ANACONDA MINING INC.

Condensed Consolidated Interim Financial Statements
For the Three Months Ended
August 31, 2013 and August 31, 2012
(Expressed in Canadian Dollars)

Management's responsibility for financial reporting

The accompanying unaudited interim condensed financial statements (the "Financial Statements") of Anaconda Mining Inc. (the "Company" or "Anaconda") were prepared by management in accordance with International Financial Reporting Standards ("IFRS"). Management acknowledges responsibility for the preparation and presentation of the Financial Statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in Note 2 of the Consolidated Financial Statements for the year ended May 31, 2013.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the Financial Statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the Financial Statements and (ii) the Financial Statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the Financial Statements.

The Board of Directors is responsible for reviewing and approving the Financial Statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the Financial Statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the Financial Statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

NOTICE OF NO AUDITOR REVIEW OF REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The accompanying Financial Statements of the Company have been prepared by and are the responsibility of the Company's management.

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

Management's assessment of internal control over financial reporting ("ICFR")

Management is also responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The internal control system was designed to provide reasonable assurance to the Company's management regarding the preparation and presentation of the Financial Statements.

"Dustin Angelo"	"*Errol Farr*"
President and Chief Executive Officer	Chief Financial Officer
October 9, 2013	October 9, 2013

Anaconda Mining Inc.

Condensed Consolidated Interim Statements of Financial Position

(Canadian dollars)

As at	August 31 2013 $	May 31 2013 (as restated note 19) $
Assets		
Current Assets		
Cash (note 2)	**924**	466,899
Trade and other receivables (note 3)	**497,324**	97,711
HST receivable	**338,838**	429,932
Prepaid expenses and deposits	**324,423**	274,000
Inventory (note 4)	**1,610,247**	1,367,565
Deferred income tax asset (note 15)	**1,280,000**	1,524,000
	4,051,756	4,160,107
Investment (note 5)	**50,000**	50,000
Restricted cash (note 2)	**805,687**	805,687
Deferred income tax asset (note 15)	**2,364,000**	2,364,000
Exploration and evaluation assets (note 6)	**1,811,256**	1,332,613
Production stripping assets (note 7) (as restated note 19)	**592,127**	229,766
Property, mill and equipment (note 8)	**16,257,515**	16,669,640
	25,932,341	25,611,813
Liabilities		
Current liabilities		
Trade and other payables (notes 9)	**2,225,398**	2,569,385
Current portion of loans (note 10)	**159,222**	173,232
	2,384,620	2,742,617
Loans (note 10)	**89,536**	89,106
Decommissioning liability (note 11)	**1,212,774**	1,199,045
	3,686,930	4,030,768
Shareholders' equity		
Share capital, reserves, and convertible-debt equity (loss) (note 12)	**37,170,761**	37,102,693
Deficit	**(14,925,350)**	(15,521,648)
	22,245,411	21,581,045
	25,932,341	25,611,813

Subsequent events (note 18)

Approved by the Board of Directors on October 9, 2013

"Maruf Raza"	*"Lewis Lawrick"*
Director	Director

Anaconda Mining Inc.

Condensed Consolidated Interim Statements of Comprehensive Income

(Canadian dollars)

For the three months ended	**August 31 2013 $**	August 31 2012 (as restated note 19) $
Revenue		
Gold sales	**5,731,783**	6,860,300
Less: net smelter royalty	**169,352**	204,346
	5,562,431	6,655,954
Cost of sales		
Mill operations	**1,624,551**	1,591,034
Mining costs	**1,386,429**	1,717,516
Logistics	**174,430**	236,250
Project administration	**99,320**	66,699
Depletion and depreciation	**815,185**	591,313
	4,099,915	4,202,811
Gross margin	**1,462,516**	2,453,142
Expenses		
Corporate administration	**491,349**	455,317
Share-based payments	**68,070**	60,463
Interest expense	**192**	233,887
Foreign exchange losses	**370**	8,974
Unrealized loss on forward sales contract derivative	**62,239**	-
	622,220	758,641
Income before income taxes	**840,296**	1,694,501
Current income tax expense	**(244,000)**	-
Net income and comprehensive income for the period	**596,296**	1,694,501
Net income per share - basic	**0.00**	0.01
Net income per share - fully diluted	**0.00**	0.01
Weighted average number of shares outstanding		
- basic	**179,878,964**	176,825,944
- fully diluted	**180,025,854**	184,191,884

Anaconda Mining Inc.

Condensed Consolidated Interim Statements of Changes in Equity

(Canadian dollars)

	Share capital		Share based payments	Warrants	Convertible debt equity	Share capital, reserves, convertible-debt equity and other comprehensive income (loss)	Deficit (as restated note 19)	Total
	#	$	$	$	$	$	$	$
Balance at May 31, 2012	**176,825,943**	**32,746,097**	**3,823,017**	**4,051,999**	**447,359**	**41,068,472**	**(27,540,654)**	**13,527,818**
Share-based compensation	-	-	60,463	-	-	60,463	-	60,463
Net income for the period	-	-	-	-	-	-	1,694,501	1,694,501
Balance at August 31, 2012	**176,825,943**	**32,746,097**	**3,883,480**	**4,051,999**	**447,359**	**41,128,935**	**(25,846,153)**	**15,101,129**
Proceeds from exercise of warrants	3,053,020	244,240	-	-	-	244,240	-	244,240
Fair value transfer of warrants	-	143,188	-	(143,188)	-	-	-	-
Share-based compensation	-	-	85,686	-	-	85,686	-	85,686
Balances transferred to deficit	-	-	-	(3,908,811)	(447,359)	(4,356,170)	4,356,170	-
Net income for the period	-	-	-	-	-	-	5,968,337	5,986,337
Balance at May 31, 2013	**179,878,963**	**33,133,525**	**3,969,166**	**-**	**-**	**37,102,691**	**(15,521,646)**	**21,581,045**
Share-based compensation	-	-	68,070	-	-	68,070	-	68,070
Net income for the period	-	-	-	-	-	-	596,296	596,296
Balance at August 31, 2013	**179,878,963**	**33,133,525**	**4,037,236**	**-**	**-**	**37,170,761**	**(14,925,350)**	**22,245,411**

Anaconda Mining Inc.

Condensed Consolidated Interim Statements of Cash Flows

(Canadian dollars)

For the three months ended	August 31 2013 $	August 31 2012 (as restated note 19) $
Operations		
Net income	**596,296**	1,694,502
Adjustments to reconcile net income to cash flow from operating activities:		
Depletion and depreciation	**815,185**	591,313
Share-based payments	**68,070**	60,463
Income tax expense	**244,000**	-
Interest accretion of loans and debentures	**-**	106,720
Interest accretion of decommissioning liability	**13,729**	13,128
Net change in non-cash working capital items:		
Trade and other receivables	**(399,613)**	(2,968)
HST receivable	**91,094**	20,532
Prepaid expenses and deposits	**(50,423)**	(9,451)
Inventory	**(242,682)**	161,719
Trade and other payables	**(343,987)**	(50,752)
Cash flow provided from (used in) operating activities	**791,669**	2,585,206
Financing		
Proceeds from bank loan	**46,354**	-
Repayment of debentures	**-**	(698,000)
Repayment of government and bank loans	**(59,934)**	(88,963)
Cash flow provided from (used in) financing activities	**(13,580)**	(786,963)
Investments		
Purchase of property, mill and equipment	**(403,060)**	(362,628)
Purchase of production stripping assets	**(362,361)**	(198,843)
Purchase of exploration and evaluation assets	**(478,643)**	(168,355)
Restricted cash	**-**	(133,692)
Cash flow provided from (used in) investing activities	**(1,244,064)**	(861,518)
Net increase (decrease) in cash	**(465,975)**	936,724
Cash at beginning of period	**466,899**	678,568
Cash at end of period	**924**	1,615,292
Supplemental cash flow information:		
Interest paid	**-**	127,167
Taxes paid	**-**	-

General

Corporate
The Company's principal business activity is that of a gold mining and mineral exploration company with operations in Canada and was incorporated under the laws of British Columbia. The Company's common shares are listed on the Toronto Stock Exchange, with ticker symbol "ANX". The Company's registered office is located at The Exchange Tower, 130 King Street West, Suite 2120, Toronto, Ontario, M5X 1C8.

Pine Cove Project – Baie Verte, Canada
The Company owns an operating mining project in Baie Verte, Newfoundland (the "Pine Cove Project" or the "Project"). On September 7, 2010, the Company achieved Commercial Production (as defined in its option and joint venture agreement) with a processing capacity of approximately 1,000 tonnes of ore per day earning a 60% interest in the Pine Cove Project from Anaconda's joint venture partner, New Island Resources Inc. ("New Island"). During January 2011, the Company and New Island completed a Plan of Arrangement that resulted in Anaconda's ownership in the Pine Cove Project increasing to 100%. The Project includes approximately 660 hectares of mining rights, an open pit mining operation and complete mill infrastructure capable of producing gold dore bars. The Company has entered into option agreements to acquire a 100% interest in four additional exploration properties (as described in note 7 below). The agreements increase the Company's land package of the Pine Cove Project seven-fold to approximately 4,785 hectares.

Chilean Asset Sale
On December 7, 2011, the Company announced that, pursuant to an agreement dated that day, it had closed the sale of its Chilean iron-ore business operations (the "Chilean Assets") to a private Chilean company, Hierro Tal Tal S.A. ("Tal Tal"), for up to US$11 million in cash payments (including US$2 million at closing and US$2 million on or before May 31, 2012, both payments received), a 0.5% gross sales royalty and a 1.25% carried interest in Compania Portuaria Tal Tal S.A. Sees notes 5, 14 and 18.

1. Basis of preparation

Statement of compliance
The Company's Financial Statements, including comparatives, have been prepared in accordance with and using accounting policies in full compliance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standards ("IAS") 34, Interim Financial Reporting. The Financial Statements do not include all financial risk management information and disclosures as required in the audited annual consolidated financial statements. The Financial Statements should be read in conjunction with the audited annual consolidated financial statements for the year ended May 31, 2013, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies and methods of computation remain the same as presented in the audited consolidated financial statements for the year ended May 31, 2013 except as discussed below.

Adoption of new and revised standards

Stripping costs
Development stage
During the development stage of any mine activities, any stripping costs are capitalized as part of the mining asset under development. These capitalized costs are depreciated on a units of production method, once commercial production begins.

Production stage
During the production stage of any mining activities, to the extent that the benefit from the stripping activity is realized in the form of inventory produced, costs are included as part of inventory. To the extent that the benefit is new or improved access to ore bodies, the costs are capitalized as stripping activity asset, as part of the existing mining asset, provided there is a reasonable expectation of recovering the benefit of these assets (see note 19).

2. Cash and restricted cash

The Company's cash consist of cash on deposit with a Canadian Chartered bank totaling $924 (May 31, 2012 - $466,899).

Restricted cash balance consists of long-term cash on deposit with a bank in an interest-generating money-market account with no stipulated terms of maturity of $805,687 (May 31, 2013 - $805,687).

The following chart discloses the Company's cash and cash equivalents that are restricted as a result of cash held by its Canadian bank in interest bearing deposits securing letters of credit issued regarding the Pine Cove project and corporate credit card authorized spending limits:

	August 31 2013 $	May 31 2012 $
General purpose		
Cash	**924**	466,899
Restricted		
Cash equivalent[1]	**805,687**	805,687
	805,687	805,687

[1]This cash is restricted in concert with the Company's decommissioning liabilities (note 11). It has issued letters of credit in the amount of $565,500 to the Newfoundland and Labrador government and $211,510 to Fisheries and Oceans Canada in satisfaction of its requirements under the approved site development and that may only be lifted by the Newfoundland and Labrador government or Fisheries and Oceans Canada, respectively. The Company also has corporate credit cards that have authorized limits secured by cash collateral of $27,500.

3. Trade and other receivables

The Company's trade and other receivables arise from three main sources: trade receivables from the Company's metals broker for sold but unpaid gold, accounts receivable related to the sharing of rent expense with a third party and a trade receivable from a related party. The details of the Company's trade and other receivables are set out below:

As at	**August 31 2013 $**	May 31 2013 $
Gold sales receivable	**394,288**	-
Accounts receivable	**8,475**	-
Due from related party	**94,561**	97,711
	497,324	97,711

Below is an aged analysis of the Company's trade and other receivables:

As at	**August 31 2013 $**	May 31 2013 $
Less than 1 month	**402,763**	-
30-60 days	**-**	-
60+ days	**94,561**	97,711
	497,324	97,711

At August 31, 2013, the Company anticipates full recovery of the amount due from related party therefore no impairment has been recorded. The credit risk on the receivables has been further discussed in note 18. The Company holds no collateral for any receivable amounts outstanding as at August 31, 2013.

4. Inventory

As at	**August 31 2013 $**	May 31 2013 $
Ore in stock pile	**986,883**	871,330
Raw materials	**279,664**	195,085
Work in progress	**301,150**	301,150
Finished products - gold dore	**42,550**	-
	1,610,247	1,367,565

The inventory balance represents allocated costs to ore stockpiles and in-circuit (work in process) inventory based on quantities of material stockpiled and in the mill circuit including cost allocations from waste mining costs and overheads relating to mining and milling operations.

5. Investments

The investment acquired from the Chilean asset sale is described as follows:

As at	**August 31 2013 $**	May 31 2013 $
1.25% carried interest in Compania Portuaria Tal Tal S.A.	**50,000**	50,000

See general note and note 14.

6. Exploration and evaluation assets

Properties	Interest	Balance as at May 31 2013	Option of mining property	Expenditures	Balance as at May 31 2013
	%	$	$	$	$
Newfoundland					
Pine Cove Project					
Pine Cove License Area	100	927,490	-	413,616	1,341,106
Tenacity	100	119,032	-	-	119,032
Fair Haven	100	45,160	-	50	45,210
Froude	100	22,378	-	-	22,378
Duffitt and Strong	100	27,380	-	-	27,380
Regional (unallocated)	100	191,173	-	64,977	256,150
		1,332,613	**-**	**478,643**	**1,811,256**

Properties	Interest	Balance as at May 31 2012	Option of mining property	Expenditures	Balance as at May 31 2013
	%	$	$	$	$
Newfoundland					
Pine Cove Project					
Pine Cove License Area	100	279,012	600	647,878	927,490
Tenacity	100	30,527	28,032	60,473	119,032
Fair Haven	100	-	15,354	29,806	45,160
Froude	100	-	10,000	12,378	22,378
Duffitt and Strong	100	-	20,000	7,380	27,380
Regional (unallocated)	100	-	-	191,173	191,173
		309,539	**73,986**	**949,088**	**1,332,613**

The Company owns 100% of the **Pine Cove Project**. Together the Pine Cove License Area and the Tenacity, Fair Haven, Froude, and Duffitt and Strong Properties comprise the Pine Cove Project encompassing approximately 4,785 hectares.

The **Pine Cove License Area** comprises two contiguous mining leases totaling 659.7 hectares and contains an operating open pit mine, milling and processing plant and equipment and a permitted tailings storage facility. The Pine Cove License Area is subject to two royalty agreements, the first with Tenacity Gold Mining Company Ltd. ("Tenacity"), whereby the Company is required to pay Tenacity a net smelter royalty of 3% of the metal sales from the Pine Cove License Area to a maximum of $3 million. The Company has approximately $931,000 left on this obligation. The second is a Net Profits Interest ("NPI") agreement with Royal Gold, Inc. ("Royal"), whereby the Company is required to pay Royal a royalty of 7.5% of the net profits; calculated as the gross receipts generated from the claims less all cumulative development and operating expenses. At August 31, 2013 the Company has determined it has approximately $36 million in carry forward expenditures deductible against future receipts.

Option Agreements
On May 7, 2012 the Company entered into a five-year property option agreement (the "Agreement") with Tenacity to acquire a 100% undivided interest in 4 mineral exploration licenses (the "**Tenacity Property**") totaling 63 claims or approximately 1,575 hectares contiguous to the Pine Cove License Area. The

Agreement requires the Company to pay to Tenacity $25,000 at closing (paid), an additional $275,000 in cash payments over the option period and incur $750,000 in expenditures over the life of the option. At the Company's option, 50% of the cash payments can be settled with the issuance of common shares; with value determined based on a weighted average of the 30 trading days preceding payment. The Agreement also entitles Tenacity to a net smelter royalty ("NSR") of 3% when the average price of gold is less than US$2,000 per ounce for the calendar quarter or at 4% when the average price of gold is more than US$2,000 per ounce for the calendar quarter, with a cap of $3 million.

On July 19, 2012 the Company entered into a five-year property option agreement (the "Agreement") with Fair Haven Resources Inc. ("Fair Haven") to acquire a 100% undivided interest in 11 exploration licenses (the "**Fairhaven Property**") totaling 71 claims or approximately 1,804 hectares near its Pine Cove mine. The Fair Haven Property runs adjacent to the optioned Tenacity Property. The Agreement requires the Company to pay to Fair Haven $10,000 at closing (paid) and to fund expenditures over the life of the option to a minimum of $750,000. The Agreement also entitles Fair Haven to a NSR of 2% to an aggregate sum of $3 million; following this and after 200,000 ounces of gold has been sold from the Fair Haven Property, Fair Haven is then entitled to 1% NSR.

On November 13, 2012 the Company entered into a five-year property option agreement (the "Agreement") with Herb Froude ("Froude") to acquire a 100% undivided interest in 1 exploration license (the "**Froude Property**") totaling 11 claims or approximately 275 hectares near its Pine Cove mine. The Froude Property is contiguous and now inclusive in the Pine Cove Project. The Agreement requires the Company to pay to Froude $10,000 on January 1, 2013 (paid) and to fund expenditures over the life of the option to a minimum of $125,000. The Agreement also entitles Froude to a NSR of 3% to an aggregate sum of $3 million; following this and after 200,000 ounces of gold has been sold from the Froude Property, Froude is then entitled to 1% NSR.

On November 19, 2012 the Company entered into a five-year property option agreement (the "Agreement") with Messer's Duffitt and Strong ("Duffitt and Strong") to acquire a 100% undivided interest in 2 exploration licenses (the "**Duffitt and Strong Property**") totaling 7 claims or approximately 175 hectares near its Pine Cove mine. The Duffitt and Strong Property is contiguous with and now inclusive in the Pine Cove Project. The Agreement requires the Company to pay to Duffitt and Strong $20,000 at closing (paid) and to fund expenditures over the life of the option to a minimum of $125,000. The Agreement also entitles Duffitt and Strong to a NSR of 3% to an aggregate sum of $3 million; following this and after 200,000 ounces of gold has been sold from the Duffitt and Strong Property, Duffitt and Strong is then entitled to 1% NSR.

7. Stripping costs

	$
Balance, June 1, 2012	**-**
Additions	788,389
Depreciation	(558,623)
Balance, May 31, 2013	**229,766**
Additions	362,361
Balance, August 31, 2013	**592,127**

8. Property, mill and equipment

For the three months ending August 31, 2013

	Cost beginning of period	Additions	Disposals/ transfers	Cost end of period
	$	$	$	$
Mill	6,434,601	568,608	-	7,003,209
Equipment	621,490	180,536	-	802,026
Property	14,050,573	121,228	-	14,171,801
Capital in progress	794,075	401,902	(882,944)	313,033
	21,900,739	**1,272,274**	**(882,944)**	**22,290,069**

	Accumulated depreciation beginning of period	Depreciation/ depletion	Accumulated depreciation end of period	Net book value
	$	$	$	$
Mill	1,652,652	241,540	1,894,192	5,109,017
Equipment	242,474	52,626	295,100	506,926
Property	3,335,973	507,289	3,843,262	10,328,539
Capital in progress	-	-	-	313,033
	5,231,099	**801,455**	**6,032,554**	**16,257,515**

For the year ending May 31, 2013

	Cost beginning of year	Additions	Disposals/ transfers	Cost end of year
	$	$	$	$
Mill	6,314,954	157,797	(38,150)	6,434,601
Equipment	394,393	227,097	-	621,490
Property	13,492,595	540,882	17,096	14,050,573
Capital in progress	85,676	708,399	-	794,075
	20,287,618	**1,634,175**	**(21,054)**	**21,900,739**

	Accumulated depreciation beginning of year	Depreciation/ depletion	Accumulated depreciation end of year	Net book value
	$	$	$	$
Mill	976,567	676,085	1,652,652	4,781,949
Equipment	111,923	130,551	242,474	379,016
Property	1,871,564	1,464,409	3,335,973	10,714,600
Capital in progress	-		-	794,075
	2,960,054	**2,271,045**	**5,231,099**	**16,669,640**

9. Trade and other payables

As at	**August 31 2013 $**	May 31 2013 $
Trade payables	**1,608,625**	1,720,334
Accrued liabilities	**385,688**	484,450
Forward sales contract derivative	**62,239**	-
Accrued payroll costs	**168,846**	364,601
	2,225,398	2,569,385

10. Loans

The following table provides the details of the current and non-current components of the loans and debentures as at May 31, 2013 and May 31, 2012.

	August 31 2013 $	May 31 2013 $
ACOA Loan	**203,694**	241,890
INTRD Loan	**-**	20,448
Bank loan	**45,064**	-
	248,758	262,338
Less: current portion	**159,222**	173,232
Non-current portion	**89,536**	89,106

ACOA loan payable, due December 14, 2014, is non-interest bearing and repayable in one payment of $41,666 on June 1, 2011, 35 monthly payments of $12,723 commencing on January 1, 2012 and one final payment of $12,714.

The balance is made up as follows:

	August 31 2013 $	May 31 2013 $
Principal balance repayable	**203,694**	241,890
Less: current portion	**152,784**	152,784
Non-current portion	**50,910**	89,106

INTRD loan payable, due June 16, 2013, bears interest at 5% per annum and repayable in 30 blended monthly payments of $17,877, commencing on January 16, 2011.

The balance is made up as follows:

	August 31 2013 $	May 31 2013 $
Principal balance repayable	**-**	20,448
Less: current portion	**-**	20,448
Non-current portion	**-**	-

Bank loan, due July 2019, non-interest bearing and repayable in 72 monthly payments of $644.

The balance is made up as follows:

	August 31 2013 $	May 31 2013 $
Principal balance repayable	**45,064**	-
Less: current portion	**6,438**	-
Non-current portion	**38,626**	-

11. Decommissioning liability

A reconciliation of the provision for asset retirement obligations is as follows:

	August 31 2013 $	May 31 2013 $
Opening balance	**1,199,045**	1,146,533
Interest accretion	**13,729**	52,512
Closing balance	**1,212,774**	1,199,045

The Company's estimates of future asset retirement obligations are based on reclamation standards that meet or exceed regulatory requirements. Elements of uncertainty in estimating these amounts include potential changes in regulatory requirements, decommissioning and reclamation alternatives and amounts to be recovered from other parties. The provision for reclamation is provided against the Company's Pine Cove project and is based on the project plan approved by the Government of Newfoundland.

In concert with the Company's decommissioning liabilities, it has issued letters of credit in the amount of $565,500 to the Newfoundland and Labrador government and $211,510 to Fisheries and Oceans Canada in satisfaction of its requirements under the approved site development and that may only be lifted by Newfoundland and Labrador government or Fisheries and Oceans Canada, respectively.

12. Capital stock

Common shares
Anaconda's authorized share capital consists of an unlimited number of Common shares.

Warrants
There were no outstanding warrants as at August 31, 2013 or May 31, 2013.

During the year ended May 31, 2013, 22,227 purchase warrants with an expiry date of April 22, 2013, 104,208 purchase warrants with an expiry date of March 20, 2013 and 2,926,585 purchase warrants with an expiry date of May 3, 2013 were exercised, all at a price of $0.08. All other warrants expired unexercised.

Options
As at August 31, 2013, 17,987,896 common shares were available for the grant of stock options to directors, officers, employees and service providers in connection with the Company's stock option plan (the "Plan"). The Plan is a 10% rolling option plan based on the number of common shares issued and outstanding. As at August 31, 2013, 14,030,000 were outstanding with 11,230,000 exercisable and 3,957,896 left unallocated. Most stock options issued to date under the Plan vest in two installments over 12 months and expire five years from the date of grant unless specifically approved otherwise by the board of directors.

The following summary sets out the activity in the Plan over the periods:

	Options #	Weighted average exercise price $
Outstanding, May 31, 2012	**13,450,000**	**0.19**
Granted	3,150,000	0.09
Expired/Forfeited	(1,760,000)	0.59
Outstanding May 31, 2013	**14,840,000**	**0.12**
Expired/Forfeited	(810,000)	0.13
Outstanding August 31, 2013	**14,030,000**	**0.12**
Options exercisable, August 31, 2013	**11,230,000**	**0.14**

The following table sets out the details of the stock options granted and outstanding as at August 31, 2013:

Number of stock options	Number exercisable	Remaining contractual life	Exercise price per share	Expiry date
380,000	380,000	0.78 years	$0.23	June 11, 2014
2,950,000	2,950,000	1.55 years	$0.20	March 18, 2015
5,150,000	5,150,000	2.47 years	$0.11	February 15, 2016
150,000	150,000	2.91 years	$0.08	July 26, 2016
500,000	500,000	3.42 years	$0.09	January 27, 2017
1,500,000	1,500,000	3.48 years	$0.095	February 17, 2017
300,000	300,000	3.68 years	$0.11	May 1, 2017
300,000	300,000	4.20 years	$0.15	November 8, 2017
2,800,000	-	4.76 years	$0.08	May 29, 2018
14,840,000	**12,040,000**			

The following table sets out the details of the valuation of stock option grants during the years ended May 31, 2013:

Date of grant	Number	Risk free interest rate	Expected dividend yield	Expected volatility	Expected life
June 26, 2012	50,000	1.25%	Nil	115.6%	5 years
November 8, 2012	300,000	1.32%	Nil	114.6%	5 years
May 29, 2013	2,800,000	1.47%	Nil	113.7%	5 years

Share-based payment expense
The fair value of the stock options granted for the three months ended August 31, 2013 was $nil (August 31, 2012 - $nil). The fair value of options vested for the three months ended August 31, 2013 was $68,070 (August 31, 2012 - $60,463) which amount has been expensed as share-based payments in the statement of comprehensive income.

13. Remuneration of key management personnel and related-party transactions

Key management personnel include the members of the Board of Directors, the President/CEO and the CFO. Compensation of key management personnel (including directors) was as follows:

For the three months ended August 31	**2013**	2012
	$	$
Salaries and short term benefits [1]	**140,236**	125,890
Share based payments [2]	**59,561**	60,463
	199,797	186,353

[1] Includes salary, management bonus, benefits and directors fees paid during the years ended May 31
[2] Includes share based payments vested during the period

Raven Hill Partners Inc. ("Raven Hill') charged Anaconda a total of $13,500 in respect of corporate administration and accounting services provided by employees of Raven Hill, $52,500 in rent for the Company's head office for the three months ending August 31, 2013. Raven Hill is beneficially owned by Lewis Lawrick and Dustin Angelo, directors of the Company.

As at August 31, 2013, included in trade and other payables is $34,000 (May 31, 2013 - $41,500) of amounts due for directors' fees.

14. Sale of Chilean mining interest

On December 7, 2011, the Company announced that, pursuant to an agreement it had closed the sale of its Chilean mining interest to Companis Portuaria Tal Tal S.A., for consideration of the following:

	US$
Payment in cash at closing (received)	2,000,000
Payment in cash on May 31, 2012 (received)	2,000,000
Contingent payments:	
At Commercial Production	
30 days after first shipment of production from the first producing property (received after August, 31, 2013)	1,000,000
30 days after first shipment of production from the second producing property or two years from first production of the first producing property	2,000,000
Sales Price Payments	
Based on the selling price of the initial 900,000 tons of iron ore (between US$90 and US$150 per ton) from the first producing property	250,000 – 2,000,000
Based on the earlier of: selling price of the initial 900,000 tons of iron ore (between US$90 and US$150 per ton) from the second producing property or selling price from the 1,800,000 – 2,700,000 tons of the first producing property	250,000 – 2,000,000
	7,500,000 – 11,000,000

Given uncertainty surrounding the realization of the contingent consideration, it was excluded from the purchase and sale accounting. As at August 31, 2013, the Company had not collected on any of the contingent payments, However on September 9, 2013, the Company was paid US$1 million related to the first commercial production payment (see subsequent event note 19).

In addition the Company has a 1.25% carried interest in Compania Portuaria Tal Tal S.A. The Company designated this investment as available for sale. At May 31, 2013, a reliable price in an active market was unavailable; accordingly it was carried at its fair value on recognition. No indicators of impairment were noted during the three months ended August 31, 2013.

15. Capital management

The Company's capital structure is adjusted based on management's and the Board of Directors' decision to fund expenditures with the issuance of debt or equity such that it may complete the acquisition, exploration, development and operation of properties for the mining of minerals that are economically recoverable. The Board of Directors does not establish quantitative return on capital criteria, but rather relies on the expertise of management and other professionals to sustain future development of the business.

The Company's Pine Cove project, which is now in production, is currently producing cash flow to fund ongoing working capital requirements, corporate and administrative expenses, debt service, capital expenditure requirements and other contractual obligations. The Company intends to supplement its Pine Cove project cash flow and raise such funds as and when required to complete its projects as they arise. There is no assurance that the Company will be able to raise additional funds on reasonable terms. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that Anaconda will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Company.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the three months ended August 31, 2013. The Company is not subject to externally imposed capital restrictions.

16. Financial instruments

Classifications
The Company has classified its cash and cash equivalents and restricted cash and forward sales contract derivatives as FVTPL, which are measured at fair value. The Company's investments have been classified as available-for-sale, which are measured at fair value. Trade and other receivables are classified as loans and receivables, which are measured at amortized cost. Trade and other payables and loans and debentures are classified as other financial liabilities, which are measured at amortized cost.

Fair values of cash and cash equivalents and restricted cash are based on quoted prices in active markets for identical assets; resulting in a level one valuation. Fair values of investments are not based on observable market data; resulting in a level three valuation. Forward sales contract derivatives are level 2.

Forward sales contract derivative
The Company enters into commodity derivatives including forward gold contracts to manage the exposure of fluctuations in gold prices. In the case of forwards, these contracts are intended to reduce the risk of declining prices on future sales. Some of the derivative transactions are effective in achieving the Company's risk management goals, however, they do not meet the hedging requirements of IAS 39 – Financial Instruments: Recognition and Measurement, therefore, the changes in fair value are recorded in earnings. At August 31, 2013, the following forward gold contracts are outstanding:

	Expiry range	Ounces	Price CAD$ per ounce	Fair Value at August 31, 2013
Gold forward CAD$ denominated contracts	September 30, 2013	100	1,360	(8,427)
	October 31, 2013 to November 30, 2013	200	1,365	(15,853)
	September 30, 2013 to November 30, 2013	300	1,374	(21,079)
	September 30, 2013 to November 30, 2013	300	1,480	10,720
Synthetic put contract	September 30, 2013 to November 30, 2013	600	1,239	(27,600)
		1,500		**(62,239)**

17. Property and financial instrument risk factors

Property risk
The Company's major project is its Pine Cove Project. Unless the Company acquires or develops additional material properties, the Company will be mainly dependent upon the Project. Any adverse developments affecting the Company's Project would have a material adverse effect on the Company's financial condition and results of operations.

Credit risk
Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The Company's credit risk is attributable to cash and trade and other receivables.

Cash is held with a tier A Canadian chartered bank as such management believes the risk of loss to be minimal. Trade receivables consist of amounts due from the Company's metals broker regarding processed gold and silver en route to the broker. Management believes the credit risk associated with its trade receivables to be remote as the counter-party is a well capitalized international metals broker. No bad debts were incurred during the three months ended August 31, 2013 and 2012.

Liquidity risk
Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. As at August 31, 2013, the Company had working capital of $1,667,136 (May 31, 2013 – $1,417,490). The Company utilizes the cash flow generated from the Project's operations through-out the year for its working capital requirements. If necessary, the Company may seek further financing for capital projects or general working capital purposes. As discussed previously, there can be no assurance that Anaconda will be successful in its efforts to arrange additional financing on terms satisfactory to the Company.

Market risk
Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, commodity prices and/or stock market movements (price risk).

Interest rate risk
The Company has no interest-bearing assets and only fixed-interest liabilities. Accordingly the Company is not exposed to significant interest rate risk. When available, the Company invests excess cash, in short term securities with maturities of less than one month earning nominal interest.

Foreign currency risk
The Company's functional and presentation currency is the Canadian dollar. The Company executes all gold sales in Canadian dollars. Some of the operational and other expenses incurred by the Company

are paid in US dollars. As a result, fluctuations in the US dollar against the Canadian dollar could result in unanticipated foreign exchange gains/losses. Given the limited extent of US dollar expenses, the Company considers this risk as remote. The Company has no plans for hedging its foreign currency transactions.

Commodity price risk
Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company is exposed to commodity price risk with respect to gold prices. The Company closely monitors gold prices to determine the appropriate course of action to be taken by the Company. The Company uses derivative contracts to hedge against the risk of falling prices of gold as it enters into short-term gold sales forward contracts on an on-going basis.

18. Subsequent events

Sale of Chilean mining interest
On August 10, 2013 the first shipment of iron ore from the first producing property from the properties sold in the Chilean mining interest occurred. On September 9, 2013, 30 days after this first shipment the Company was paid US$ 1 million per the agreement in note 14. As a result of this milestone event the Company is also due an additional $2 million depending on the timing of the shipment from the second producing property or two years from the anniversary date when the first producing property commenced production. The Company will also commence receiving a gross sales royalty of 0.08% on a calendar quarter basis on the sale of iron ore concentrate.

19. Adoption of new IFRS pronouncements

The Company adopted the new IFRS pronouncements listed below as at June 1, 2013, in accordance with the transitional provisions outlined in the respective standards. The adoption of the following new and amended IFRS pronouncements has resulted in adjustments to previously reported figures as outlined below.

Production stripping costs
The Company adopted IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine ("IFRIC 20") and have applied the requirements to production stripping costs incurred on or after June 1, 2012, in accordance with the transitional provisions of IFRIC 20.

The interpretation provides guidance on how to account for overburden waste stripping costs in the production phase of a surface mine. Stripping activity related to inventory produced is accounted for in accordance with IAS 2, Inventories. Stripping activity that improves access to ore is accounted for as an addition to or enhancement of an existing asset.

Based on our analysis, the Company has identified the Pine Cove ore body to be a single pit. This aligns with how the Company views the mine and the plan for its mining activities. Previously, the Company recorded no stripping activity assets. Under IFRIC 20, the Company recognizes stripping activity assets when the following three criteria are met:

1. it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
2. the entity can identify the component of the ore body for which access has been improved; and
3. the costs relating to the stripping activity associated with that component can be measured reliably.

Stripping activity assets capitalized under IFRIC 20 are classified as production stripping assets. These assets are amortized when the benefits of the production stripping assets accrue to the ore body on a units-of-mine-production basis over the remaining proven and probable reserves of the ore body.

The adoption of IFRIC 20 resulted in an increase in the capitalization of stripping activity assets on the consolidated balance sheet and an increase in our profit and earnings per share. These items are partially offset by the depreciation of stripping activity assets on a units-of-mine-production basis in the respective periods. Inventories were adjusted to capitalize production stripping costs. The depreciation of stripping activity assets is included in the cost of inventories. The tables below outline the adjustments to the financial statements for all comparative periods presented.

The adoption of IFRIC 20 has significantly increased our capitalization of production stripping costs as compared to our previous accounting policy. During the quarter ended August 31, 2013, we capitalized $362,361 of stripping activity assets. We recorded depreciation expense on stripping activity assets of $nil during the three months ended August 31, 2013.

Adjustments to consolidated financial statements
i) Adjustments to condensed interim consolidated balance sheets

	May 31 2013 $
Equity before accounting change	21,356,836
Adjustments to:	
Inventory	84,443
Production stripping assets	229,766
Deferred income tax assets	(90,000)
Equity after accounting changes	21,581,045

ii) Adjustments to condensed interim consolidated statements of income

	Three months ended August 31, 2012 $	**Year ended May 31, 2013 $**
Profit before accounting change	**1,512,847**	7,438,629
Adjustments to:		
Mining costs	**181,654**	314,209
Income taxes	**-**	(90,000)
Profit after accounting changes	**1,694,501**	7,662,838