Anaconda Mining

Condensed Consolidated Interim Financial Statements
Three Months Ended
August 31, 2016 and August 31, 2015
(Expressed in Canadian Dollars)

Management's responsibility for financial reporting

The accompanying 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 audited annual consolidated Financial Statements for the year ended May 31, 2016.

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 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 Chartered Professional Accountants of Canada 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 12, 2016	October 12, 2016

Anaconda Mining Inc.

Condensed Consolidated Interim Statements of Financial Position

(Canadian Dollars)

As at	**August 31 2016**	May 31 2016
	$	$
Assets		
Current assets		
Cash (note 3)	**359,794**	1,636,161
Trade and other receivables (note 4)	**27,044**	27,593
HST recoverable	**324,784**	463,481
Prepaid expenses and deposits	**263,464**	286,345
Inventory (note 5)	**4,102,692**	3,143,601
	5,077,778	5,557,181
Restricted cash (note 3)	**27,500**	27,500
Deferred income tax asset	**4,867,000**	4,833,000
Exploration and evaluation assets (note 6)	**5,396,587**	4,636,737
Production stripping assets (note 7)	**4,175,578**	2,891,722
Property, mill and equipment (note 8)	**12,672,787**	12,924,772
	32,217,230	30,870,912
Liabilities		
Current liabilities		
Trade and other payables (note 9)	**4,254,982**	4,109,877
Unearned revenue (note 10)	**183,962**	512,790
Current portion of loans (note 11)	**138,090**	115,192
	4,577,034	4,737,859
Loans (note 11)	**424,754**	409,447
Decommissioning liability (note 12)	**1,878,430**	1,867,899
	6,880,218	7,015,205
Shareholders' equity		
Share capital, warrants and share based compensation (note 13)	**35,748,656**	33,898,136
Deficit	**(10,411,644)**	(10,042,429)
	25,337,012	23,855,707
	32,217,230	30,870,912

Approved by the Board of Directors on October 12, 2016.

"Maruf Raza"
Director

"Lewis Lawrick"
Director

Anaconda Mining Inc.

Condensed Consolidated Interim Statements of Comprehensive Loss

(Canadian Dollars)

	For the three months ended	
	August 31	August 31
	2016	2015
	$	$
Revenue		
Gold sales	**4,919,737**	5,785,801
Cost of sales		
Mill operations	**1,749,809**	1,679,780
Mining costs	**1,608,965**	2,399,298
Logistics	**21,576**	29,536
Project administration	**251,820**	214,759
Depletion and depreciation	**923,952**	1,053,428
	4,556,122	5,376,801
Gross margin	**363,615**	409,000
Expenses		
Corporate administration	**655,944**	497,144
Other expenses	**26,844**	25,307
Share-based compensation (note 13)	**69,977**	80,809
Finance expense	**50,214**	-
Foreign exchange (gain) loss	**(9)**	2,851
Unrealized (gain) loss on forward sales contract derivative (note 16)	**(25,790)**	2,808
	777,180	608,919
Loss before income taxes	**(413,565)**	(199,919)
Deferred income tax recovery	**(34,000)**	(15,000)
Net loss and comprehensive loss for the period	**(379,565)**	(184,919)
Net loss per share - basic	**(0.00)**	(0.00)
Net loss per share - fully diluted	**(0.00)**	(0.00)
Weighted average number of shares outstanding		
- basic	**191,517,402**	179,878,963
- fully diluted	**199,900,897**	179,878,963

Anaconda Mining Inc.

Condensed Consolidated Interim Statement of Changes in Equity

(Canadian Dollars)

	Share capital		Share-based compensation	Warrants	Subtotal	Deficit	Total
	#	$	$	$	$	$	$
Balance at May 31, 2015	**179,878,963**	**33,133,525**	**1,098,384**	**-**	**34,231,909**	**(10,836,688)**	**23,395,221**
Share-based compensation from issuance of options	-	-	80,809	-	80,809	-	80,809
Net loss for the period	-	-	-	-	-	(184,919)	(184,919)
Balance at August 31, 2015	**179,878,963**	**33,133,525**	**1,179,193**	**-**	**34,312,718**	**(11,021,607)**	**23,291,111**
Share-based compensation from issuance of options	-	-	160,143	-	160,143	-	160,143
Expiry of stock options transferred to deficit	-	-	(598,810)	-	(598,810)	598,810	-
Issuance of shares for property acquisition	250,000	12,500	-	-	12,500	-	12,500
Issuance of warrants for property acquisition	-	-	-	11,585	11,585	-	11,585
Net income for the period	-	-	-	-	-	380,368	380,368
Balance at May 31, 2016	**180,128,963**	**33,146,025**	**740,526**	**11,585**	**33,898,136**	**(10,042,429)**	**23,855,707**
Share-based compensation from issuance of options	-	-	69,977	-	69,977	-	69,977
Expiry of stock options transferred to deficit	-	-	(10,350)	-	(10,350)	10,350	-
Common shares issued for cash	29,103,787	2,037,265	-	-	2,037,265	-	2,037,265
Share issuance expense	-	(328,553)	-	82,181	(246,372)	-	(246,372)
Net loss for the period	-	-	-	-	-	(379,565)	(379,565)
Balance at August 31, 2016	**209,232,750**	**34,854,737**	**800,153**	**93,766**	**35,748,656**	**(10,411,644)**	**25,337,012**

Anaconda Mining Inc.

Condensed Consolidated Interim Statements of Cash Flows

(Canadian Dollars)

For the three months ended	**August 31 2016 $**	August 31 2015 $
Operations		
Net loss	**(379,565)**	(184,919)
Adjustments to reconcile net loss to cash flow from operating activities:		
Depletion and depreciation	**916,271**	1,051,236
Share-based compensation expense	**69,977**	80,809
Deferred income tax recovery	**(34,000)**	(15,000)
Finance expense	**30,166**	-
Interest accretion of decomissioning liability	**10,531**	5,042
Unrealized (gain) loss on forward sales contract derivative	**(25,790)**	2,808
Net change in non-cash working capital items:		
Trade and other receivables	**549**	15,614
HST recoverable	**138,697**	10,243
Prepaid expenses and deposits	**(7,285)**	(135,282)
Inventory	**(827,975)**	50,246
Trade and other payables	**145,105**	(12,275)
Cash flow provided from operating activities	**36,681**	868,522
Financing		
Proceeds from flow-through financing agreement	**2,037,265**	-
Change in unearned revenue	**(303,038)**	-
Proceeds from government loan	**50,000**	-
Repayment of bank loan	**(1,930)**	(1,932)
Issuance costs	**(246,372)**	-
Repayment of capital leases	**(9,865)**	(4,788)
Cash flow provided from (used in) financing activities	**1,526,060**	(6,720)
Investments		
Purchase of property, mill and equipment	**(795,402)**	(760,904)
Additions to production stripping assets	**(1,283,856)**	(414,397)
Purchase of exploration and evaluation assets	**(759,850)**	(324,202)
Restricted cash	**-**	(213,198)
Cash flow used in investing activities	**(2,839,108)**	(1,712,701)
Net decrease in cash	**(1,276,367)**	(850,899)
Cash at beginning of period	**1,636,161**	1,435,160
Cash at end of period	**359,794**	584,261
Supplemental cash flow information:		
Interest paid	**24,305**	1,240
Taxes paid	**-**	-

General

Corporate

The Company's principal business activities are gold mining and mineral exploration with operations in Canada. It is incorporated under the laws of Ontario. The Company's common shares are listed on the Toronto Stock Exchange under the ticker symbol "ANX". The Company's registered office is located at 150 York Street, Suite 410, Toronto, Ontario, M5H 3S5.

Point Rousse Project – Baie Verte Mining District, Newfoundland, Canada

The Company owns 100% of the Point Rousse Project ("Point Rousse"), covering 6,316 hectares on the Ming's Bight Peninsula, which is situated within the larger Baie Verte Peninsula on the north-central part of Newfoundland. Point Rousse includes open pit mining operations (the "Pine Cove Pit" and "Stog'er Tight") and complete mill infrastructure capable of processing approximately 400,000 tonnes of ore and producing approximately 16,000 ounces of gold in dore bars annually. Mill throughput is currently approximately 1,200 tonnes per day with a recovery rate of 85-87% at an average grade of 1.5 grams per tonne ("g/t").

The Point Rousse Project originally included approximately 660 hectares of mining rights. In 2012, 2013 and 2015, the Company entered into option agreements to acquire a 100%-interest in seven additional exploration properties and staked five other properties (as described in note 5). The agreements and staked claims increased the Company's land package of Point Rousse almost ten-fold to approximately 6,316 hectares.

Viking Project – Newfoundland, Canada

Anaconda also controls the Viking Project ("Viking"), which has approximately 6,225 hectares of property in White Bay, Newfoundland, approximately 100 km by water (180 km via road) from Point Rousse and its operating mill. Viking contains the Thor Gold Deposit ("Thor Deposit") and other gold prospects and showings.

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 should be read in conjunction with the Audited Annual Consolidated Financial Statements for the year ended May 31, 2016, which have been prepared in accordance with IFRS as issued by the IASB.

Recent accounting pronouncements

At the date of authorization of these Financial Statements, the IASB has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods:

- **IFRS 15 - Revenue from Contracts with Customers ("IFRS 15")** was issued in May 2014 when the IASB and the Financial Accounting Standards Board ("FASB") completed its joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for IFRS and US GAAP. As a result of the joint project, the IASB issued IFRS 15 to establish principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

- **IFRS 9 - Financial Instruments ("IFRS 9")** was issued by the IASB on July 24, 2014, and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9; fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative host contracts not within the scope of this standard. The effective date for this standard is for annual periods beginning on or after January 1, 2018.

- **IFRS 16 - Leases ("IFRS 16")** was issued by the IASB on January 13, 2016, and will replace IAS 17, *Leases*. IFRS 16 will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019.

The Company is currently evaluating the impact of these pronouncements on its Consolidated Financial Statements.

2. Accounting policy

Fair value of the warrants issued with common shares
Proceeds from unit placements are allocated between shares and warrants issued using the residual method to determine the fair value of warrants issued. Proceeds are first attributed to the shares according to the fair market value at the time of issuance and any residual amount is allocated to the warrants.

Fair value of the warrants issued to brokers
The Company uses the fair value method based on the Black-Scholes pricing model to determine the fair value of the warrants issued to brokers and record a debit in share issue expenses with a corresponding credit to warrants.

3. Cash and restricted cash

The Company's cash balances consist of cash on deposit with a Canadian chartered bank totaling $359,794 (May 31, 2016 - $1,636,161).

Restricted cash balance consists of cash collateral of $27,500 to secure authorized limits for corporate credit cards. During the year ended May 31, 2016, long-term cash on deposit with a Canadian Chartered bank in interest-generating Guaranteed Investment Certificates totaling $565,500 was released from restricted cash by the Newfoundland and Labrador government (see note 11).

4. Trade and other receivables

The Company's trade and other receivables arise from five main sources: gold sales, royalty revenue, unrealized gain on non-hedged forward sales contract derivatives, accrued interest and trade receivables from related parties. The details of the Company's trade and other receivables are set out below:

As at	**August 31 2016 $**	May 31 2016 $
Gold sales receivable	**1,486**	1,386
Accrued interest	**551**	523
Other	**2,365**	2,365
Due from related parties	**22,642**	23,319
	27,044	27,593

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

As at	**August 31 2016 $**	May 31 2016 $
Less than 1 month	**1,486**	1,386
30-60 days	**2,365**	2,365
60+ days	**23,193**	23,842
	27,044	27,593

At August 31, 2016, the Company anticipates full recovery of the amount due from related parties therefore no impairment has been recorded. The credit risk on the receivables has been further discussed in note 16. The Company holds no collateral for any receivable amounts outstanding as at August 31, 2016.

5. Inventory

As at	**August 31 2016 $**	May 31 2016 $
Gold dore	**542,627**	-
Ore in stock piles	**1,567,133**	1,015,698
Raw materials	**346,697**	459,410
Work in progress	**1,027,568**	892,626
Parts inventory	**618,667**	775,867
	4,102,692	3,143,601

Cost of sales for the three months ended August 31, 2016 of $4,556,122 (August 31, 2015 - $5,376,801) includes a credit of $6,430 (August 31, 2015 - $5,808) relating to the sale of silver by-product.

In association with the gold financing agreement (see note 9), the Company has pledged its work in progress inventory as collateral for the prepayment amount.

6. Exploration and evaluation assets

Properties	Interest	Balance as at May 31 2016	Option of mining property	Expenditures	Transfers to PME	Balance as at August 31 2016
	%	$	$	$	$	$
Newfoundland						
Point Rousse Project						
Pine Cove Lease Area	100	2,394,468	-	15,340	-	2,409,808
Tenacity	100	635,851	-	246,490	-	882,341
Fair Haven	100	270,179	-	24,057	-	294,236
Froude	100	64,651	-	25,730	-	90,381
Duffitt and Strong	100	72,893	-	932	-	73,825
Stog'er Tight	100	482,486	-	91,066	-	573,552
Deer Cove	100	543,383	-	2,780	-	546,163
Corkscrew	100	68,533	-	1,862	-	70,395
		4,532,444	-	408,257	-	4,940,701
Viking Project						
Viking Option	100	60,990	25,000	315,928	-	401,918
Kramer	100	35,040	-	9,898	-	44,938
Other	100	8,263	-	767	-	9,030
		104,293	25,000	326,593	-	455,886
		4,636,737	**25,000**	**734,850**	**-**	**5,396,587**

Properties	Interest	Balance as at May 31 2015	Option of mining property	Expenditures	Transfers to PME	Balance as at May 31 2016
	%	$	$	$	$	$
Newfoundland						
Point Rousse Project						
Pine Cove Lease Area	100	2,011,586	-	382,882	-	2,394,468
Tenacity	100	508,430	50,000	77,421	-	635,851
Fair Haven	100	233,389	-	36,790	-	270,179
Froude	100	58,026	-	6,625	-	64,651
Duffitt and Strong	100	50,839	-	22,054	-	72,893
Stog'er Tight	100	700,273	50,000	691,829	(959,616)	482,486
Deer Cove	100	451,464	50,000	41,919	-	543,383
Corkscrew	100	2,350	25,000	41,183	-	68,533
		4,016,357	175,000	1,300,703	(959,616)	4,532,444
Viking Project						
Viking Option	100	-	46,050	14,940	-	60,990
Kramer	100	-	34,465	575	-	35,040
Other	100	-	-	8,263	-	8,263
		-	80,515	23,778	-	104,293
		4,016,357	**255,515**	**1,324,481**	**(959,616)**	**4,636,737**

Point Rousse Project
The Company owns 100% of the Point Rousse Project, which contains five mining leases totaling 1,053 hectares and 28 mining licenses totaling approximately 5,263 hectares not accounted for within the mining leases. The mining leases were optioned from Tenacity Gold Mining Company Ltd. ("Tenacity") and 1512513 Alberta Ltd. (“Alberta”), a subsidiary of Coordinates Capital Corporation (“Coordinates”) and Seaside Realty Ltd. ("Seaside"), while the mining licenses were optioned from several different parties including Tenacity, Alberta, Fair Haven Resources Inc. (“Fair Haven”), Herb Froude (“Froude”), and Messrs Alexander Duffitt and Paul Strong (“Duffitt and Strong”). Five of the licenses are owned by Anaconda.

The current operating area of the Point Rousse Project comprises two contiguous mining leases (the “**Pine Cove Property**”) acquired from Tenacity totaling 660 hectares that contains the operating open pit mine, milling and processing plant and equipment and a permitted tailings storage facility. It is subject to two royalty agreements, the first with Tenacity, whereby the Company was required to pay Tenacity a net smelter royalty (“NSR”) of 3% of the metal sales from the mining lease to a maximum of $3 million. The Company fulfilled this obligation in fiscal 2015. 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, 2016, the Company has determined it has approximately $36 million in expenditures deductible against future receipts.

Option Agreements
On May 7, 2012, the Company entered into a five-year property option agreement (the “Tenacity Agreement”) with Tenacity to acquire a 100%-undivided interest in 4 mineral exploration licenses (the "**Tenacity Property**") totaling 63 claims or approximately 1,540 hectares. The Tenacity Agreement requires the Company to pay to Tenacity $25,000 at closing (paid), an additional $275,000 in cash payments over the option period (of which $175,000 has been paid) 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 Tenacity Agreement also entitles Tenacity to an 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 on the NSR of $3 million.

On July 19, 2012, the Company entered into a five-year property option agreement (the “Fair Haven Agreement”) with Fair Haven to acquire a 100%-undivided interest in 11 exploration licenses (the “**Fair Haven Property**”) totaling 71 claims or approximately 1,775 hectares. The Fair Haven Property runs adjacent to the optioned Tenacity Property. The Fair Haven 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 Fair Haven Agreement also entitles Fair Haven to an 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 a 1% NSR.

On November 13, 2012, the Company entered into a five-year property option agreement (the “Froude Agreement”) with Froude to acquire a 100%-undivided interest in 1 exploration license (the “**Froude Property**”) totaling 11 claims or approximately 275 hectares. The Froude Property is contiguous and inclusive in the Point Rousse Project. The Froude 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 Froude Agreement also entitles Froude to an 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 a 1% NSR.

On November 19, 2012, the Company entered into a five-year property option agreement (the “DS Agreement”) with 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. The Duffitt and Strong Property is contiguous with and now inclusive in the Point Rousse Project. The DS 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 DS Agreement also entitles Duffitt and Strong to an 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 a 1% NSR.

On November 13, 2013, the Company entered into a three-year property option agreement (the “Deer Cove Agreement”) with 1512513 Alberta Ltd. ("Alberta"), a subsidiary of Coordinates, to acquire a 100%-undivided interest in one mining lease, a surface lease and three exploration licenses (the “**Deer Cove Property**”) totaling 48 claims or approximately 1,200 hectares contiguous to the Point Rousse Project. The Deer Cove Agreement requires the Company to pay to Alberta $25,000 at closing (paid), an additional $175,000 in cash payments over the option period (of which $75,000 has been paid) and to incur $500,000 in expenditures over the life of the option. The Deer Cove Agreement also entitles Alberta to an NSR of 3%. The Company has the right to buy back 1.8% of the NSR for $1 million.

On November 13, 2013, the Company entered into a three-year property option agreement (the “Stog'er Tight Agreement”) with Alberta to acquire a 100%-undivided interest in one mining lease and one surface lease (the “**Stog'er Tight Property**”) totaling approximately 35 hectares contiguous to the Point Rousse Project. The Stog'er Tight Agreement requires the Company to pay to Alberta $25,000 at closing (paid), an additional $175,000 in cash payments over the option period (of which $75,000 has been paid) and to incur $500,000 in expenditures over the life of the option. The Stog'er Tight Agreement also entitles Alberta to an NSR of 3%. The Company has the right to buy back 1.8% of the NSR for $1 million.

On July 29, 2015, the Company entered into an option agreement with Seaside to acquire a 100%-undivided interest in one mining lease (the “**Corkscrew Property**”), totaling 346 hectares contiguous with the Point Rousse Project and is required to make aggregate payments to Seaside of $75,000 ($25,000 paid at closing) over a two-year period. Any future gold production from the Corkscrew Property will be subject to a 2% NSR, capped at $2,000,000.

The Viking Project
On February 5, 2016 (the “Effective Date”), the Company entered into an option agreement with Spruce Ridge Resources Ltd. (“Spruce Ridge”), to acquire a 100%-undivided interest in the Viking Property, which contains the Thor Deposit. On February 5, 2016, the Company also entered into a second option agreement with Spruce Ridge to acquire a 100%-undivided interest in the Kramer Property, which is contiguous to the Viking Property and contains numerous gold prospects and showings similar in geological character and setting to the Thor Deposit.

On January 29, 2016, Anaconda also staked an additional 2,200 hectares of prospective mineral lands contiguous to the Viking Property and Kramer Property. In total, the Company now controls approximately 6,225 hectares of property in White Bay, Newfoundland now called the Viking Project, similar in size to Point Rousse.

Option Agreements
To earn a 100% interest in the Viking Property, the Company is required to make aggregate payments to Spruce Ridge of $300,000 over a five-year period based on milestones to production including a final payment of $175,000 upon commencement of commercial production. The Company has paid $50,000 to date and can pay all remaining option payments at any time during the option period to earn its 100% interest. In addition, the Company granted, at closing, warrants to Spruce Ridge to purchase 350,000 common shares of Anaconda at an exercise price of $0.10 per share, expiring three years from the Effective Date. Further, the Viking Agreement provides for a 0.5% NSR to Spruce Ridge on the sale of gold from the Viking Property.

To earn a 100% interest in the Kramer Property, the Company is required to make aggregate payments to Spruce Ridge of $132,500 over the five-year period, beginning with an initial payment of $12,500 paid on closing with increasing payments on the anniversary of the Effective Date. The Company also issued 250,000 common shares, at closing, to Spruce Ridge and a 2% NSR to Spruce Ridge on the sale of gold from the Kramer Property.

The NSR is capped at $2,500,000, after which, the NSR will be reduced to 1%. Anaconda is required to spend a total of $750,000 in qualified exploration expenditures on the Kramer Property during the option period.

Two previous NSR agreements held by Altius Resources Inc. ("Altius") and a prospector, Paul Crocker, in relation to Viking will be terminated upon Anaconda earning its 100% interest in the Viking Property and/or the Kramer Property. These agreements will be replaced by new NSR agreements that stipulate that the Company will pay Altius a 2.5% NSR granted on the Viking Property, a 1% NSR granted on the Kramer Property and a 1.5% NSR granted on an area of interest within 3 km of the combined Viking and Kramer properties.

As at August 31, 2016, and the Financial Statement report date, the Company had met all required property option commitments and accordingly the properties were in good standing.

7. Production stripping assets

As at	**August 31 2016 $**	May 31 2016 $
Opening balance	**2,891,722**	1,045,958
Additions	**1,283,856**	1,883,022
Depreciation	**-**	(37,258)
Closing balance	**4,175,578**	2,891,722

8. Property, mill and equipment

For the three months ended August 31, 2016

	Cost beginning of period $	**Additions $**	**Disposals/ transfers $**	**Cost end of period $**
Property	18,140,050	28,961	-	18,169,011
Mill	8,865,411	93,039	-	8,958,450
Equipment	1,713,339	450	(2,791)	1,710,998
Property, mill and equipment in progress	762,006	816,435	(140,692)	1,437,749
	29,480,806	**938,885**	**(143,483)**	**30,276,208**

	Accumulated deprecation beginning of period $	**Depreciation/ depletion $**	**Accumulated deprecation end of period $**	**Net book value $**
Property	10,676,289	735,594	11,411,883	6,757,128
Mill	4,856,683	160,479	5,017,162	3,941,288
Equipment	1,023,062	151,314	1,174,376	536,622
Property, mill and equipment in progress	-	-	-	1,437,749
	16,556,034	**1,047,387**	**17,603,421**	**12,672,787**

For the year ended May 31, 2016

	Cost beginning of year $	Additions $	Disposals/ transfers $	Cost end of year $
Property[1]	14,806,583	3,333,467	-	18,140,050
Mill	7,624,486	1,240,925	-	8,865,411
Equipment	1,325,053	426,684	(38,398)	1,713,339
Property, mill and equipment in progress	1,343,062	3,824,819	(4,405,875)	762,006
	25,099,184	**8,825,895**	**(4,444,273)**	**29,480,806**

	Accumulated deprecation beginning of year $	Depreciation/ depletion $	Accumulated deprecation end of year $	Net book value $
Property	8,170,632	2,505,657	10,676,289	7,463,761
Mill	3,838,549	1,018,134	4,856,683	4,008,728
Equipment	779,729	243,333	1,023,062	690,277
Property, mill and equipment in progress	-	-	-	762,006
	12,788,910	**3,767,124**	**16,556,034**	**12,924,772**

[1]Property additions include a transfer from E&E assets totalling $959,616 related to Stog'er Tight.

9. Trade and other payables

As at	**August 31 2016 $**	May 31 2016 $
Trade payables	**3,772,947**	3,004,629
Accrued liabilities	**369,396**	533,055
Accrued payroll costs	**112,639**	572,193
	4,254,982	4,109,877

The trade and other payables which arise from the Company's day-to-day operations have standard vendor trade terms and are typically due within 30 days.

10. Gold financing agreement

On December 17, 2015, the Company entered into an agreement with Auramet International LLC ("Auramet") through which Auramet paid USD$500,000 (USD$980 per ounce) (the "Prepayment Amount"), less fees, to Anaconda in exchange for 510 ounces of gold. Anaconda will deliver these ounces to Auramet in 10 deliveries of 51 ounces per month from January to October 2016. The Prepayment Amount was priced based on a spot price at the date of the agreement of USD$1,067 per ounce. Anaconda also agrees to sell 100% of its production through Auramet until December 18, 2016. Unearned revenue yet to be recognized as at August 31, 2016 is $183,962, which includes an unrealized fair value gain of $25,790 due to changes in the gold price and foreign exchange. In addition, Auramet has the option to purchase 1,800 ounces at a strike price of USD$1,250 on December 30, 2016.

11. Loans

The following table provides the details of the current and non-current components of loans:

As at	**August 31 2016 $**	May 31 2016 $
ACOA Loan	**500,000**	450,000
Bank loan	**21,889**	23,819
Capital leases	**40,955**	50,820
	562,844	524,639
Less: current portion	**138,090**	115,192
Non-current portion	**424,754**	409,447

The ACOA loan of $500,000 is non-interest bearing and will be repayable in 60 equal installments commencing October 1, 2016.

The balance is made up as follows:

As at	**August 31 2016 $**	May 31 2016 $
Principal balance repayable	**500,000**	450,000
Less: current portion	**92,400**	67,200
Non-current portion	**407,600**	382,800

The bank loan, due July 2019, is non-interest bearing and repayable in 72 monthly payments of $644 commencing July 2013.

The balance is made up as follows:

As at	**August 31 2016 $**	May 31 2016 $
Principal balance repayable	**21,889**	23,819
Less: current portion	**7,725**	7,725
Non-current portion	**14,164**	16,094

The Company has two capital leases payable. The first, due October 1, 2017, is repayable in 39 monthly payments of $1,242 commencing on July 4, 2014. Remaining net minimum lease payments are $17,388 with total interest of $1,760 resulting in a present value of net minimum capital lease payments of $15,628. The second, due July 1, 2017, is repayable in 24 monthly payments of $2,303 which commenced on August 1, 2015. Remaining net minimum lease payments are $25,327 with total interest of $nil.

The total balances are made up as follows:

As at	**August 31 2016 $**	May 31 2016 $
Principal balance repayable	**40,955**	50,820
Less: current portion	**37,965**	40,267
Non-current portion	**2,990**	10,553

On July 13, 2016, the Company announced that it has entered into a Line of Credit Agreement with the Royal Bank of Canada ("RBC") for a $1,000,000 revolving credit facility as well as a $500,000 revolving equipment lease line of credit (together the "Financing"). As part of the terms and conditions of the Financing, RBC has a first-ranking general security agreement including a specific security interest in the Company's ball mill and cone crushers. The outstanding balances on either facility as at August 31, 2016 was $nil.

12. Decommissioning liability

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

As at	**August 31 2016 $**	May 31 2016 $
Opening balance	**1,867,899**	1,311,393
Interest accretion	**10,531**	60,062
Additions	**-**	496,444
Closing balance	**1,878,430**	1,867,899

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. Elements of uncertainty also exist in estimating the timing of incurring the liability which depends on the ultimate closure date of the operation. The provision for reclamation is provided against the Company's operations at Pine Cove and Stog'er Tight and is based on the project plan approved by the Newfoundland and Labrador government.

During fiscal 2016, in concert with the Company's decommissioning liabilities, the Company entered into an agreement with an insurance company to provide a surety bond for $1,942,840 to the Newfoundland and Labrador government in compliance with its requirements under the approved site development plan which may only be lifted by the Newfoundland and Labrador government. During the three months ended August 31, 2016, this surety bond was increased to $2,280,995. As additional work is completed on the property, the Company will increase this bond as required by the Newfoundland and Labrador government.

13. Capital stock

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

On July 27, 2016, the Company announced that pursuant to a brokered flow-through private placement, it has issued 29,103,787 flow-through units of the Company (the "Units") at a price of $0.07 per Unit for aggregate gross proceeds of $2,037,265. Each Unit consists of one flow-through common share and one-half of one common share purchase warrant (the "Warrant") issued on a non flow-through basis. Each Warrant entitles the holder thereof to purchase one common share of the Company at a price of $0.10 until July 27, 2017. On a per-Unit basis, the Company has allocated $0.0699 of the price per Unit to each flow-through common share and $0.0001 of the price per Unit to the Warrant. An amount equal to the gross proceeds from the flow-through common shares ($0.0699 per flow-through common share) will be used to incur Canadian exploration expenses, as defined under the Income Tax Act (Canada), that will be renounced by the Company in favour of the purchasers of Units with an effective date of no later than December 31, 2016.

A cash commission of 6% of certain proceeds from the issuance of the Units, for a total cost of $162,036 and 1,377,055 Warrants were issued to the broker of the private placement.

As at August 31, 2016, approximately $1,330,000 of flow-through funds remain to be spent on eligible exploration expenses.

Warrants
On February 5, 2016, the Company issued purchase warrants to Spruce Ridge entitling them to acquire 350,000 common shares, exercisable at $0.10 per share and having a three-year expiry date. The warrants issued were valued using a risk free rate of 0.38%, an expected dividend yield of nil, an expected volatility of 106.49% and an expected life of 3 years.

On July 27, 2016, the Company issued Warrants in relation to a brokered flow-through private placement to acquire 14,551,889 common shares, which are exercisable at $0.10 per share and expiring on July 27, 2017 and 1,376,560 Compensation Warrants (the "Compensation Warrants") which are exercisable at $0.10 per share and expiring on July 27, 2017. The Compensation Warrants issued were valued using a risk free rate of 0.60%, an expected dividend yield of nil, an expected volatility of 113.33% and an expected life of 1 year.

The following table sets out the details of the outstanding warrants as at August 31, 2016:

Date of grant	Number of warrants	Remaining contractual life	Exercise price per share	Expiry date
Warrants				
February 5, 2016	350,000	2.44 years	$0.10	February 5, 2019
July 27, 2016	14,551,889	0.91 years	$0.10	July 27, 2017
Compensation Warrants				
July 27, 2016	1,376,560	0.91 years	$0.10	July 27, 2017

Options
As at August 31, 2016, 20,923,275 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, 2016, 17,845,000 options were outstanding with 13,575,000 exercisable and 3,078,275 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, 2015	**14,150,000**	**0.10**
Granted	9,795,000	0.06
Expired/Forfeited	(5,950,000)	0.11
Outstanding, May 31, 2016	**17,995,000**	**0.07**
Expired/Forfeited	(150,000)	0.08
Outstanding, August 31, 2016	**17,845,000**	**0.07**
Options exercisable, August 31, 2016	**13,575,000**	**0.07**

The following table sets out the details of the stock options granted and outstanding as at August 31, 2016:

Number of stock options	Number exercisable	Remaining contractual life	Exercise price per share	Expiry date
500,000	500,000	0.41 years	$0.09	January 27, 2017
1,500,000	1,500,000	0.47 years	$0.10	February 17, 2017
300,000	300,000	1.19 years	$0.15	November 8, 2017
2,800,000	2,800,000	1.75 years	$0.08	May 29, 2018
400,000	400,000	2.11 years	$0.08	October 9, 2018
2,250,000	2,250,000	2.78 years	$0.08	June 10, 2019
300,000	300,000	3.69 years	$0.05	May 4, 2020
2,300,000	2,300,000	3.76 years	$0.05	June 1, 2020
400,000	200,000	3.84 years	$0.05	June 30, 2020
3,025,000	3,025,000	4.49 years	$0.06	February 22, 2021
4,070,000	-	4.75 years	$0.06	May 26, 2021
17,845,000	**13,575,000**	**2.75 years**		

The following table sets out the details of the valuation of stock option grants for the year ended May 31, 2016 and the three months ended August 31, 2016:

Date of grant	Number	Risk-free interest rate	Expected dividend yield	Expected volatility	Expected life
June 1, 2015	2,300,000	0.90%	Nil	97.3%	5 years
June 30, 2015	400,000	0.81%	Nil	97.2%	5 years
February 22, 2016	3,025,000	0.60%	Nil	103.3%	5 years
May 26, 2016	4,070,000	0.76%	Nil	102.2%	5 years

Share-based compensation expense

The fair value of the stock options granted for the three months ended August 31, 2016 was $nil (August 31, 2015 - $90,000). The fair value of options vested for the three months ended August 31, 2016 was $69,977 (August 31, 2015 - $80,809), an amount which has been expensed as share-based compensation in the statement of comprehensive income.

14. 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 2016 $**	August 31 2015 $
Salaries and short term benefits [1]	**181,659**	151,965
Share based payments [2]	**38,944**	52,546
	220,603	204,511

[1] Includes salary, management bonus, benefits and directors' fees
[2] Includes share based payments vested during the period

As at August 31, 2016, included in trade and other payables is $46,500 (August 31, 2015 - $42,750) of amounts due for directors' fees.

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 mining operations are 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 has previously and may supplement its cash flow and raise such funds as and when required to complete its projects or fund working capital as the needs arise.

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, 2016. Unless otherwise noted (i.e. restricted cash), the Company is not subject to externally-imposed capital requirements.

16. Financial instruments

Classifications
The Company has classified its cash and restricted cash, the gold financing agreement and forward sales contract derivatives as fair value through profit and loss, 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 are classified as other financial liabilities, which are measured at amortized cost.

Fair values of cash and restricted cash are based on quoted prices in active markets for identical assets, resulting in a level-one valuation. Forward sales contract derivatives and the gold financing agreement are level two. Fair values of investments are not based on observable market data, resulting in a level-three valuation. The carrying amount of the Company's financial instruments approximates fair value due to their short-term nature.

Non-hedged 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 unrealized changes in fair value are recorded in earnings.

At May 31, 2016, the Company had a gold financing agreement outstanding to sell 102 ounces at USD$1,067 per ounce between September and October 2016 that resulted in recognizing an unrealized fair value gain of $25,790 due to changes in the gold price and foreign exchange.

17. Property and financial instrument risk factors

Property risk
The Company's major projects are the Point Rousse and Viking Projects. Unless the Company acquires and/or develops additional mineral properties, the Company will be mainly dependent upon Point Rousse and Viking. Any adverse developments 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-1 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 merchant. No bad debts were incurred during the three months ended August 31, 2016 and 2015.

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, 2016, the Company had positive working capital of $500,744 (May 31, 2016 – $819,322). The Company utilizes the cash flow generated from the Point Rousse Project's operations throughout 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, other than cash in operating bank accounts 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 year, 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 foreign exchange gains/losses. Given the limited exposure 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 ongoing basis. As these derivative contracts come due there is a risk of opportunity loss if gold prices move substantially higher.

18. Subsequent event

On September 8, 2016, the Company announced a $500,000 financing associated with the mill automation project through the Department of Business, Tourism, Culture and Rural Development (“DBTCRD”). The DBTCRD funding consists of a $100,000 grant (non-repayable) and a $400,000 loan, having an interest rate of 3%, which will be repayable in 60 monthly payments of $7,187 commencing November 30, 2016. The DBTCRD funding was received on September 6, 2016.