Anaconda
Mining

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended August 31, 2017 and August 31, 2016

(Expressed in Canadian Dollars)

NOTE TO READER

The accompanying unaudited condensed interim consolidated financial statements of the Company have been amended to include the comparative information for the three month period ended August 31, 2016 for the Consolidated Statement of Changes in Equity.

There are no other changes to these condensed interim consolidated financial statements and notes thereto.

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 the condensed interim consolidated financial statements they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated 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 condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of condensed interim consolidated financial statements by an entity's auditor.

"Dustin Angelo"
President and Chief Executive Officer
October 12, 2017

"Robert Dufour"
Chief Financial Officer
October 12, 2017

Anaconda Mining Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss

(Canadian Dollars)

For the three months ended	Notes	**August 31 2017 $**	August 31 2016 $ Restated, Note 3
Gold revenue		**7,613,170**	4,919,737
Cost of operations			
Operating expenses	5	**5,037,132**	3,785,305
Depletion and depreciation		**2,272,738**	1,348,318
Total cost of operations		**7,309,870**	5,133,623
Mine operating income		**303,300**	(213,886)
Expenses and other income			
Corporate administration		**1,244,616**	682,788
Other income	6	**(514,282)**	-
Write down of exploration assets	8	**65,939**	-
Share-based compensation expense	14	**49,674**	69,977
Finance expense		**24,013**	50,214
Foreign exchange gain		**(1,410)**	(9)
Unrealized loss (gain) on derivatives		**25,783**	(25,790)
		894,333	777,180
Loss before income taxes		**(591,033)**	(991,066)
Current income tax expense		**59,000**	-
Deferred income tax recovery		**(326,000)**	(34,000)
Net loss and comprehensive loss for the period		**(324,033)**	(957,066)
Net loss per share - basic and diluted		**(0.00)**	(0.00)
Weighted average number of shares outstanding - basic and fully diluted		**382,075,490**	191,517,402

Anaconda Mining Inc.

Condensed Interim Consolidated Statements of Financial Position

(Canadian Dollars)

As at	Notes	**August 31 2017 $**	May 31 2017 $
Assets			
Current assets			
Cash		**1,579,901**	2,519,488
Trade and other receivables	6	**862,115**	484,103
Prepaid expenses and deposits		**517,331**	314,499
Inventory	7	**4,408,975**	4,525,312
		7,368,322	7,843,402
Non-current assets			
Restricted cash		**5,000**	-
Property, mill and equipment	9	**11,617,148**	13,516,534
Exploration and evaluation assets	8	**23,261,852**	22,346,129
Deferred income tax asset		**2,458,000**	2,368,000
		44,710,322	46,074,065
Liabilities			
Current liabilities			
Trade payables and accrued liabilities	10	**3,259,880**	4,060,492
Unearned revenue	11	**-**	121,287
Current portion of loans	12	**349,699**	349,527
Current taxes payable		**59,000**	-
		3,668,579	4,531,306
Non-current liabilities			
Loans	12	**648,464**	645,458
Deferred income tax liability		**2,249,000**	2,485,000
Decommissioning liability	13	**2,677,742**	2,671,405
		9,243,785	10,333,169
Shareholders' equity			
Share capital, warrants and equity reserves	14	**50,288,597**	50,238,923
Accumulated deficit		**(14,822,060)**	(14,498,027)
		35,466,537	35,740,896
		44,710,322	46,074,065

Approved by the Board of Directors on October 12, 2017.

"Maruf Raza"
Director

"Jonathan Fitzgerald"
Director

Commitments (Note 16)

Anaconda Mining Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Canadian Dollars)

For the three months ended	Notes	**August 31 2017 $**	August 31 2016 $ Restated, Note 3
Operating activities			
Net loss		**(324,033)**	(957,066)
Adjustments to reconcile net income to cash flow from operating activities:			
Depletion and depreciation		**2,272,738**	1,340,637
Share-based compensation expense	16	**49,674**	69,977
Deferred income tax recovery		**(326,000)**	(34,000)
Current income tax expense		**59,000**	-
Interest accretion of decomissioning liability	15	**6,337**	10,531
Finance expense		**-**	30,166
Write down of exploration assets	8	**65,939**	-
Net change in working capital items:			
Trade and other receivables		**(383,012)**	139,246
Prepaid expenses and deposits		**(202,832)**	(7,285)
Inventory		**94,337**	(827,975)
Change in unearned revenue		**(121,287)**	(303,038)
Trade payables and accrued liabilities		**(650,389)**	119,315
Cash flow provided from (used in) operating activities		**540,472**	(419,492)
Investing activities			
Additions of property, mill and equipment	11	**(179,471)**	(1,926,123)
Additions of exploration and evaluation assets	10	**(681,732)**	(759,850)
Payment of transaction costs related to acquisition of Orex	4	**(537,687)**	-
Cash flow used in investing activities		**(1,398,890)**	(2,685,973)
Financing activities			
Proceeds from flow-through financing agreement, net of issuance costs	16	**-**	1,790,893
Proceeds from government loans	14	**-**	50,000
Repayment of government loans		**(44,088)**	-
Repayment of capital leases and other loans		**(37,081)**	(9,865)
Repayment of bank loans		**-**	(1,930)
Cash flow (used in) provided from financing activities		**(81,169)**	1,829,098
Net decrease in cash		**(939,587)**	(1,276,367)
Cash at beginning of period		**2,519,488**	1,636,161
Cash at end of period		**1,579,901**	359,794
Supplemental cash flow information:			
Interest paid		**7,072**	24,305
Property, mill and equipment acquired through capital leases		**84,347**	-
Taxes paid		**-**	-

Anaconda Mining Inc.

Condensed Interim Consolidated Statement of Changes in Equity

(Expressed in Canadian Dollars, expect share information)

	Share capital					
	Number of shares	Issued capital	Equity reserves	Warrants	Accumulated deficit	Total
		$	$	$	$	$
Balance at May 31, 2016	**180,128,962**	**33,146,025**	**740,526**	**11,585**	**(11,042,239)**	**22,855,897**
Share-based compensation from issuance of options	-	-	69,977	-	-	69,977
Expiry of stock options transferred to deficit	-	-	(10,350)	-	10,350	-
Common shares issued for cash	29,103,787	2,037,265	-	-	-	2,037,265
Share issuance expense	-	(328,553)	-	82,181	-	(246,372)
Net loss for the period	-	-	-	-	(957,066)	(957,066)
Balance at August 31, 2016 (Restated, Note 3)	**209,232,749**	**34,854,737**	**800,153**	**93,766**	**(11,988,955)**	**23,759,701**
Share-based compensation from issuance of options	-	-	111,248	-	-	111,248
Exercise of stock options	575,000	52,243	(22,243)	-	-	30,000
Expiry of stock options transferred to deficit	-	-	(136,050)	-	136,050	-
Issuance of shares for property acquisition	100,000	6,500	-	-	-	6,500
Issuance of Anaconda shares for acquisition of Orex Exploration Inc.	172,167,741	12,051,741	-	-	-	12,051,741
Issuance of replacement options for acquisition of Orex Exploration Inc.	-	-	709,496	-	-	709,496
Assumption of warrants for acquisition of Orex Exploration Inc.	-	-	-	1,717,332	-	1,717,332
Net loss for the period	-	-	-	-	(2,645,122)	(2,645,122)
Balance at May 31, 2017	**382,075,490**	**46,965,221**	**1,462,604**	**1,811,098**	**(14,498,027)**	**35,740,896**
Share-based compensation from issuance of options	-	-	49,674	-	-	49,674
Expiry of stock options transferred to deficit	-	-	(52,873)	-	52,873	-
Net loss for the period	-	-	-	-	(324,033)	(324,033)
Balance at August 31, 2017	**382,075,490**	**46,965,221**	**1,459,406**	**1,811,098**	**(14,769,188)**	**35,466,537**

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Anaconda Mining Inc. (individually, or collectively with its subsidiaries, as applicable, "Anaconda Mining" or the "Company") is a gold mining, development and exploration company, with operations in Atlantic Canada. The Company operates the Point Rousse Project located in the Baie Verte Mining District in Newfoundland, Canada, including the Pine Cove open pit mine, the fully-permitted Pine Cove Mill and tailings facility and a new gold discovery referred to as Argyle. Anaconda Mining is also advancing the recently acquired Goldboro Project in Nova Scotia.

Other projects in Newfoundland include the Viking Project (which includes the Thor deposit), the Great Northern Project on the Northern Peninsula, and the Tilt Cove Property, located 60 kilometres east of the Company's Point Rousse Project.

Anaconda Mining is incorporated in Canada 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 head office and registered office is located at 150 York Street, Suite 410, Toronto, Ontario, M5H 3S5.

These condensed interim consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Since the condensed interim consolidated financial statements do not include all disclosure required by IFRS for annual financial statements, they should be read in conjunction with the Company's consolidated financial statements for the year ended May 31, 2017.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The significant accounting judgements, estimates and assumptions in the preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in Note 3 of the Company's audited consolidated financial statements as at and for the year ended May 31, 2017.

These condensed interim consolidated financial statements were approved by the Company's Board of Directors on October 12, 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed interim consolidated financial statements were prepared using the same accounting policies and methods as those used in the Company's consolidated financial statements for the year ended May 31, 2017, except for the adoption of the following accounting policies that were effective and adopted as of June 1, 2017:

- **Research and development –** All research costs are expensed in the period incurred. Development costs are expensed in the period incurred, unless they meet the criteria for capitalization, in which case they are capitalized and then amortized over the useful life. Development costs are written off when there is no longer an expectation of future benefits.

- **Government assistance –** Non-repayable government assistance is recorded as a reduction in the related qualifying expenditure. Repayable government loans are recorded initially at fair value, with the difference between the book value and fair value recorded as a reduction of the related expenditures.

Recently issued but not adopted accounting guidance includes IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers,* and IFRS 16 *Leases*.

- **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. The impact of IFRS 9 on the Company's consolidated financial statements has not yet been determined.

- **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. The impact of IFRS 15 on the Company's consolidated financial statements has not yet been determined.

(Expressed in Canadian Dollars, except per share amounts, unless otherwise noted)

- **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 impact of IFRS 16 on the Company's consolidated financial statements has not yet been determined.

The Company is currently evaluating the impact of these pronouncements on its consolidated financial statements.

3. CORRECTION OF ERRORS IN ACCOUNTING FOR PROPERTY, MILL AND EQUIPMENT AND DEFERRED TAXES

As disclosed in the Company's consolidated financial statements for the year ended May 31, 2017, the Company undertook a comprehensive review of the capitalization and UOP depreciation of its production stripping asset (classified within property, mill and equipment ("PME")), as well as its depreciation and depletion calculations for its property and mill infrastructure and equipment and discovered that certain errors had been made.

Errors were made in the Company's depreciation and depletion calculations for its PME, which resulted in an overstatement of PME as at August 31, 2016 and an understatement of the Company's comprehensive loss for the period then ended.

These errors have been corrected by restating each of the affected financial statement line items for the prior period as follows:

	August 31 2016 $	Increase (Decrease) $	**August 31 2016 $ Restated**
Operating expenses	(3,632,170)	(153,135)	**(3,785,305)**
Depreciation	(923,952)	(424,366)	**(1,348,318)**
Income (loss) before income taxes	(413,565)	(577,501)	**(991,066)**
Deferred income tax recovery	(34,000)	-	**(34,000)**
Net income (loss) and comprehensive income (loss) for the year	(379,565)	(577,501)	**(957,066)**

The corrections described above further affected some of the prior period amounts disclosed in the Consolidated Statement of Changes in Equity, Note 5, and Note 9.

The Company also determined that the change in its unearned revenue should be reclassified in the prior period to cash flow provided by operating activities from cash flow provided from financing activities.

4. ACQUISITION OF OREX EXPLORATION INC.

On May 19, 2017, Anaconda Mining completed a Plan of Arrangement (the "Arrangement") with Orex Exploration Inc. ("Orex"), pursuant to which Anaconda Mining acquired all the issued and outstanding common shares of Orex. Under the terms of the Arrangement, each Orex shareholder received 0.85 of a common share of Anaconda Mining for each common share of Orex held. Upon completion of the Arrangement, Anaconda Mining issued 172,167,741 common shares to the shareholders of Orex.

In addition, the Company assumed the outstanding share options and warrants of Orex, which as a result of the Arrangement became exercisable for 0.85 Anaconda Mining common shares. On May 19, 2017, Orex had 16,250,000 stock options outstanding which were exchanged for 13,812,500 fully vested Anaconda Mining share options, with a weighted average exercise price of $0.06. Outstanding warrants as at the completion date of 39,580,000 with a weighted average exercise price of $0.06 will now, because of the Arrangement, be exercisable for 33,643,000 Anaconda Mining common shares. The Company incurred transaction costs of $1,069,578, which have been included in the purchase price allocated to the net assets of Orex.

(Expressed in Canadian Dollars, except per share amounts, unless otherwise noted)

For accounting purposes, the Arrangement constitutes an asset acquisition by Anaconda Mining, as Orex did not meet the definition of a business as defined in IFRS 3 *Business Combinations*. Consequently, effective as at the date of closing, Orex's net assets were consolidated based on their allocated cost. The value assigned to the identified assets and liabilities are presented below:

Purchase price	
Common shares issued	12,051,741
Stock options and warrants assumed as part of Arrangement	2,426,828
Legal, regulatory, due diligence and other transaction costs	1,069,578
	15,548,147

Net assets acquired and allocation	
Assets	
Cash and cash equivalents	713,367
Accounts receivable and prepaid expenses	86,724
Exploration and evaluation property	14,850,987
Liabilities	
Accounts payable and accrued liabilities	(102,931)
	15,548,147

5. OPERATING EXPENSES

For the three months ended	**August 31 2017 $**	August 31 2016 $
Mining costs	**2,507,765**	2,316,928
Processing (including refining and transport)	**2,278,873**	1,771,385
Project administration	**240,494**	251,820
Inventory adjustment	**10,000**	(554,828)
	5,037,132	3,785,305

Mining, processing and project administration costs noted above are prior to the allocation of costs to inventory. The inventory adjustment reflects the allocation of mining, processing and project administration costs to the stockpiles, gold-in-circuit and finished goods inventory.

6. TRADE AND OTHER RECEIVABLES

As at	**August 31 2017 $**	May 31 2017 $
HST receivable	**285,658**	355,892
Other income receivable	**514,282**	108,846
Accrued interest and other	**62,175**	19,365
	862,115	484,103

Receivables are classified as loans and receivables and are therefore measured at amortized cost.

(Expressed in Canadian Dollars, except per share amounts, unless otherwise noted)

On September 15, 2016, the Company entered into an agreement with Shore Line Aggregates ("SLA"), a subsidiary of the Company's local contract miner, Guy J. Bailey Ltd., where Anaconda has granted a right to SLA to mine, crush, and ship an aggregates product made from Anaconda's surplus stockpiled rock and in-situ rock for $0.60 per tonne, from the Pine Cove Pit at the Point Rousse Project. The existing contract provides for the supply of 3,500,000 tonnes of aggregate product. Other income of $514,282 was earned from this contract for the three months ended August 31, 2017 (three months ended August 31, 2016 – $nil), which was received subsequent to August 31, 2017. The existing contract is scheduled to end by approximately December 2017.

7. INVENTORY

As at	**August 31 2017 $**	May 31 2017 $
Gold dore	**83,000**	417,000
Gold-in-circuit	**965,000**	1,254,000
Ore in stockpiles	**2,070,000**	1,479,000
Supplies and consumables	**1,290,975**	1,375,312
	4,408,975	4,525,312

8. EXPLORATION AND EVALUATION ASSETS

Properties	Balance as at May 31 2017 $	Payments under option agreements $	Expenditures/ acquisition $	Write-offs $	Balance as at August 31 2017 $
Point Rousse Project, Newfoundland					
Pine Cove Lease Area	2,467,528	-	18,930	-	2,486,458
Stog'er Tight	595,331	-	2,603	-	597,934
Argyle	1,682,607	-	372,567	-	2,055,174
Fair Haven	522,952	30,000	11,243	(65,939)	498,256
Duffitt and Strong	73,824	-	-	-	73,824
Deer Cove	657,047	-	3,779	-	660,826
Corkscrew	244,148	25,000	18,359	-	287,507
	6,243,437	55,000	427,480	(65,939)	6,659,979
Goldboro Project, Nova Scotia	14,850,987	-	477,861	-	15,328,848
Viking Project, Newfoundland	1,158,764	-	21,125	-	1,179,889
Great Northern Project, Newfoundland	64,231	-	-	-	64,231
Tilt Cove Property, Newfoundland	28,710	-	195	-	28,905
	22,346,129	**55,000**	**926,662**	**(65,939)**	**23,261,852**

(Expressed in Canadian Dollars, except per share amounts, unless otherwise noted)

Properties	Balance as at May 31 2016	Payments under option agreements	Expenditures/ acquisition	Write-offs	Balance as at May 31 2017
	$	$	$	$	$
Point Rousse Project, Newfoundland					
Pine Cove Lease Area	2,394,468	-	73,060	-	2,467,528
Stog'er Tight	482,486	-	112,845	-	595,331
Argyle	700,502	100,000	882,105	-	1,682,607
Fair Haven	270,179	-	252,773	-	522,952
Duffitt and Strong	72,893	-	931	-	73,824
Deer Cove	543,383	100,000	13,664	-	657,047
Corkscrew	68,533	25,000	150,615	-	244,148
	4,532,444	225,000	1,485,993	-	6,243,437
Goldboro Project, Nova Scotia	-	-	14,850,987	-	14,850,987
Viking Project, Newfoundland	102,845	40,000	1,015,919	-	1,158,764
Great Northern Project, Newfoundland	1,448	24,715	38,068	-	64,231
Tilt Cove Property, Newfoundland	-	24,715	3,995	-	28,710
	4,636,737	**314,430**	**17,394,962**	**-**	**22,346,129**

As at August 31, 2017, the Company had met all required property option commitments and accordingly the properties were in good standing. Royalty obligations on the Company's various mineral properties are outlined in Note 16.

Point Rousse Project – The Point Rousse Project contains five mining leases and 24 mining licenses.

During the year ended May 31, 2017, the Company completed its earn-in into two option agreements that comprise the Argyle property; title on four mineral exploration licenses have been fully transferred to the Company, and one exploration license is in process of being transferred. The Company also completed its earn-in obligations under an option agreement with respect to the Stog'er Tight property, where title has been fully transferred to the Company.

In addition to its wholly owned properties, the Company has entered into the following option agreements:

- On July 19, 2012, the Company entered a five-year property option agreement with Fair Haven to acquire a 100%-undivided interest in 11 exploration licenses (the "Fair Haven Property"), which is adjacent to property fully owned by the Company. Based on a recent amendment to the original option agreement, the Company has two payments of $30,000 remaining to complete its earn-in, one of which was paid during the three months ended August 31, 2017, with the final payment due by July 2018. As part of the amendment, the Company also reduced the number of licenses subject to the agreement based on work performed to date, and accordingly $65,939 of allocated costs were written-off during the three months ended August 31, 2017.

- On November 19, 2012, the Company entered a five-year property option agreement with Duffitt and Strong to acquire a 100%-undivided interest in 2 exploration licenses (the "Duffitt and Strong Property"). The Duffitt and Strong Property is contiguous with and now inclusive in the Point Rousse Project. The option agreement is subject to a further $4,000 of expenditures for the Company to earn an undivided interest in the property.

- On July 29, 2015, the Company entered into an option agreement to acquire a 100%-undivided interest in one mining lease contiguous with the Point Rousse Project (the "Corkscrew Property"). During the three months ended August 31, 2017, the Company made a final payment of $25,000 pursuant to the option agreement to earn an undivided interest in the property.

Goldboro Project – The recently acquired, wholly-owned Goldboro Project is located in Nova Scotia, comprising 37 contiguous claims. The Goldboro deposit comprises the Boston Richardson Zone, the East Goldbrook Zone, and the West Goldbrook Zone.

Viking Project – The Viking Project is subject to 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. Under this agreement, 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. In addition, the Company has granted warrants to Spruce Ridge to purchase 350,000 common shares of Anaconda Mining at an exercise price of $0.10 per share, expiring three years from the date of the agreement.

(Expressed in Canadian Dollars, except per share amounts, unless otherwise noted)

The Company also entered 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. To earn a 100%-undivided 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 date of the agreement. The Company also issued 250,000 common shares to Spruce Ridge under the agreement.

Great Northern Project – On November 8, 2016, Anaconda entered an option agreement with Metals Creek Resources Corp. ("MEK ") to acquire a 100%-undivided interest in the "Jackson's Arm Property" and contiguous mineral lands (collectively, the "Great Northern Project"). To earn a 100%-undivided interest in the Jackson's Arm Property (within the Great Northern Project), the Company is required to make aggregate payments to MEK of $200,000 (of which $20,000 has been paid) in cash and 500,000 common shares of Anaconda (of which 50,000 have been issued) over a three-year period, with increasing payments on the anniversary of the date of the agreement. Anaconda is required to spend a total of $750,000 in qualified exploration expenditures on the Jackson's Arm Property during the option period.

Tilt Cove Property - On November 8, 2016, Anaconda entered into an option agreement with MEK to acquire a 100%-undivided interest in the "Tilt Cove Property" located 60 kilometres east of the Company's Point Rousse Project. To earn a 100%-undivided interest in the Tilt Cove Property, the Company is required to make aggregate payments to MEK of $200,000 (of which $20,000 has been paid) in cash and 500,000 common shares of Anaconda (of which 50,000 have been issued) over a three-year period. The Company is also required to spend a total of $750,000 in qualified exploration expenditures on the Tilt Cove Property during the option period.

9. PROPERTY, MILL AND EQUIPMENT

For the three months ended August 31, 2017

Cost	Property	Mill and Infrastructure	Equipment	Work in Progress	Total
Beginning of year	26,368,551	9,172,790	1,893,118	393,674	37,828,133
Additions	26,502	41,875	141,600	144,225	354,202
Disposal/transfers	-	-	(103,385)	-	(103,385)
	26,395,053	**9,214,665**	**1,931,334**	**537,899**	**38,078,950**
Accumulated depreciation					
Beginning of year	17,889,193	5,317,359	1,105,047	-	24,311,599
Depreciation/depletion	1,608,416	548,847	96,325	-	2,253,588
Disposals	-	-	(103,385)	-	(103,385)
	19,497,609	**5,866,206**	**1,097,987**	**-**	**26,461,802**
Net book value	**6,897,444**	**3,348,459**	**833,347**	**537,899**	**11,617,148**

(Expressed in Canadian Dollars, except per share amounts, unless otherwise noted)

For the year ended May 31, 2017

Cost	Property	Mill and Infrastructure	Equipment	Work in Progress	Total
Beginning of year	22,255,860	8,865,411	1,713,339	762,006	33,596,616
Additions	3,404,113	269,659	173,979	383,766	4,231,517
Disposal/transfers	708,578	37,720	5,800	(752,098)	-
	26,368,551	**9,172,790**	**1,893,118**	**393,674**	**37,828,133**
Accumulated depreciation					
Beginning of year	11,081,441	4,328,283	895,208	-	16,304,932
Depreciation/depletion	6,807,752	989,076	209,839	-	8,006,667
	17,889,193	**5,317,359**	**1,105,047**	**-**	**24,311,599**
Net book value	**8,479,358**	**3,855,431**	**788,071**	**393,674**	**13,516,534**

The current operating area of the Point Rousse Project comprises two contiguous mining leases (the "Pine Cove Property") that contains the operating open pit mine, milling and processing plant and equipment, and a permitted tailings storage facility.

The net book value of equipment is pledged as security for any capital leases and loans outstanding.

10. TRADE PAYABLES AND ACCRUED LIABILITIES

As at	August 31 2017 $	May 31 2017 $
Trade payables	**2,569,222**	3,313,449
Accrued liabilities	**461,665**	334,183
Accrued payroll costs	**172,802**	382,452
Derivative liability (Note 11)	**56,191**	30,408
	3,259,880	4,060,492

Trade and other payables generally arise from the Company's ongoing operations and capital projects, and are subject to materially standard vendor trade terms and are typically due within 30 days.

11. GOLD PREPAYMENT AGREEMENTS

On January 9, 2017, the Company executed a prepayment agreement with Auramet International LLC ("Auramet"), whereby the Company received USD$551,304, less fees, in exchange for 468 ounces of gold (USD$1,178 per ounce), to be delivered in twelve semi-monthly deliveries from January to June 2017. The Company recognized proceeds of $660,990, net of related fees, which were recorded as unearned revenues in the Consolidated Statement of Financial Position and has recognized corresponding revenues as deliveries were made in accordance with this agreement. In June 2017, the Company made its final delivery of gold ounces under the agreement.

As part of the agreement, Auramet was also issued call options to purchase 400 ounces at a strike price of US$1,300 on December 27, 2017, and another 400 ounces at a strike price of US$1,300 on August 29, 2018. As at August 31, 2017, the Company recognized a derivative liability of $56,191 (May 31, 2017 – $30,408) associated with these call options, with a corresponding expense recognized in the Consolidated Statement of Comprehensive Loss.

(Expressed in Canadian Dollars, except per share amounts, unless otherwise noted)

12. LOANS AND REVOLVING CREDIT FACILITY

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

As at	**August 31 2017 $**	May 31 2017 $
Provincial government loan	**343,757**	362,645
Federal government loan	**407,600**	432,800
Capital leases and other loans	**246,806**	199,540
	998,163	994,985
Current portion		
Provincial government loan	**76,984**	76,410
Federal government loan	**100,800**	100,800
Capital leases and other loans	**171,915**	172,317
	349,699	349,527
Non-current portion		
Provincial government loan	**266,773**	286,235
Federal government loan	**306,800**	332,000
Capital leases and other loans	**74,891**	27,223
	648,464	645,458

On June 1, 2016, the Company entered into an agreement with the provincial government of Newfoundland and Labrador to receive a loan of $400,000, due November 1, 2021, which was obtained to finance the automation of parts of the mill and is repayable in 60 monthly payments of $7,187 commencing on December 1, 2016. Net minimum loan payments are $388,098 with total interest of $25,453, resulting in amortized cost of net minimum loan payments of $343,757.

On April 7, 2015, the Company entered into an agreement with the federal government to receive a loan of $500,000, also related to the mill automation project. In fiscal 2016, the Company received $450,000 and the remaining $50,000 was received in fiscal 2017. The loan is non-interest bearing and is repayable in 60 equal installments commencing October 1, 2016.

The Company has financed the acquisition of certain equipment through the assumption of capital lease obligations. These obligations are secured by the acquired equipment, which has a net book value of $188,367 as at August 31, 2017 (May 31, 2017 – $45,751). The capital leases bear interest at rates ranging from 0.0% and 6.0% per annum with maturity dates between January 13, 2019 and August 1, 2022.

The Company has financed insurance premiums. The loan of $154,517 bears interest at 6.79% and is repayable through an initial payment of $8,435 and eleven equal installments of $14,528, which began on April 1, 2017. As at August 31, 2017, $85,469 is outstanding (May 31, 2017 – $127,131).

Revolving Credit Facility

In June 2016, the Company obtained 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”). Under the terms of the Agreement, RBC maintains a first-ranking general security agreement including a specific security interest in the Company’s ball mill and cone crushers. As at August 31, 2017, the balance on the revolving credit facility line of credit was $nil (May 31, 2017 – $nil).

(Expressed in Canadian Dollars, except per share amounts, unless otherwise noted)

13. DECOMMISSIONING LIABILITY

The provision for asset retirement obligations is as follows:

As at	**August 31 2017 $**	May 31 2017 $
Opening balance	**2,671,405**	1,867,899
Interest accretion	**6,337**	40,532
Additions	**-**	762,974
Closing balance	**2,677,742**	2,671,405

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 the Point Rousse Project in Newfoundland and is based on the project plan submitted to the Newfoundland and Labrador government. The decommissioning liability recorded assumes a risk-free rate of 0.94% over a five year period during which the majority of costs are expected to be incurred. The additions during the prior period mainly relate to a new tailings pond facility and post closure monitoring requirements introduced in fiscal 2017.

The Company has entered an agreement with an insurance company to provide a surety bond for $2,370,689 to the Newfoundland and Labrador government in compliance with its requirements under the approved site development plan, as submitted and reviewed by the government of Newfoundland and Labrador. As additional work and/or reclamation is completed on the property, the Company will increase/decrease this bond as required by the Newfoundland and Labrador government.

The Company has not recognized any decommissioning liability for any exploration and evaluation assets which do not carry any legal obligations for reclamation. This includes the Goldboro Project in Nova Scotia, which is currently an exploration property with no Company created disturbance giving rise to such an obligation. The existing infrastructure on the Goldboro property relate to legacy operations, and the Company has no legal obligation for their rehabilitation prior to any new development or disturbance.

14. ISSUED CAPITAL AND EQUITY-BASED INSTRUMENTS

Issued Capital and Recent Issuances

The Company's authorized share capital consists of an unlimited number of common shares. As at August 31, 2017, the Company had 382,075,490 (May 31, 2017 – 382,075,490) common shares outstanding.

On May 19, 2017, as part of the Arrangement to acquire Orex, the Company issued 172,167,741 common shares.

On July 27, 2016, the Company completed a flow-through private placement whereby it 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 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) have been used to incur Canadian exploration expenses, as defined under the Income Tax Act (Canada), that was 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.

(Expressed in Canadian Dollars, except per share amounts, unless otherwise noted)

Warrants

A summary of the Company's warrant activities for the three months ended August 31, 2017 is presented below:

	Warrants #	Weighted average exercise price $
Outstanding, May 31, 2016	**350,000**	**0.10**
Warrants issued in flow-through financing (see above)	14,551,889	0.10
Broker warrants issued (see above)	1,376,560	0.10
Warrants assumed on completion of Arrangement (Note 4)	33,643,000	0.06
Expired/Forfeited	-	-
Exercise of warrants	-	-
Outstanding, May 31, 2017	**49,921,449**	**0.07**
Expired/Forfeited	(15,928,449)	0.10
Outstanding, August 31, 2017	**33,993,000**	**0.06**

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 broker warrants which are exercisable at $0.10 per share and expire on July 27, 2017. The broker 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.

On July 27, 2017, 15,928,449 warrants expired unexercised.

As at August 31, 2017, the following warrants were outstanding and exercisable:

Date of grant	Number of warrants	Exercise price per share	Expiry date
February 5, 2016	350,000	$0.10	February 5, 2019
May 19, 2017*	1,258,000	$0.05	August 29, 2019
May 19, 2017*	6,375,000	$0.08	December 23, 2020
May 19, 2017*	23,630,000	$0.06	September 15, 2021
May 19, 2017*	2,380,000	$0.06	October 11, 2021
	33,993,000	**$0.06**	

*May 19, 2017 reflects the date of acquisition of Orex Exploration Inc.

Stock Options

As at August 31, 2017, 38,207,549 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, 2017, 18,295,000 options under the Company's stock option plan were outstanding with 14,845,000 exercisable and 19,912,549 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.

On May 19, 2017, the Company issued 13,812,500 replacement stock options pursuant to the Arrangement to acquire Orex. The replacement stock options are not included in the calculation of the number of stock options left unallocated under the Company's stock option plan.

(Expressed in Canadian Dollars, except per share amounts, unless otherwise noted)

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

	Options #	Weighted average exercise price $
Outstanding, May 31, 2016	**17,995,000**	**0.07**
Granted	500,000	0.07
Assumed on completion of the Arrangement (Note 4)	13,812,500	0.06
Exercised	(575,000)	0.05
Expired/Forfeited	(2,150,000)	0.09
Outstanding, May 31, 2017	**29,582,500**	**0.07**
Granted	3,450,000	0.06
Expired/Forfeited	(925,000)	0.07
Outstanding, August 31, 2017	**32,107,500**	**0.06**
Options exercisable, August 31, 2017	**28,157,500**	**0.06**

On May 3, 2017, 575,000 options were exercised. The corresponding fair value of $22,243 was reclassified from equity reserves to issued capital.

During the three months ended August 31, 2017, 925,000 (fiscal 2017 – 2,150,000) options expired unexercised. The corresponding fair value of $52,873 (fiscal 2017 - $146,400) was reclassified from equity reserves to accumulated deficit.

The options, when granted, are accounted for at their fair value determined by the Black-Scholes option pricing model based on the vesting period and on the assumptions below.

The following table sets out the details of the stock options granted and outstanding as at August 31, 2017. The weighted average share price input into the model for the granted options was $0.06.

Number of stock options	Number exercisable	Remaining contractual life	Exercise price per share	Expiry date
300,000	300,000	0.19 years	$0.15	November 8, 2017
2,400,000	2,400,000	0.74 years	$0.08	May 29, 2018
400,000	400,000	1.11 years	$0.08	October 9, 2018
2,000,000	2,000,000	1.78 years	$0.08	June 10, 2019
300,000	300,000	2.68 years	$0.05	May 4, 2020
2,000,000	2,000,000	2.76 years	$0.05	June 1, 2020
400,000	400,000	2.84 years	$0.05	June 30, 2020
3,025,000	3,025,000	3.49 years	$0.06	February 22, 2021
9,775,000	9,775,000	3.61 years	$0.06	April 6, 2021
3,520,000	3,520,000	3.75 years	$0.06	May 26, 2021
1,062,500	1,062,500	4.13 years	$0.06	October 11, 2021
2,550,000	2,550,000	4.30 years	$0.06	December 15, 2021
425,000	425,000	4.33 years	$0.06	December 23, 2021
500,000	-	4.74 years	$0.07	May 23, 2022
3,450,000	-	4.82 years	$0.06	June 21, 2022
32,107,500	**28,157,500**	**3.38 years**		

The expected volatility is based on the historical volatility (based on the remaining life of the options) adjusted for any expected changes in future volatility due to publicly available information. The number of stock options include 13,812,500 options associated with the Arrangement which are all exercisable as at August 31, 2017.

(Expressed in Canadian Dollars, except per share amounts, unless otherwise noted)

The following table sets out the details of the valuation of stock option grants for the year ended May 31, 2017 and the three months ended August 31, 2017:

Date of grant	Number of options	Risk-free interest rate	Expected dividend yield	Expected volatility	Expected life
May 19, 2017*	9,775,000	0.85%	Nil	105.1%	
May 19, 2017*	1,062,500	0.85%	Nil	103.0%	
May 19, 2017*	2,550,000	0.95%	Nil	102.0%	
May 19, 2017*	425,000	0.95%	Nil	101.8%	
May 23, 2017	500,000	0.97%	Nil	100.9%	5 years
May 24, 2017	3,450,000	1.15%	Nil	100.7%	5 years

*May 19, 2017 reflects the date of acquisition of Orex Exploration Inc. with expected life between 3 and 5 years

Share-based compensation expense

The fair value of the stock options granted for the three months ended August 31, 2017 was $169,740 (three months ended August 31, 2016 – $nil). The fair value of options vested for the three months ended August 31, 2017 was $49,674 (three months ended August 31, 2016 – $69,977), an amount which has been expensed as share-based compensation in the Consolidated Statement of Comprehensive Loss.

15. RELATED PARTY TRANSACTIONS

Remuneration of key management personnel

Key management personnel include the members of the Board of Directors, the President and Chief Executive Officer, Chief Financial Officer, and starting on June 1, 2017, the Chief Operating Officer. Compensation of key management personnel (including directors) was as follows for the three months ended August 31, 2017 and 2016:

For the three months ended	**August 31 2017**	August 31 2016
	$	$
Salaries, bonuses, fees and short term benefits	**343,813**	181,659
Share based compensation	**34,682**	38,944
	378,495	220,603

As at August 31, 2017, included in trade and other payables is $39,750 (May 31, 2017 – $48,000) of amounts due for directors' fees.

16. COMMITMENTS

Contractual obligations of the Company as at August 31, 2017 are as follows:

	Less than 1 year	1 - 3 years	More than 3 years	**Total**
	$	$	$	**$**
Provincial government loan	76,984	161,064	105,709	**343,757**
Federal government loan	100,800	201,600	105,200	**407,600**
Capital leases and other loans	171,915	74,891	-	**246,806**
	349,699	437,555	210,909	**998,163**

The Company has royalty obligations on its various mineral properties as follows:

- A net profits interest ("NPI") agreement over the Point Rousse Mining Leases with Royal Gold Inc. whereby the Company is required to pay Royal Gold Inc. 7.5% of net profits, calculated as the gross receipts generated from the claims less all cumulative development and operating expenses. As at August 31, 2017, the Company has determined it has approximately $38 million in expenditures deductible against future receipts.
- A net smelter return ("NSR") of 3% is payable to a third-party on gold produced from the Stog'er Tight Property.
- A $3,000,000 capped NSR on 4 mineral exploration licenses in the Point Rousse Project, known as the Tenacity Property (Argyle), is calculated at 3% when the average price of gold is less than US$2,000 per ounce for the calendar quarter, and is 4% when the average price of gold is more than US$2,000 per ounce for the calendar quarter.
- The Froude Property (Argyle) is subject to an NSR of 3% to an aggregate sum of $3 million; once this threshold has been met and 200,000 ounces of gold has also been sold, the NSR decreases to 1%.
- The Company is subject to pay Altius Resources a 2.5% NSR on gold produced from the Viking Property.
- The Tilt Cove Property is subject to a 1% NSR to MEK on the sale of gold-bearing mineral products. Anaconda Mining is also assuming an existing 2% NSR (the "Existing NSR") on one of the two licenses that comprises the Tilt Cove Property. 1% of the Existing NSR is purchasable for $1,250,000.

The Company also has royalties payable to various vendors of mineral leases located outside the currently anticipated mining areas.

The Company has a commitment to spend up to a total of $3,787,600 in expenditures related to the Narrow Vein Mining Project, for which the Company has secured funding of over $2,000,000 (refer to Note 18 for further information).

In relation to a capital lease agreement with Legault Metal Inc. ("Legault") for the lease and installation of certain mill equipment with a three year term, the Company is subject to contingent rent payments equal to 75% of the net refined outturn for residues recovered from the equipment for the first 18 months following installation and 60% of the net refined outturn for residues recovered for the last 18 months of the agreement.

17. FINANCIAL INSTRUMENTS

The Company's financial instruments as at August 31, 2017 and May 31, 2017 are cash, restricted cash, accounts payable, accrued liabilities, call option derivative liabilities (recorded as part of trade payables and accrued liabilities), and certain current and non-current loans.

Fair values of cash and restricted cash are based on quoted prices in active markets for identical assets, resulting in a level one valuation. Call option derivative liabilities are classified as level two and are valued using the Black Scholes option pricing model. The carrying amount of the Company's financial instruments approximates fair value due to their short-term nature.

18. NARROW VEIN MINING PROJECT

In June 2017, the Company commenced a research and development project to develop, prototype and optimize a new technology to mine steeply-dipping narrow gold veins that cannot be mined cost-effectively with existing technologies (the "Narrow Vein Mining Project" or the "Project"). The Company will partner with university and government institutions to advance the Project, which is expected to take place over a three year period. The Company has secured funding of over $2,000,000 for the Project, including $1,500,000 from the Atlantic Innovation Fund ("AIF"), more than $520,000 through the Research & Development Corporation ("RDC"), and up to $50,000 from the Industrial Research Assistance Program ("IRAP"). No funding for the Project has been received as of August 31, 2017.

Federal and provincial funding will offset the technical and financial risks of developing and optimizing a narrow vein mining system for use in steeply-dipping narrow gold veins. If successfully developed, this technology has the potential to be used for similar mineral properties owned by Anaconda and other gold deposits throughout Atlantic Canada and the rest of the country. Funding through the Atlantic Innovation Fund is conditionally repayable based on revenues generated should the Project be successful. Funding through RDC and IRAP is a grant and will be credited against eligible costs incurred.

As at August 31, 2017, $35,107 (May 31, 2017 – $nil) related to expenditures on the Project that are expected to be reimbursed by IRAP was included in trade and other receivables. During the three months ended August 31, 2016, $18,152 (three months ended August 31, 2016 – $nil) of non-reimbursable research and development expenditures was included as corporate administration in the Consolidated Statement of Comprehensive Loss.

19. SUBSEQUENT EVENTS

Subsequent to August 31, 2017, the Company granted a total of 350,000 stock options to certain employees and consultants of the Company. The stock options granted have an exercise price of $0.07, vest in three installments over 18 months, and expire five years from the date of grant.