parker simone LLP

ANACONDA MINING INC.

Audited Consolidated Financial Statements

Years Ended May 31, 2009 and 2008

parker simone LLP

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Auditors' Report

To the Shareholders of
Anaconda Mining Inc.

We have audited the consolidated balance sheets of Anaconda Mining Inc. as at the May 31, 2009 and 2008 and the consolidated statements of operations and deficit and comprehensive income (loss) and accumulated comprehensive income (loss) and cash flow for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at May 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

parker simone LLP.

August 21, 2009 Licensed Public Accountants

Management's Responsibilities for Financial Reporting and Internal Controls

The accompanying consolidated financial statements of the company have been prepared by management in accordance with Canadian generally accepted accounting principles and have been approved by the Company's board of directors (the "Board"). The integrity and objectivity of these consolidated financial statements are the responsibility of management and may contain significant accounting judgements and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. Management has determined such amounts on a reasonable basis to ensure that these consolidated financial statements are presented fairly in all material respects. In addition, management is responsible for ensuring that the information contained in the MD&A that accompany these consolidated financial statements for the same period, is consistent, where appropriate, with the information contained in these consolidated financial statements.

In support of this responsibility, the Company's management maintains a system of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded. These consolidated financial statements may contain certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis to ensure that the Consolidated Financial Statements are presented fairly in all material respects.

The Board is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its audit committee. The audit committee is appointed by the Board and has several financial experts who are not involved in the Company's daily operations. The audit committee meets periodically with management and the external auditor to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the Consolidated Financial Statements with the external auditors.

"Lewis Lawrick"

Lewis Lawrick
President and Chief Executive Officer

August 21, 2009

"Stephen Gledhill"

Stephen Gledhill
Chief Financial Officer

August 21, 2009

Anaconda Mining Inc.
Consolidated Balance Sheets

As at	**May 31, 2009**	May 31, 2008
	$	$
Assets		
Current assets		
Cash and cash equivalents *(note 5)*	**887,200**	1,391,404
GST recoverable	**70,557**	201,947
Accounts receivable, prepaids and deposits	**46,682**	5,543
Subscriptions receivable	**15,900**	55,000
Due from related party *(note 12)*	**4,120**	-
Inventory *(note 6)*	**129,253**	-
	1,153,712	1,653,894
Investments ***(note 7)***	**397,800**	322,000
Mineral properties and deferred exploration expenditures ***(note 8)***	**5,045,833**	15,099,783
Leasehold improvements ***(note 9)***	**7,749**	10,990
Property, mill and equipment ***(note 10)***	**11,291,205**	2,800,135
	17,896,299	19,886,802
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *(note 11(ii))*	**2,099,983**	4,014,808
Convertible loans *(note 11(i))*	**1,898,072**	-
	3,998,055	4,014,808
Convertible Debentures ***(note 11(ii))***	**1,445,574**	-
Asset retirement obligations ***(note 15)***	**722,400**	645,000
	6,166,029	4,659,808
Shareholders' equity		
Capital Stock		
Common shares *(note 13(a))*	**23,303,314**	21,716,713
Equity portion of convertible loans and debentures *(note 11 (i and ii))*	**316,700**	-
Warrants *(note 13(b))*	**1,284,084**	2,491,662
Contributed surplus *(note14)*	**4,561,475**	2,347,188
Deficit	**(16,668,503)**	(11,503,869)
Accumulated comprehensive income (loss)	**(1,066,800)**	175,300
	11,730,270	15,226,994
	17,896,299	19,886,802

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors:

"Lewis Lawrick" — *Director*

"Mario Caron" — *Director*

Anaconda Mining Inc.
Consolidated Statements of Operations and Deficit

Years Ended	**May 31, 2009**	May 31, 2008
	$	$
Revenue		
Sales	**1,726,116**	-
	1,726,116	-
Cost of goods sold		
Mill operations	**2,860,981**	-
Mining costs	**220,566**	-
Net smelter return royalties	**37,106**	-
Toll-millings costs	**34,304**	-
	3,152,957	-
Gross margin	**(1,426,841)**	-
Administrative expenses		
Office and general	**393,216**	290,444
Consulting and professional fees *(note 12)*	**679,267**	579,345
Stock-based compensation *(note 13(c))*	**120,992**	2,418,538
Representation and travel	**64,362**	88,379
Shareholder and regulatory reporting	**125,952**	177,148
Salaries and benefits	**337,071**	354,251
Financing fees *(note 11 (i and ii))*	**163,525**	-
Project investigation costs	**60,942**	616,639
Interest expense (income)	**537,772**	(174,446)
	2,483,099	4,350,298
Write-down of deferred exploration expenditures *(note 8)*	**599,941**	6,949,031
Write-down of property, mill and equipment *(note 10)*	**366,845**	-
Net loss before exchange gains (losses)	**(4,876,726)**	(11,299,329)
Foreign exchange gains (losses)	**(105,808)**	368,765
Net income (loss) before taxes	**(4,982,534)**	(10,930,564)
Future income tax (expense) recovery	**(182,100)**	29,700
Net income (loss)	**(5,164,634)**	(10,900,864)
Deficit at beginning of period	**(11,503,869)**	(603,005)
Deficit at end of period	**(16,668,503)**	(11,503,869)
Net income (loss) and per share – basic and fully diluted	**($0.08)**	($0.19)
Weighted average number of shares outstanding (000's)	**63,064**	56,304

The accompanying notes are an integral part of these consolidated financial statements

These consolidated financial statements have been approved by the Company's Board of Directors

Anaconda Mining Inc.
Consolidated Statements of Comprehensive Income (Loss) and Accumulated Comprehensive Income (Loss)

Years Ended	May 31, 2009	May 31, 2008
	$	$
Net income (loss)	**(5,164,634)**	(10,900,864)
Other comprehensive income (loss):		
Unrealized gain (loss) on available-for-sale investments *(note 7)*	**(1,242,100)**	175,300
Total comprehensive income (loss)	**(6,406,734)**	(10,725,564)
Comprehensive income (loss) per share – basic and fully diluted	**($0.10)**	($0.19)

	May 31, 2009	May 31, 2008
	$	$
Opening accumulated comprehensive income (loss)	**175,300**	-
Unrealized gain (loss) on available-for-sale investments for year *(note 7)*	**(1,242,100)**	175,300
Accumulated comprehensive income (loss)	**(1,066,800)**	175,300

The accompanying notes are an integral part of these consolidated financial statements

These consolidated financial statements have been approved by the Company's Board of Directors

Anaconda Mining Inc.
Consolidated Statements of Cash Flow

Years Ended	May 31, 2009	May 31, 2008
	$	$
Operations		
Net income (loss)	**(5,164,634)**	(10,900,864)
Adjustments to reconcile net loss to cash flow from operating activities:		
Amortization	**3,274**	3,334
Write-down of resource properties	**540,479**	6,949,031
Write-down of property, mill and equipment	**366,845**	-
Unrealized foreign exchange gains (losses)	**66,415**	(515,997)
Stock-based compensation	**120,992**	2,418,538
Future income tax expense (recovery)	**182,100**	(29,700)
Financing fees	**22,718**	-
Interest accretion on convertible loans and debentures	**118,646**	-
Interest accretion on asset retirement obligation	**77,400**	-
Issuance of securities to repay trade debt	**606,176**	-
Net change in non-cash working capital items:		
GST recoverable	**131,391**	(813,926)
Accounts receivable, prepaids and deposits	**(42,230)**	276,795
Inventory	**(129,253)**	-
Accounts payable and accrued liabilities	**(853,422)**	2,166,789
Cash flow provided from (used in) operating activities	**(3,953,103)**	(446,000)
Financing		
Issuance of common shares, net of subscriptions receivable	**1,932,925**	3,680,000
Issuance costs	**(50,400)**	(153,053)
Convertible loans	**2,000,000**	-
Convertible debentures	**1,514,700**	-
Loan payable drawdown (repayment)	**-**	(2,544,750)
Due to related parties	**(4,120)**	(1,000)
Cash flow provided from (used in) financing activities	**5,393,105**	981,197
Investments		
Expenditures on mineral properties and deferred exploration	**(893,469)**	(7,693,365)
Purchase of mill and equipment	**(1,051,275)**	(1,445,981)
Cash flow used in investing activities	**(1,944,744)**	(9,139,346)
Effect of exchange rate changes on cash and cash equivalents	**538**	11,576
Net increase (decrease) in cash and cash equivalents	**(504,204)**	(8,592,573)
Cash and cash equivalents at beginning of period	**1,391,404**	9,983,977
Cash and cash equivalents at end of period	**887,200**	1,391,404

The accompanying notes are an integral part of these consolidated financial statements

These consolidated financial statements have been approved by the Company's Board of Directors

General

Anaconda Mining Inc. (the "Company" or "Anaconda") was incorporated under the laws of British Columbia. On April 18, 2007, Anaconda completed an acquisition (the “Acquisition”) of Colorado Mineral Inc. (“Colorado”) by issuing 19,701,560 common shares of the Company to the shareholders of Colorado in exchange for all the issued and outstanding shares of Colorado. As a result of the issuance, the former shareholders of Colorado owned approximately 50.8% of the then outstanding common shares of Anaconda thereby affecting a reverse takeover (“RTO”) of Anaconda. Accordingly, for accounting purposes Colorado is deemed to be the acquirer of Anaconda, although Anaconda is the legal parent company and the reporting issuer.

The Company`s principal business activity is that of a mineral exploration and mining company with operations in Canada and Chile. At May 31, 2009, the Company has completed the construction of its mining project in Baie Verte, Newfoundland (the “Pine Cove project”) and has brought it into limited production. Anaconda continues to work toward commercial production hereby defined as the first day of the month following the first month in which gold has been produced from the project for a period of thirty consecutive days at an average rate of not less than 70% of the initial-rated capacity of the mill (“Commercial Production”). Once Commercial Production has been achieved, the Company’s ownership percentage of the Pine Cove project is increased to 60% from its current 30%.

The Company has not yet established whether its mineral properties in Chile contain reserves that are economically recoverable. The recovery of amounts capitalized for mineral properties and related deferred costs on the consolidated balance sheets is dependent upon the existence of economically recoverable reserves, the ability of the Company to arrange appropriate financing to complete the development of the properties and upon future profitable production or proceeds from their disposition.

1. *Going Concern*

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Accordingly, it does not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts that may differ from those shown in these consolidated financial statements.

Subsequent to year end, the Company entered into a toll milling arrangement *(note 19)* that is providing positive cash flow to the Company. However, for the year ended May 31, 2009, the Company’s only source of revenue is from its Pine Cove project. The operation continues to be limited with the current configuration of its ore-processing circuit. Throughput and gold recovery has been impacted by the inefficiencies encountered in the concentrator circuit in the mill.

The unanticipated and continued delay in reaching Commercial Production at the project has caused the Company to utilize available working capital on operations and capital requirements at the mine site as well as advance expenditures required to affect the commencement of toll milling, impeding its ability to deploy the funds in other areas of its operations.

The Company has raised additional funds throughout the year *(note 13)* but intends to use the cash flow generated from the toll milling arrangement *(note 19)* to supplement its capital requirements at the Pine Cove project to correct the inefficiencies noted above. As well, the Company will utilize these funds to reduce its current obligations. There is no assurance that the Company will be able to raise additional funds in the public or private markets on reasonable terms. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that Anaconda will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from the treasury of the Company, control of Anaconda may change and existing shareholders may suffer dilution. If adequate financing is not available, the Company may be required to relinquish rights to certain of its interest or terminate its operations.

2. Summary of Significant Accounting Policies

Principles of Consolidation

These consolidated financial statements include the accounts of Anaconda and its legal subsidiaries, Colorado Minerals Inc., a Canadian company and Inversiones La Veta Limitada, a limited liability company based in Chile. These consolidated financial statements have been prepared to reflect the combination that occurred on April 18, 2007 and are based on an acquisition under the purchase method, applying reverse takeover accounting. As a result of the combination, control of Anaconda passed to the shareholders of Colorado. Under reverse takeover accounting, Colorado is deemed to be the acquirer and the continuing entity. The financial statements of the combined entity are issued under the name of the legal parent, Anaconda Mining Inc., but are considered to be a continuation of the financial statements of the legal subsidiary, Colorado Minerals Inc.

Use of Estimates

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the period. The most significant estimates and assumptions include those related to the ability of the Company to continue as a going concern, the mineral properties and related deferred costs, asset retirement obligations and stock-based payments. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and on hand and other highly liquid short-term investments, which may be settled on demand or within a maximum 90 day period from year end to maturity.

Revenue Recognition

Revenue from the sales of metal in concentrate is recognized when persuasive evidence of a sales agreement exists, title and risk is transferred to the customer, collection is reasonably assured and the price is reasonably determinable. Revenue from the sales of metal may be subject to adjustment upon final settlement of shipment weights, assays and estimated metal prices. Adjustments to revenue for metal prices are recorded monthly and other adjustments are recorded on final settlement. Cash received in advance of meeting these revenue recognition criteria is recorded as deferred revenue. Interest revenue is accrued as earned.

Mineral Properties and Related Deferred Costs

The Company records its interest in mineral properties at cost. Direct costs relating to the acquisition, exploration and development of mineral properties, less recoveries, are deferred until such time as the properties are either put into commercial production, sold, determined not to be economically viable or abandoned. If the property is placed into production, deferred costs will be amortized and depleted using the unit-of-production method over the estimated economic life of the mine. The deferred costs would be written off if the property is sold or abandoned. If it is determined that the carrying value of a property exceeds its net recoverable amount as estimated by management, or exceeds the selling value of the property, a provision is made for the decline in value and charged against operations in the year (see policy regarding ***EIC-174***). As at May 31, 2009, the Company has transferred the fair value of deferred development costs relating to its Pine Cove project to the property, mill and equipment category and will commence amortization of its mill and equipment using the unit-of-production method in fiscal 2010.

The amounts shown for mineral properties and related deferred costs represent costs incurred to date, less write-offs and recoveries, and do not necessarily reflect present or future values of the particular properties.

Joint Venture Participation and Accounting

From time to time the Company enters into agreements that provide for specified percentage interests in mineral property rights to be allocated to joint venture participants in exchange for funding or joint funding of exploration programs.

Where agreements specify the Company as the operator, and controlling interest of the exploration program of the venture, such arrangements are considered to be participation funding and not considered to be joint ventures.

Joint venture accounting is applied by the Company only when commercial feasibility is established and the parties enter into formal comprehensive agreements for ownership and mining participation terms. Accordingly, the Company records funding contributions prior to such agreements as reductions of carrying costs and no gain or loss on disposition of a partial interest is recorded.

Partial Dispositions of Mineral Properties

Proceeds from partial dispositions of mineral properties during the exploration stage are credited as a reduction of carrying costs. No gain or loss is realized until all carrying costs of the specific interest have been recovered.

Impairment of Long-Lived Assets

Management periodically reviews the carrying value of mineral properties and deferred exploration costs to consider whether there are any conditions that may indicate impairment. Where estimates of future cash flows are available, a reduction in the carrying value is recorded to the extent the net book value of the investment exceeds the estimated fair value which is normally the discounted value of future cash flows. Where estimates of future cash flows are not available and where other conditions suggest impairment, management assesses if carrying value can be recovered and provided for impairment if so indicated, by reducing the carrying value of the property to its estimated fair value.

Amortization

Office furniture, fixtures and equipment and leasehold improvements are recorded at cost and are amortized on a straight line basis over their useful estimated life estimated at between 2 and 5 years.

With the Company's Pine Cove project now in limited production, the Company has reviewed its previously stated policy on the amortization of its mill and equipment. Previously, the Company had indicated that mill and equipment would be amortized on a "units-of-production" basis once the project had achieved Commercial Production. As the Company has entered into a toll milling arrangement subsequent to year end *(note 19),* it has determined that a more appropriate time to commence amortization of its mill and equipment would be at the start of toll milling processing (July 1, 2009). This accounting policy change has no effect on previous reporting.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values, using the substantially enacted tax rates expected to apply when these temporary differences are expected to reverse. Future income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will be realized *(note 16)*.

Foreign Currency Translation

The Company's foreign operations are integrated and are included in these consolidated financial statements on the basis that monetary assets and liabilities are translated at the period end rate of exchange, non-monetary assets and liabilities are translated at historical rates, and revenues and expenses are translated at the exchange rate in effect at the time the revenues are earned or the expenses are incurred. Exchange gains and losses arising on the translation of monetary items are included in income and loss from operations.

Loss Per Share and Comprehensive Loss Per Share

Loss per share and comprehensive loss per share is calculated based on the weighted average number of shares issued and outstanding during the quarter or year, as appropriate. In the years when the Company reports a net loss and comprehensive net loss, the effect of potential issuances of shares under options and warrants would be anti-dilutive and, therefore, basic and diluted loss per share is the same.

Stock-based Compensation

The Company applies the fair-value based method to all stock options granted. Accordingly, compensation cost is measured at fair value at the date of grant and is expensed on a straight line basis over the vesting period, with the related credit included in contributed surplus. The applicable contributed surplus is transferred to share capital, if and when stock options are exercised. Any consideration paid on the exercise of stock options is credited to capital stock.

The Company uses the Black-Scholes option pricing model to determine the value of all issued options and warrants. The table below summarizes the assumptions used with the Black-Scholes model for determining the value of the stock-based costs for the stock options and warrants issued in 2009 and 2008.

The weighted-averages used in the Black-Scholes option pricing method were as follows:

	2009	2008
Dividend Yield	-	-

Expected volatility	135%	118.4
Risk-free interest rate	0.0%*	4.2%
Expected life (years)	2.0	5.0

*As per CICA **3855**, 0.01% has been used in the determination of the fair value of options or warrants with a step-up exercise price.

Asset Retirement Obligations

The Company follows the *CICA - 3110 Asset Retirement Obligations*, which established standards for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is amortized over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement of fair value. As at May 31, 2009, the Company has estimated $722,400 (2008 - $645,000) in asset retirement obligations related to its Pine Cove property. Interest accretion included in the current year's net loss is $77,400 (2008 - $Nil).

Inventory

The Company's accounting policy for inventory assumes that material extracted from our Pine Cove project is either ore or waste. Ore represents material that, at the time of extraction, is expected to be processed, or to have processed, into saleable form and sell at a profit. Ore is recorded as an asset and including in inventory as it is extracted from the open pit. Ore is accumulated in stockpiles that are subsequently processed into gold in saleable form. Gold work-in-process represents gold in the processing circuit that has not completed the production process, and is not yet in saleable form.

Raw materials (gold in stockpiles) is measured by estimating the number of tons added and removed from stockpile and the associated estimate of gold contained therein (based on empirical assay data) and applying estimated metallurgical recovery rates. Stockpile or tonnages are verified by periodic surveys. Costs are allocated to ore stockpiles based on quantities of material stockpiled using current mining costs incurred up to the point of stockpiling the ore and include cost allocations from waste mining costs, overheads, amortization, depletion and depreciation relating to mining operations. Once ore is processed, costs are removed based on recoverable quantities of gold using the stockpile's average cost per unit. Provisions are deducted in order to reduce the inventory to net realizable value.

Gold in process and gold dore are recorded at average costs, less provisions required to reduce inventory to market value. Average cost is calculated based on the costs of inventory at the beginning of a period plus the cost of inventory produced during the current period. Costs capitalized to in-process and finished goods inventory include the cost of stockpiles processed, direct and indirect materials and consumables, direct labour, repairs and maintenance, utilities, amortization of property, mill and equipment and local mine administrative expenses. Costs are removed from inventory and recorded in cost of sales and amortization expense based on the average cost per ounce of gold in inventory.

Financial Instruments

All financial assets and liabilities are initially recognized at fair value. In subsequent periods, financial assets and liabilities which are held for trading are recorded at fair value with gains and losses recognized in net income; financial assets which are loans and receivables or held to maturity are recorded at amortized cost using the effective interest rate method and gains and losses recognized in net income; financial assets which are available for sale are recorded at fair value with gains and losses recognized (net of applicable taxes) in other comprehensive income; financial liabilities that are not held for trading are recorded at amortized cost using the effective interest rate method and recognized in net income.

Comprehensive Income / (Loss)

Section 1530 requires that an entity temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining foreign operations.

Hedges

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 – “Hedging Relationships”, and the hedging guidance in Section 1650 – “Foreign Currency Translation” by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Company has no hedges in place at May 31, 2009.

Account Reclassifications

Certain prior year amounts have been reclassified to conform to account presentation in the current year.

Newly-Adopted Accounting Changes

Capital Disclosure and Financial Instruments – Disclosure and Presentation.

The Company has adopted Section 1535 that specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company’s capital management disclosures are contained in ***note 3*** to these consolidated financial statements.

The Company has adopted Sections 3862 and 3863 that replace Handbook Section 3861 – “Financial Instruments – Disclosure and Presentation”, revising and enhancing its disclosure requirements, and carrying forward unchanged it presentation requirements. These new sections place increased emphasis on disclosures about the nature and extend of risks arising from financial instruments and how the entity manages those risks. The Company’s disclosure under these new Sections is contained in ***note 4*** to these consolidated financial statements.

EIC – 166 – Transaction Costs

On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166, Accounting Policy Choice for Transaction Costs (“EIC-166”). This standard requires an entity to disclose the accounting policy for transaction costs for all financial assets/liabilities other than those classified as held-for-trading. Transaction costs can either be recognized in net income or added to the initial carrying amount of the asset/liability it is directly attributable to. The same accounting policy must be chosen for all similar financial instruments, but a different accounting policy may be chosen for financial instruments that are not similar. EIC 166 should be applied retrospectively to transaction costs accounted for in accordance with CICA Section 3855 in financial statements issued for interim and annual periods ending on or after Sep. 30, 2007. Anaconda's accounting policy with respect to transaction costs has been to expense all transaction costs for all financial instruments as incurred (except for those classified as held-for-trading). This policy did not change as a result of adopting EIC 166. The Company has expensed $ 163,525 relating to transaction costs for the year ended May 31, 2009 (2008 - $ 0).

EIC – 173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued EIC 173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The committee reached a consensus that a company's credit risk and the credit risk of its counterparties should be considered when determining the fair value of its financial assets and financial liabilities, including derivative instruments. The transitional provisions resulting from the implementation of EIC 173 require the abstract to be applied retrospectively without restatement of prior periods. The Company adopted this EIC effective January 12, 2009. The adoption of the EIC did not have a significant impact on the Company's consolidated financial statements.

EIC – 174 – Mining Exploration Costs

On March 27, 2009, the Emerging Issue Committee of the CICA issued a new EIC (*EIC-174*) requiring that an entity is to consider the following criteria in its determination of impairments that may exist in its properties in addition to those conditions set out in *CICA 3063.09 - .10* and *AcG 11*, paragraphs 15-19, for current and subsequent accounting periods:

- Market value of the underlying commodity that the Company is exploring has had long-term, non-temporary decreases.
- The entity's book value is in excess of its market value.
- The entity's ability to meet future commitments is in question.

The existence of any of the above-noted conditions, may signify that an impairment exists in the fair value of a company's properties.

Anaconda has reviewed the above-noted conditions together with those set out in *CICA 3063.09 - .10* and *AcG 11*, paragraphs 15-19 and has adjusted for all impairments and determined that none others exist as at May 31, 2009.

Goodwill and Intangible Assets

As at May 31, 2009, the Company adopted *CICA 3064 - Goodwill and Intangible Assets* (Section 3064). Section 3064, which replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*, that provides clarifying guidance on the criteria that must be satisfied in order for an intangible asset to be recognized, including internally developed intangible assets. The CICA's Emerging Issues Committee (EIC) Abstract No. 27, *Revenues and Expenditures During the Pre-operating Period*, is no longer applicable once Section 3064 has been adopted. As a result of adopting Section 3064, the Company has expensed $1,426,841 of costs incurred in the pre-operating period during fiscal 2009 that otherwise would have been capitalized as property, mill and equipment.

Going Concern

On June 1, 2008 the Company adopted *Section 1400 - General standards of financial statement presentation*, and it has since been amended to include going concern requirements. The amendments require management to make an assessment of the Company's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern. The Company's disclosures in ***note 1*** reflect such assessments.

Inventory

Effective June 1, 2008 the Company adopted the Canadian Institute of *CICA 3031 - Inventory*. The adoption of this new inventory standard requires changes for accounting of inventory including the requirement to allocate overhead costs based on normal production levels and changes to the definition of net realizable value. The new inventory standard clarifies the definition of 'cost' to include all costs of purchase, costs of conversion and other costs incurred to bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw materials inventories do not require write downs if the finished goods in which they will be incorporated are expected to be sold at or above cost. There was no impact of this change to the financial statements of the Company on the adoption of this new standard.

Future Accounting Changes

International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of June 1, 2011, will require the restatement for comparative purposes of amounts reported by the Company for the year ended May 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Business Combinations

In January 2009, the CICA issued *Handbook Section 1582 - Business combinations* which replaces the existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is equivalent to the International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. Management does not believe the adoption of this standard will have an impact on the Company's financial statements.

Non-Controlling Interests

In January 2009, the CICA issued *Handbook Section 1602 - Non-controlling interests* which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. This standard is effective for 2011. Earlier adoption is permitted. Management does not believe the adoption of this standard will have an impact on the Company's financial statements.

Consolidated Financial Statements

In January 2009, the CICA issued *Handbook Section 1601 - Consolidated financial statements* which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for 2011. Earlier adoption is permitted. Management does not believe the adoption of this standard will have an impact on the Company's financial statements.

3. 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 and development 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.

Aside from its Pine Cove project which is now in limited production, the mineral properties of Anaconda are in the exploration and development stage and, as a result, the Company currently has no source of operating cash flow. The Company intends to supplement its Pine Cove cash flow and raise such funds as and when required to complete its projects. There is no assurance that the Company will be able to raise additional funds on reasonable terms. The only sources of future funds presently available to Anaconda are through the exercise of outstanding stock options and/or warrants, the sale of equity capital of the Company or the sale by Anaconda of an interest in any of its properties in whole or in part. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that Anaconda will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Company.

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

There were no changes in the Company's approach to capital management during the year ended May 31, 2009. The Company is not subject to externally imposed capital restrictions.

4. Risk Factors

The Company's major projects are its Pine Cove project and its San Gabriel property (the "Projects"). Unless the Company acquires or develops additional material properties, the Company will be mainly dependent upon the Projects, and specifically its Pine Cove mining project. Any adverse developments affecting the Company's Projects would have a material adverse effect on the Company's financial condition and results of operations.

Other risk factors and their impact on the Company's financial instruments are summarized below:

Credit Risk

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The credit risk is primarily attributable to cash and GST recoverable. Cash is held with a tier A

Canadian chartered bank and one of Chile's largest banks and management believes the risk of loss to be minimal.

Financial instruments included in GST recoverable consist of goods and services taxes receivable from the Canadian government and such amounts are in good standing as at May 31, 2009. Management believes that the credit risk associated with the financial instruments included in GST recoverable is minimal.

Liquidity Risk

As at May 31, 2009, the Company had a working capital deficiency of approximately $2,844,000. The Company utilized the proceeds from the financing that was completed in April 2009 *(note 13)* to discharge some of its current obligations. However, in order to meet its other short to medium-term working capital obligations, the Company intends to utilize the cash flow generated from the toll milling arrangement *(note 19)* to supplement its capital requirements at the Pine Cove project. If necessary, the Company may seek further financing for 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.

(i) Interest rate risk

The Company has no interest-bearing assets and only fixed-interest debts. The Company invests excess cash, when available, in short term securities with maturities of less than one month. Anaconda periodically monitors the investments it makes and is satisfied with the creditworthiness of its cash investments.

(ii) Foreign currency risk

The Company's functional currency is the Canadian dollar. The Company transacts business using the Canadian dollar, the US dollar and the Chilean peso.

The Company may sell its future reserve production pursuant to marketing agreements that are denominated in the Chilean Peso that first must be denominated into US dollars or in Canadian dollars when producing in Canada. Some of the operational and other expenses incurred by the Company are paid in US dollars or in local currency of the country where operations are performed. The assets and liabilities of the Company are recorded in Canadian dollars. As a result, fluctuations in the US dollar or Chilean Peso against the Canadian dollar could result in unanticipated and material fluctuations in the financial results of the Company. The Company has no plans for hedging its foreign currency transactions.

(iii) Commodity price risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices as it relates to minerals (and specifically, gold) to determine the appropriate course of action to be taken by the Company.

(iv) Stock market volatility risk

For certain option rights it has granted on some of its properties, the Company has taken in consideration, common shares of the optionee company. Such common shares have been issued by a company whose shares trade on the Toronto Stock Exchange's Venture Exchange. The value of these financial instruments fluctuate on a daily basis due to external market factors that are not within the control of the Company. The Company monitors the trading value of these common shares in order to ensure that, if in the best interest of the Company, sale of the shares is made under favourable conditions (see *note 11 (ii)* for restrictions on the sale of these securities).

(v) Derivatives – mineral properties

The Company retains and/or has obligations related to certain carried interest rights and net smelter royalties ("NSR"), the value of which is derived from future events and commodity prices. These rights are derivative instruments. However, the mineral property interests to which they relate are not sufficiently developed to reasonably determine value.

(vi) Political Risk

The properties are located in Canada and Chile; accordingly, the Company is subject to risks normally associated with exploration and development of mineral properties in Canada and Chile. The Company's ability to conduct future exploration and development activities is subject to changes in government regulations and shifts in political attitudes over which the Company has no control.

Sensitivity Analysis

The Company has, for accounting purposes, designated its cash and cash equivalents as held-for-trading, which are measured at fair value. GST recoverable, subscriptions receivable and accounts receivable, prepaids and deposits are classified for accounting purposes as loans and receivables, which are measured at amortized cost which equals fair value. Investments for accounting purposes are classified as available-for-sale and are measured at fair value. Accounts payable and accrued liabilities, convertible loans, convertible debentures and asset retirement obligations are classified for accounting purposes as other financial liabilities, which are measured at amortized cost which also equals fair value. As at May 31, 2009, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a one year period:

(i) Cash and cash equivalents include short-term money market mutual fund units that are subject to floating interest rates. As at May 31, 2009, if interest rates had decreased/increased by 1% with all other variables held constant, the loss for the year ended May 31, 2009 would be approximately $9,000 higher/lower, as a result of lower/higher interest income from cash and cash equivalents. As at May 31, 2009, reported shareholders' equity would have been approximately $9,000 lower/higher as a result of lower/higher interest income from cash and cash equivalents.

(ii) The Company's exploration and evaluation activities are substantially denominated in Canadian dollars and Chilean Pesos. The Company's funds are predominantly kept in Canadian dollars, with a major Canadian financial Institution.

The Company functional currency is Canadian dollar and major purchases are transacted in Canadian dollars and Chilean Pesos, with most sales contracted in American dollars. The

Corporation funds major operations and exploration expenses in Chile, therefore the Company maintains Chilean Pesos bank accounts in Chile. Management believes that foreign currency risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk. During the year ended May 31, 2009, the Company recorded a non-cash loss of $105,808 (2008 – gain of $368,765) which reflects the volatility in the current foreign exchange market against Canadian dollar and due to the variances in the balance sheet from year to year. The Company accounts for temporal movements in Chilean Peso exchange rate for all items measured at historical cost on its balance sheet, by including such changes as a change or gain to its income statement.

The table below summarizes the effects on foreign exchange gains and losses as a result of a 10% change in the value of the foreign currencies against the Canadian dollar where the Company has significant exposure. The analysis assumes all other variables remain constant.

	Effect of a 10% increase in foreign exchange rates on translation and investments in foreign monetary assets	Effect of a 10% decrease in foreign exchange rates on translation and investments in foreign monetary assets
American Dollar	$ 3,000	$ (3,000)
Chilean Peso	(83,000)	83,000

(iii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market prices of precious metals. Commodity prices have fluctuated significantly in recent years. If the fair value for Commodity prices had decreased/increased by 10% with all other variables held constant, net loss for the year ended May 31, 2009 would have been approximately $185,000

(iv) The Company's investments are subject to fair value fluctuations. As at May 31, 2009, if the fair value of investments had decreased/increased by 50% with all other variables held constant, comprehensive loss for the year ended May 31, 2009 would have been approximately $200,000 higher/lower. Similarly, as at May 31, 2009, reported shareholders' equity would have been approximately $200,000 lower/higher as a result of a 50% decrease/increase in the fair value of investments.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit with the banks in general non-interest bearing accounts totaling $291,077 (May 31, 2008 - $784,237) and interest-generating money-market accounts of $596,123 (May 31, 2008 - $607,167).

CICA 1540.52 calls for the disclosure of cash or cash equivalents that may be available for current purposes but on a restricted basis. The following chart discloses the Company's cash and cash equivalents that are restricted as a result of cash held by its Canadian bank in interest bearing deposits securing letters of credit issued regarding the Pine Cove project:

	May 31, 2009	May 31, 2008
	$	$
General Purpose		
Cash	**255,958**	784,237
Cash equivalents	**30,689**	41,667
	286,647	825,904
Restricted		
Cash [1]	**35,053**	-
Cash equivalents [2]	**565,500**	565,500
	600,553	565,500
Total Cash and Cash Equivalents	**887,200**	1,391,404

[1] This cash is restricted as a debt-reduction escrow account as part of the agreement for the convertible debentures *(note 11(ii))*. This cash can be utilized for debt service and/or principal repayments.

[2] This cash is restricted in concert with the Company's ARO obligations. It has issued letters of credit in the amount of $565,500 to the Newfoundland and Labrador government in satisfaction of its requirements under the approved site development *(note 15).* This cash equivalent is restricted by a non-revocable letter of credit that can only be lifted by the Newfoundland and Labrador government.

6. Inventory

As at May 31, 2009, the Company's inventory balance of $129,253 (2008 - $Nil) is represented by gold dore/bullion that is either on deposit with the Company's refiner or is in the final stages of the refinement process.

7. Investments

The Company acquires investments from time to time in the normal course of business. The Company has received shares of publicly-traded companies as part of consideration for mineral property option agreements *(note 8).* The investments consist of common shares of Merc International Minerals Inc. ("MIMI"), a company traded on the TSX Venture Exchange ("TSXV") and were measured at the fair value as determined by the closing prices of the company's shares on the TSXV on the days of receipt. Anaconda has identified these investments as available-for-sale and has measured their fair value, as determined by the closing price of the securities on the TSXV on May 29, 2009 (the last day of trading in the Company's fiscal year), resulting in an decrease, net of tax expense of $182,100 (2008 – tax recovery of $29,700) of $1,242,100 for the year (2008 – increase of $175,300) in these investments and a corresponding decrease in accumulated other comprehensive income. The tax asset associated with this loss has been offset with a valuation allowance and the corresponding future income taxes are included in the current net loss. As at May 31, 2009, the carrying value of the 1,530,000 (2008- 280,000) MIMI shares was $397,800 (2008 - $322,000) and the accumulated comprehensive loss relating to these shares was $1,066,800 (2008 – income of $175,300).

8. Mineral Properties and Deferred Exploration Expenditures

A detailed breakdown of the Company's mineral properties and deferred exploration expenditures by property is as follows:

Property	May 31, 2008	Additions	Written-off	Transferred	**May 31, 2009**
	$				**$**
San Gabriel	2,773,858	1,104,380	-	449,327	**4,327,565**
Other Chilean[2]	852,279	196,989	(599,941)	(449,327)	**-**
Pine Cove[3]	8,802,184	-	-	(8,802,184)	**-**
Damoti Lake	1,947,068	(1,947,068)	-	-	**-**
Borthwick Lake	480,122	(6,370)	-	-	**473,752**
Lingman Lake	244,272	244	-	-	**244,516**
	15,099,783	(651,825)	(599,941)	(8,802,184)	**5,045,833**

Property	May 31, 2007	Additions	Written-off	**May 31, 2008**
	$			**$**
Inca de Oro Sur (formerly known as Carmen)[1]	2,142,595	(2,142,595)	-	**-**
Vicuña	1,074,265	807,286	(1,881,551)	**-**
San Gabriel	2,140	2,771,718	-	**2,773,858**
Other Chilean	907,177	3,057,769	(3,112,667)	**852,279**
Pine Cove	2,375,144	6,427,040	-	**8,802,184**
Damoti Lake	3,736,853	165,028	(1,954,813)	**1,947,068**
Borthwick Lake[4]	617,759	(137,637)	-	**480,122**
Lingman Lake	244,272	-	-	**244,272**
	11,100,205	10,948,609	(6,949,031)	**15,099,783**

[1] Balance and additions for 2008 reflect US$2.05 million option payment received from Minera Peñoles de Chile ("Peñoles").

[2] This balance represented local IVA (recoverable tax for services rendered) that the Company has written off except for balances related to its San Gabriel property. $449,327 has been transferred to San Gabriel.

[3] Balances were transferred to property, mill and equipment *(note 10).*

[4] Balance reflects an option payment received in accordance with an agreement entered into with MIMI referenced below.

The Company's major properties and its commitments thereon are as follows:

San Gabriel

The project is located in northern Chile near the coastal deep-water port of Chañaral. The 3,800 hectare Project lies 60 km northeast of the Pacific coastal city of Chañaral, which has potential to provide the required infrastructure for shipping iron ore overseas. The Project is located within 15 km of a transmission line, 20 km of a rail line and 25 km from a main highway. Anaconda has the right to earn a 100% interest in San Gabriel by making payments totaling US$2.4 million over four years, including a US$20,000 payment made on signing.

The following fiscal commitments exist for the project: 2010- US$115,000, 2011 – US$500,000 and 2012 – US$1,720,000.

Inca de Oro Sur (formerly known as Carmen)

On November 20, 2008, the Company announced that it had received notice from its JV partner Minera Penoles de Chile Ltda ("Penoles") that it would not continue into the second year of the option and joint venture agreement governing the project.

In December 2008, the Company's discussions with the project's vendor on deferring or renegotiating the terms that remained outstanding on its underlying option, were not successful. The Company did not make the US$1 million option payment that was due on December 10, 2008 and the property was returned to the vendor.

Pine Cove

Located in Baie Verte, Newfoundland, the Pine Cove project consists of two contiguous mining leases totaling 659.7 hectares.

Under an agreement dated November 26, 2003, the Company acquired an exclusive option to earn up to an undivided 60% interest in the Pine Cove project in Newfoundland. To earn an initial 30% undivided interest in the Pine Cove project, the Company was required to pay $30,000 to the optionor by December 26, 2003 and $62,500 on the signing of the agreement as well as incurring a minimum of $500,000 of exploration expenditures on or before December 31, 2004. As at May 31, 2008, the required cash payments and exploration expenditure requirements have been fulfilled.

To earn the remaining 30% interest, the Company must complete construction of the project's production facilities and bring the project into Commercial Production.

The Company must pay a 3% net smelter royalty to the original vendor on all metals refined from the project. Anaconda also must pay a 7.5% net profits interest to a previous owner.

Vicuña

Located approximately 100 km southeast of Copiapo, Chile, the Vicuna property is in the high Andes and situated near the Argentine border. The Company had the right to acquire a 100% interest in the Vicuna property by making staged payments totaling US$9.9 million. In August 2008, the Company allowed the option on this project to lapse and retains no further interest in the property. The Company had recorded and impairment in the carrying value of the property at the end of fiscal 2008 and reduced the carry value to zero with a corresponding charge to the income statement in 2008.

Damoti Lake

Pursuant to an option agreement dated August 1, 2008, Anaconda optioned its interest in the Damoti Lake gold project to MIMI. Under the terms of the option agreement, the Company received $250,000 as an option payment, $208,000 as reimbursement for security deposits held by government authorities regarding the land and water use on the project and 1,250,000 common shares of MIMI (fair-valued on the date of receipt at $1.20 per share, or $1,500,000). Pursuant to the agreement, once MIMI had made all of the above-referenced payments and share issuance, MIMI shall have purchased all of the interest in the Damoti Lake property. As such, as all payments and shares have been received by the Company, Anaconda has no further interest in the property and is carrying no value on its balance sheet.

Borthwick Lake

On December 3, 2007, the Company entered into an option agreement (the "Borthwick Option Agreement") with MIMI, whereby MIMI may acquire an undivided 100% interest (the "Borthwick Interest") in the Company's Borthwick Lake claims (the "Borthwick Option") until termination on the earlier of November 30, 2011 or 7 days after default by MIMI for non-payment amounts due to Anaconda, amounts to be expended on exploration of the Borthwick property or issuance of MIMI common shares to Anaconda, all in accordance with the Borthwick Option Agreement.

Under the terms of the Borthwick Option Agreement, MIMI may exercise the Borthwick Option by:

i) Paying to the Company $25,000 prior to December 31, 2007 (received by the Company) and $50,000 prior to November 30, 2009.

ii) Incurring exploration expenditures on the Borthwick property aggregating $1.7 million as follows:

   a) Between December 31, 2007 and November 30, 2008 - $150,000;
   b) between December 1, 2008 and November 30, 2009 - $200,000;
   c) between December 1, 2009 and November 30, 2010 - $400,000; and
   d) between December 1, 2010 and November 30, 2011 - $950,000

iii) Issuing to the Company, the following common shares in the capital of MIMI from treasury, fee and clear of all liens, encumbrances, claims and restrictions of any nature, including resale transactions, within the time periods set forth below:

   a) On or before December 31, 2007 – 250,000 (received by the Company);
   b) on or before November 30, 2009 – 350,000;
   c) on or before November 30, 2010 – 450,000; and
   d) on or before November 30, 2011 – 550,000.

Upon earning the Borthwick Interest, MIMI shall grant to the Company an industry standard net smelter royalty in any mineral produced from the Borthwick property (the "Borthwick NSR"). The Borthwick NSR shall be 1% in any month that the average afternoon London Gold Fix is less than US$600 and 2% in any month that the average afternoon London Gold Fix is US$600 or more. The Borthwick NSR shall be paid on a quarterly basis, in arrears.

In November of 2008, both the Company and MIMI entered into an amending agreement due to a force majeure event occurring at the property. All expenditure requirements to be made after November 24, 2008 have been put in abeyance until the force majeure event is no longer present. At that time, the parties have agreed to amend the dates as appropriate.

Lingman Lake

On February 29, 2008, the Company entered into an option agreement (the "Lingman Option Agreement") with MIMI, whereby MIMI may acquire an undivided 100% interest (the "Lingman Interest") in the Company's Lingman Lake claims (the "Lingman Option") until termination on the earlier of November 30, 2011 or 7 days after default by MIMI for non-payment amounts due to Anaconda, amounts to be expended on exploration of the Lingman property or issuance of MIMI common shares to Anaconda, all in accordance with the Lingman Option Agreement.

Under the terms of the Lingman Option Agreement, MIMI may exercise the Lingman Option by:

i) Paying to the Company $25,000 prior to November 30, 2008.Incurring exploration expenditures on the Lingman property aggregating $300,000 as follows:

a) Between February 29, 2008 and November 30, 2008 - $50,000;
b) between December 1, 2008 and November 30, 2009 - $100,000;
c) between December 1, 2009 and November 30, 2010 - $100,000; and
d) between December 1, 2010 and November 30, 2011 - $50,000

ii) Issuing to the Company, the following common shares in the capital of MIMI from treasury, free and clear of all liens, encumbrances, claims and restrictions of any nature, including resale transactions, within the time periods set forth below:

a) On or before November 30, 2010 – 150,000; and
b) on or before November 30, 2011 – 250,000.

Upon earning the Lingman Interest, MIMI shall grant to the Company an industry standard net smelter royalty in any mineral produced from the Lingman property (the “Lingman NSR”). The Lingman NSR shall be 1% in any month that the average afternoon London Gold Fix is less than US$600 and 2% in any month that the average afternoon London Gold Fix is US$600 or more. The Lingman NSR shall be paid on a quarterly basis, in arrears.

In November of 2008, both the Company and MIMI entered into an amending agreement due to a force majeure event occurring at the property. All expenditure requirements to be made after November 24, 2008 have been put in abeyance until the force majeure event is no longer present. At that time, the parties have agreed to amend the dates as appropriate.

9. Leasehold Improvements

As at	**May 31, 2009**		May 31, 2008	
	Cost **$**	**Accumulated Amortization** **$**	Cost $	Accumulated Amortization $
Leasehold Improvements	**16,765**	**9,046**	16,765	5,775
	16,765	**9,046**	16,765	5,775
Net Book Value	**7,749**		10,990	

10. Property, Mill and Equipment

As at	**May 31, 2009**		May 31, 2008	
	Cost **$**	**Accumulated Amortization[1]** **$**	Cost $	Accumulated Amortization $
Mill	**2,287,174**	**-**	2,287,174	-
Equipment[2]	**171,203**	**-**	512,961	-
Property[3]	**8,832,828**	**-**	-	-

	11,291,205	**-**	2,800,135	-
Net Book Value	**11,291,205**		2,880,135	

[1]As per the Company's amortization policy *(note 2),* amortization of the Mill and Equipment will commence in the Company's 2010 fiscal year.

[2]During the year, the Company wrote-off $366,845 being the carrying value of its Gekko concentration equipment that was abandoned in the year.

[3]Including $8,802,184 previously capitalized to deferred development costs of the Pine Cove project and transferred to the property account.

11. Convertible Loans and Debentures

i) In July 2008, the Company arranged for a 7.5% convertible, unsecured loan facility (the "Thorsen Loan") of up to $1.5 million dollars from Thorsen-Fordyce Merchant Capital Inc. ("Thorsen"), a company that is controlled by the CEO and a director of the Company. The Thorsen Loan allows the holder to convert the indebtedness, in whole or in part, into units of the Company, each unit consisting of one common share and one-half of one common share purchase warrant, at the greater of (i) $1.00 per unit, and (ii) the volume weighted average trading price of the common shares of the Company for the twenty trading days immediately preceding the date of the notice of conversion (the "Conversion Price"), per unit. Each whole warrant received on the conversion will entitle the holder to purchase one common share during the 18 months after the date of conversion at (i) a price of $1.25 per share where the conversion price was $1.00, or (ii) at a price equal to 1.25 times the Conversion Price.

In January 2009, the Company re-negotiated the terms of the Thorsen Loan, whereby the maximum amount of the facility was increased to $2 million (of which $1.5 million remained convertible), the maturity date was extended by one year to May 31, 2010 and the interest rate changed to 12% with interest payable monthly. In consideration of the additional advance, the Company issued 500,000 warrants exercisable at $0.20 each for two years. The 500,000 warrants were assigned a value of $22,718, using the Black- Scholes valuation model with the following assumptions: a two year expected term; 137.3% volatility, risk free interest rate of 0.98% and a dividend yield of Nil%. These financing costs were expensed as incurred per the Companies accounting policy.

For accounting purposes, the Thorsen Loan contains both a liability component and an equity component, being the holder's conversion right, which has been separately presented in the consolidated balance sheets. The Company has allocated the $1,500,000 face value of the Thorsen Loan to the liability and equity components. At issuance, the Company estimated the fair value of the conversion option by deducting the present value of the future cash outflows of the Thorsen Loan from the face value of the principal of the Thorsen Loan. The fair value of the liability component was determined by discounting the stream of future payments of interest and principal at the estimated prevailing market rate of 15% for a comparable debt instrument that excluded any conversion privilege by the holder. The residual carrying value of the Thorsen Loan is required to be accreted to the redemption value of the Thorsen Loan to the first redemption date of the Thorsen Loan based on an effective annual interest rate of 15%. The value of the conversion feature has been accounted for at $184,000. For the year ended May 31, 2009, interest and accretion relating to the debt totaled $233,521 (2008-$Nil).

The Balance as at May 31, 2009 is made up as follows:

	May 31, 2009 **$**	May 31, 2008 $
Principal balance repayable	**2,000,000**	-
Less: Value of conversion feature	**(184,000)**	-
Original carrying value	**1,816,000**	-
Add: Interest accretion on conversion feature	**82,072**	-
Ending carrying value	**1,898,072**	-

ii) On September 16, 2008, the Company closed on a portion of a non-brokered, secured, convertible, 12% debenture financing (the “Debenture”). The Debenture consists of a total of up to 3,300 debenture units (the “Debenture Units”) with a face value of $1,000 per Debenture Unit, maturing September 15, 2013 (the “Maturity”), and a subscription price of $900 per Debenture Unit. The amount closed consisted of 1,713 Debenture Units and raised $1,541,700 of discounted proceeds. The discount-to-face-value amount will be accreted to interest expense over the term of the Debenture.

Interest is payable semi-annually until Maturity and the Debenture may be prepaid in whole or in part (including accrued interest) at any time without penalty or bonus. As at May 31, 2009, interest of $43,365 (2008- $nil) has been accrued with such amount included in the accounts payable and accrued liabilities account. The Company paid finders’ fees of $12,924 and legal costs of $127,883, for total transaction costs of $140,807. These financing costs were expensed as incurred per the Company’s accounting policy.

The Debenture is secured by a charge over certain of the Company’s assets, including the common shares of MIMI (the “MIMI Shares”) that it currently owns *(note 7)*. During the time that the MIMI Shares are held as security hereunder, the Company has surrendered the share certificates to a trustee pursuant to the General Security and Pledge Agreement.

The Company has also established a debt reduction escrow account (the “Escrow Account”) funded from gold sales from the Company’s Pine Cove gold project from which debt service and/or principal repayments will be made *(note 5).*

Each Debenture Unit may be converted (the “Conversion”) at the holder’s option into common shares of the Company on the following basis: Until September 15, 2010 at $0.75 per common share; from September 16, 2010 until September 15, 2012 at $0.90 per common share and from September 16, 2012 until September 15, 2013 at $1.10 per common share. The Company will have the right to call for the conversion of the Debenture into the number of shares as set out above, so long as the Company’s shares trade at least 100% above the conversion price for at least 20 consecutive trading days.

For accounting purposes, the Debenture contains both a liability component and an equity component, being the holder’s conversion right, which has been separately presented in the consolidated balance sheets. The Company has allocated the $1,713,000 face value of the Debenture to the liability and equity components. At issuance, the Company estimated the fair value of the conversion option by deducting the present value of the future cash outflows of the Debenture from the face value of the principal of the Debenture. The fair value of the liability component was determined by discounting the stream of future payments of interest and principal at the estimated prevailing market rate of 18% for a comparable debt instrument that excluded any conversion privilege by the holder. The residual carrying value of the Debenture is required to be accreted to the redemption value of the Debenture to the first redemption date of the Debenture based on an effective annual interest rate of 18%. The value of the conversion feature has been accounted for at $132,700. For the year ended May 31, 2009, interest and accretion relating to the debt totaled $181,874 (2008-$Nil).

The balance as at May 31, 2009 is made up as follows:

	May 31, 2009 **$**	May 31, 2008 $
Principal balance repayable	**1,713,000**	-
Less: Discount on issuance	**(171,300)**	
Cash proceeds received	**1,514,700**	
Less: Value of conversion feature	**(132,700)**	-
Original carrying value	**1,409,000**	
Add: Interest accretion on conversion feature	**36,574**	-
Ending carrying value	**1,445,574**	-

iii) On February 5, 2007, the Company announced that it has closed a production facility financing with Auramet Trading, LLC ("Auramet") of Fort Lee, New Jersey, pursuant to which Auramet has lent the sum of US$2.5 million as a project facility (the "Loan").

The Loan has a conversion feature that allows Auramet to convert any outstanding balance of the Loan into common shares of the Company with a strike price of Cdn$1.30 per share. As the Loan is denominated in US dollars, the Loan also provides for a fixed conversion of US$1 equal to Cdn$1.133.

On March 31, 2008, the Company reached an agreement with Auramet Trading, LLC (the "Lender") to extend the maturity date on the Loan until May 31, 2008 in order to match expected revenues from its Pine Cove project with repayment of the outstanding loan balance. The Company's principal repayment and final balloon payment, both scheduled for payment on March 31, 2008, were adjusted such that the extended principal balance due on May 31, 2008 was US$1 million. All other terms and conditions of the original agreement remain in effect, including the conversion provisions. Upon extension of the Loan, the Company valued the conversion portion of the extended loan amount as described per *CICA 3861* using a discount factor of 12%, a factor it considered to be consistent with interest costs for a similar loan with no conversion feature. Since this factor is equal to the interest rate on the loan, the value attributable to the equity component of the extended Loan was zero.
The Loan was repaid on May 31, 2008.

12. Related Party Transactions

For the 12 months ended May 31, 2009, the consolidated financial statements include $453,047 (2008 - $186,166) in consulting expense and interest charges incurred with directors and/or officers of the Company or corporations controlled by them *(note 11(i))*. These transactions are measured at their exchange amounts, being the amounts agreed upon between the Company and the related parties.

13. Capital Stock

(a) Common Shares

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

The issued and outstanding Common shares are as follows:

	Number of Shares	$
Balance at May 31, 2007	**55,420,635**	**17,759,127**
Issued for cash:		
Private placement	2,585,000	2,585,000
Exercise of options	192,500	144,000
Exercise of warrants	331,250	212,500
Exercise of agent warrants	991,875	793,500
Costs of financings	-	(153,053)
Fair value of issued warrants	-	(398,366)
Fair value of exercised options	-	71,350
Fair value of exercised warrants	-	396,655
Issued for options on mineral properties	400,000	176,000
Issued on conversion of Loan *(Note 11(iii))*	100,000	130,000
Balance at May 31, 2008	**60,021,260**	**21,716,713**
Issued for cash:		
Private placement	18,938,250	1,893,825
Issued on trade debt conversion	6,061,750	606,176
Cost of financing	-	(50,400)
Fair value of issued warrants	-	(863,000)
Balance at May 31, 2009	**85,021,260**	**23,303,314**

The table above reflects the legal number of outstanding shares of Anaconda but the book value associated with them for accounting purposes is based upon Colorado's share capital account. The dollar amount of the legal stated capital of Anaconda therefore differs from the amounts reflected above.

Private Placement - 2009

At the end of April 2009, Anaconda closed a first tranche of a non-brokered private placement of units at a price of $0.10 per unit, each unit consisting of one common share and one common share purchase warrant. Each warrant expires on 24 months from closing and has an exercise price of $0.15 for the first 12 months and then $0.20 for the remaining 12 months until expiry. The first tranche consisted of 20.2 million units for gross proceeds of $2.02 million.

At the beginning of May 2009, Anaconda closed a second tranche of the non-brokered private placement financing. The second tranche consisted of 4.8 million units for gross proceeds of $480,000, bringing the total gross proceeds of the private placement to $2.5 million. The proceeds of the private placement were used to fund preliminary mining and related activities at the Pine Cove gold mine in conjunction with the then proposed custom milling arrangement with Crew Gold Canada Inc. ("Crew") and for general working capital purposes.

The 20,200,000 and 4,800,000 share purchase warrants were assigned a value of $697,000 and $166,000 respectively, using the Black-Scholes valuation model with the following assumptions: a two year expected term; 137.3% and 139.8% volatility, risk free interest rate of 0.01% and a dividend yield of Nil%.

The Company paid a total of $50,400 in finder's fees and commissions regarding private placement.

Private Placement - 2008

The Company completed a 2-tranche, non-brokered private placement whereby it issued 2,585,000 units at a price of $1.00 per unit, for gross proceeds of $2,585,000. Each unit consists of 1 common share of the Company and one-half of one share purchase warrant. Each whole share purchase warrant will entitle the holder to purchase one common share of the Company at an exercise price of $1.25 per share until November 14, 2009 (for 1,000,000 warrants that closed during tranche 1 of the financing) and November 30, 2009 (for the remaining 292,500 warrants that closed during trance 2 of the financing).

The 1,000,000 and 292,500 share purchase warrants were assigned a value of $313,004 and $85,362 respectively, using the Black- Scholes valuation model with the following assumptions: a eighteen month expected term; 93.1% and 94.1% volatility, risk free interest rate of 2.98% and 3.16% and a dividend yield of Nil%.

The Company paid total finder's fees on the private placement of $45,000.

(b) Warrants

The outstanding Issued Warrants balance at May 31, 2009, is comprised as follows:

Date of Expiry	**Type**	**Fair Value**	**No. of Warrants**	**Exercise Price $**
November 14, 2009	Purchase warrants	313,004	1,000,000	1.25
November 30, 2009	Purchase warrants	85,362	292,500	1.25
April 23, 2011	Purchase warrants	697,000	20,200,000	(1) 0.15
April 23, 2011	Purchase warrants	22,718	500,000	0.20
May 11, 2011	Purchase warrants	166,000	4,800,000	(1) 0.15
Total		**1,284,084**	**26,792,500**	

(1) Exercisable at a price of $0.15 until the first anniversary and thereafter at a price of $0.20 until expiry

The outstanding Issued Warrants balance at May 31, 2008, was comprised as follows:

Date of Expiry	Type	Fair Value	No. of Warrants	Exercise Price $
April 17, 2009	Purchase warrants	2,093,296	8,184,375	1.20
November 14, 2009	Purchase warrants	313,004	1,000,000	1.25
November 30, 2009	Purchase warrants	85,362	292,500	1.25
Total		**2,491,662**	**9,476,875**	

(c) Options

Anaconda has a 10% rolling stock option plan pursuant to which options to purchase common shares may be granted to certain officers, directors, employees and consultants. As at May 31, 2009, the Company has 5,857,126 (2008 – 1,989,626) options available for issuance under the plan. Continuity of the unexercised options to purchase common shares is as follows:

	May 31, 2009		May 31, 2008	
	Weighted Average Exercise Price ($)	**No. of Options**	Weighted Average Exercise Price ($)	No. of Options
Outstanding at beginning of period	**0.93**	**4,012,500**	0.81	250,000
Transactions during the period:				
Granted	**-**	**-**	0.92	4,055,000
Exercised	**-**	**-**	0.75	(192,500)
Forfeited	**0.94**	**(1,267,500)**	0.88	(100,000)
Expired	**0.67**	**(100,000)**	-	-
Outstanding at end of period	**0.90**	**2,645,000**	0.93	4,012,500
Exercisable at end of period	**0.90**	**2,645,000**	0.91	3,322,500

The following table provides additional information about outstanding stock options at May 31, 2009:

Range of Exercise Prices ($)	No. of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price ($)	No. of Options Currently Exercisable	Weighted Average Exercise Price ($) of Exercisable Options
0.325	100,000	2.6	0.325	100,000	0.325
0.80 – 1.09	1,645,000	3.2	0.82	1,645,000	0.82
1.10	900,000	3.4	1.10	900,000	1.10
0.325 – 1.10	**2,645,000**	**3.2**	**0.90**	**2,645,000**	**0.90**

Stock-based compensation

The fair value of the stock options granted for the 12 months ended May 31, 2009 was $Nil (2008 – $2,797,950), which amount has been expensed in the statement of operations. The weighted average grant-date fair value of options granted during the year was $Nil (2008 – $0.69) per option issued.

14. Contributed Surplus

	$
Balance at May 31, 2007	-
Stock-based compensation	2,418,538
Fair value transferred on exercised options	(71,350)
Balance at May 31, 2008	**2,347,188**
Stock-based compensation	120,992
Fair value of expired warrants transferred from Warrants	2,093,295
Balance at May 31, 2009	**4,561,475**

15. Asset Retirement Obligations ("ARO")

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

	May 31, 2009 $	May 31, 2008 $
Opening balance	**645,000**	250,000
Additions to provision for reclamation	**-**	395,000
Interest accretion	**77,400**	-
Closing balance	**722,400**	645,000

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

In concert with the Company's ARO obligations, it has issued letters of credit in the amount of $565,500 to the Newfoundland and Labrador government in satisfaction of its requirements under the approved site development plan.

16. Income Taxes

Future Income Tax Recovery

The Company's income tax provision differs from the amount resulting from the application of the Canadian statutory income tax rate. A reconciliation of the combined Canadian federal and provincial income tax rates with the Company's effective tax rate is as follows:

	2009		2008	
	($)	**%**	($)	%
Income tax recovery at statutory rates	**(1,659,200)**	**(33.3)**	(3,803,800)	(34.8)
Difference between Canadian and foreign tax rates	**118,800**	**2.4**	816,500	7.5
Difference between current and future tax rates	**294,000**	**5.9**	-	-
Changes in F/X rates on Chilean tax assets	**10,500**	**0.2**	-	-
Non-deductible expenses for tax purposes:				
Stock-based compensation	**40,300**	**0.8**	841,700	7.7
Interest accretion and other	**40,300**	**0.8**	2,400	-
Unrealized foreign exchange	**(189,100)**	**(3.8)**	(90,500)	(0.8)
Valuation adjustment of future tax assets	**1,526,500**	**30.6**	2,239,100	33.5
Future income taxes expense (recovery)	**182,100**	**3.6**	(29,700)	(0.3)

The Canadian statutory income tax rate of 33.3% (2008 - 34.8%) is comprised of the federal income tax rate at approximately 19.3% (2008 – 20.8%) and the provincial income tax rate of approximately 14.00% (2008 – 14.00%). The primary differences which give rise to the future income tax recoveries at May 31, 2009 and 2008 are as follows:

		2009		2008
Future income tax assets				
Temporary timing differences on long-term assets	**$**	**1,212,000**	$	811,700
Unrealized losses on "Available-for-sale investments		**154,000**		-
Deductible financing fees		**222,000**		332,400
Operating losses carried forward		**2,055,000**		968,100
		3,643,000		2,112,200
Less: valuation allowance		**(3,609,000)**		(2,082,500)
Net future tax assets		**34,000**		29,700
Future tax liabilities				
Unrealized gains on "Available-for-sale investments		**-**		(29,700)
Other		**(34,000)**		-
Net future tax liabilities		**(34,000)**		(29,700)
Net future tax asset (liability)	**$**	**-**	**$**	-

The unamortized balance, for income tax purposes, of the share issuance fees amounts to approximately $890,000 (2008 - $1,146,000) and will be deductible in Canada over the next four years.

As at May 31, 2009, the Company has income tax loss carry forwards expiring as follows:

	CANADA	CHILE	Total
	$	$	$
2010	167,000	0	167,000
2014	81,000	0	81,000
2015	405,000	0	405,000
2026	525,000	0	525,000
2027	690,000	0	690,000
2028	1,358,000	0	1,358,000
2029	3,139,000	0	3,139,000
Indefinite	0	2,735,000	2,735,000
	6,365,000	**2,735,000**	**9,100,000**

17. Segmented Information

The Company has assets and operations in Chile, Brazil and Canada. Information regarding the Company's reportable segments that are by geographical area, is as follows:

	May 31, 2009	May 31, 2008
	($)	($)
Revenues:		
Canada	**1,726,116**	-
Consolidated Revenues	**1,726,116**	-
Net Loss		
Canada	**(4,774,686)**	(5,612,519)
Brazil	**(70,854)**	(616,839)
Chile	**(319,094)**	(4,671,506)
Consolidated Net Loss	**(5,164,634)**	(10,900,864)
Identifiable Assets:		
Canada	**13,524,761**	16,226,127
Chile	**4,371,538**	3,660,675
Consolidated Identifiable Assets	**17,896,299**	19,886,802
Significant Non-Cash Items		
Canada		
Issuance of securities to repay trade debt	**606,176**	-
Stock-based compensation	**120,992**	2,418,538
Interest accretion on convertible loans and debentures	**118,646**	-
Interest accretion on asset retirement obligation	**77,400**	-

Write-down of resources properties	**-**	1,954,813
Write-down of property, mill and equipment	**366,845**	-
Future income tax expense (recovery)	**182,100**	(29,700)
Financing fees	**22,718**	-
	1,494,877	4,343,651
Chile		
Write-down of resources properties	**599,941**	4,994,218
Amortization	**3,241**	3,334
	603,182	4,997,552
Consolidated Significant Non-Cash Items	**2,098,059**	9,341,203

18. Commitments

Anaconda leases its premises under a month-to-month, cancellable operating lease. Under the terms of the lease agreement, Anaconda is also responsible for realty taxes, insurance, maintenance and its proportionate share of common area costs.

19. Subsequent Events

Private Placement

In June 2009, the Company completed a private placement of 3,333,334 units and raised $500,000. Each unit consisted of one common share of the Company and one share purchase warrant exercisable for 2 years at an exercise price of $0.25 per purchase warrant. Upon exercise, each warrant will receive one common share of the Company.

Stock Options

On June 11, 2009, the Company granted to certain Senior Officers and to a member of the board of Directors an aggregate of 580,000 incentive share purchase options in accordance with the Plan. These options expire 5 years from date of issuance and are exercisable at $0.23. These options vest 50% in six months and 50% one year after issuance.

Toll Milling Agreement

In June, 2009, the Company entered into a toll processing agreement with Crew Gold Canada Inc. (“Crew”) whereby it would deliver ore for processing from its Pine Cove project to Crew’s Nugget Pond mill. Contemporaneously, Anaconda also entered into a side agreement (the “Side Agreement”) with its joint venture partner New Island Resources Inc. (“New Island”) that outlined the terms of, among other things, the recovery of certain previously expended capital as well as capital to be expended in order to commence toll processing (to a maximum of $4 million) as well as he basis where net cash flows from the custom milling arrangement would be distributed to both Anaconda and New Island on an equal basis.