2014		2013
Total cash costs ('000)	$	13,650	$	12,166
Capital expenditures ('000)		13,702		9,673
Exploration costs ('000)		12		-
Total all-in sustaining costs ('000)	$	27,365	$	21,839
Divided by silver produced (oz)		1,206,603		969,025
Silver cash costs ($/oz)	$	22.68	$	22.54

Reconciliation of Cosalá All-In Sustaining Cost per Ounce

		2014		2013
Total cash costs ('000)	$	13,095	$	12,166
Capital expenditures ('000)		13,606		9,673
Exploration costs ('000)		-		-
Total all-in sustaining costs ('000)	$	26,701	$	21,839
Divided by silver produced (oz)		1,177,639		969,025
Silver cash costs ($/oz)	$	22.67	$	22.54

Reconciliation of Galena Complex All-In Sustaining Cost per Ounce

		Since Dec 23 2014		2014		2013
Total cash costs ('000)	$	555	$	25,607	$	37,666
Capital expenditures ('000)		96		6,024		12,105
Exploration costs ('000)		12		862		1,635
Total all-in sustaining costs ('000)	$	664	$	32,493	$	51,406
Divided by silver produced (oz)		28,964		1,621,765		2,120,824
Silver cash costs ($/oz)	$	22.91	$	20.04	$	24.24