ANACONDA MINING INC.

# Audited Consolidated Financial Statements

## Years Ended May 31, 2010 and 2009

## *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 judgments 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 management's discussion and analysis 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 judgments. 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 financially literate members 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 25, 2010

*"Stephen Gledhill"*

Stephen Gledhill
Chief Financial Officer

August 25, 2010

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 May 31, 2010 and 2009 and the statements of operations and deficit, comprehensive loss, accumulated other comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 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, 2010 and 2009 and the results of its operations and the changes in its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Parker Simone LLP.

August 25, 2010 — Licensed Public Accountants

**Anaconda Mining Inc.**
**Consolidated Balance Sheets**

| ***As at*** | **May 31, 2010** | May 31, 2009 |
|---|---|---|
| **Assets** | **$** | $ |
| **Current assets** | | |
| Cash and cash equivalents *(note 5)* | **533,628** | 286,647 |
| Restricted cash *(note 5)* | **96,068** | 35,052 |
| GST recoverable | **592,242** | 70,557 |
| Accounts receivable, prepaids and deposits | **168,098** | 46,683 |
| Subscriptions receivable | **-** | 15,900 |
| Due from related party | **-** | 4,120 |
| Inventory *(note 6)* | **903,605** | 129,253 |
| | **2,293,641** | 588,212 |
| **Investments *(note 7)*** | **336,600** | 397,800 |
| **Deferred transaction costs *(note 19(iii))*** | **79,581** | - |
| **Restricted cash *(note 5)*** | **777,479** | 565,500 |
| **Mineral properties and deferred exploration expenditures *(note 8)*** | **4,700,641** | 5,045,833 |
| **Leasehold improvements *(note 9)*** | **4,512** | 7,749 |
| **Property, mill and equipment *(note 10)*** | **13,192,874** | 11,291,205 |
| | **21,385,328** | 17,896,299 |
| **Liabilities and shareholders' equity** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | **2,340,293** | 2,099,983 |
| Due to related party *(note 12)* | **676,436** | - |
| | **3,016,729** | 2,099,983 |
| **Convertible loan *(note 11(i))*** | **1,790,000** | 1,898,072 |
| **Convertible debentures *(note 11(ii))*** | **1,499,986** | 1,445,574 |
| **Debentures *(note 11(iii)*)** | **2,411,442** | - |
| **Asset retirement obligations *(note 15)*** | **605,875** | 722,400 |
| | **9,342,032** | 6,166,029 |
| **Shareholders' equity** | | |
| Capital stock *(note 13(a))* | **26,252,558** | 23,303,314 |
| Equity portion of convertible loans and debentures *(note 11 (i and ii))* | **466,700** | 316,700 |
| …Warrants *(note 13(b))* | **1,223,573** | 1,284,084 |
| Contributed surplus *(note14)* | **5,247,362** | 4,561,475 |
| Deficit | **(20,008,547)** | (16,668,503) |
| Accumulated other comprehensive loss | **(1,120,350)** | (1,066,800) |
| | **12,061,296** | 11,730,270 |
| | **21,385,328** | 17,896,299 |

***Going concern (note 1)***

***Commitments (notes 8 and 18)***
***Subsequent events (note 19)***
***The accompanying notes are an integral part of these consolidated financial statements.***

*Approved by the Board of Directors:*

| | |
|---|---|
| *"Thomas Pladsen"* | *"Dustin Angelo"* |
| *Director* | *Director* |

**Anaconda Mining Inc.**
**Consolidated Statements of Operations and Deficit**

| Years Ended | May 31, 2010 | May 31, 2009 |
|---|---|---|
| | $ | $ |
| **Revenue** | | |
| Sales | **11,360,742** | 1,726,116 |
| | **11,360,742** | 1,726,116 |
| **Cost of goods sold** | | |
| Mill operations | **3,385,383** | 2,860,981 |
| Mining costs | **3,009,900** | 220,566 |
| Net smelter return royalties | **337,685** | 37,106 |
| Toll-millings costs | **3,775,197** | 34,304 |
| | **9,899,675** | 3,152,957 |
| **Gross margin** | **1,461,067** | (1,426,841) |
| **Administrative expenses** | | |
| Office and general | **586,103** | 339,975 |
| Consulting and professional fees *(note 12)* | **1,088,041** | 679,267 |
| Stock-based compensation *(note 13(c))* | **287,521** | 120,992 |
| Representation and travel | **141,337** | 64,362 |
| Shareholder and regulatory reporting | **177,999** | 125,952 |
| Salaries and benefits | **298,293** | 337,071 |
| Financing fees *(note 11 (i and ii))* | **23,510** | 163,525 |
| Project investigation costs | **57,598** | 60,942 |
| Interest expense (net of interest income) *(note 12)* | **868,251** | 537,772 |
| Foreign exchange losses | **24,861** | 105,808 |
| | **3,553,514** | 2,588,666 |
| Write-down of deferred exploration expenditures *(note 8)* | **654,551** | 599,941 |
| Write-down of property, mill and equipment *(note 10)* | **-** | 366,845 |
| Depreciation, depletion and amortization | **585,396** | 3,241 |
| | **1,239,947** | 970.067 |
| **Net loss before taxes** | **(3,332,394)** | (4,982,534) |
| Future income taxes | **(7,650)** | (182,100) |
| **Net loss** | **(3,340,044)** | (5,164,634) |
| Deficit at beginning of period | **(16,668,503)** | (11,503,869) |
| **Deficit at end of period** | **(20,085,547)** | (16,668,503) |
| **Net loss per share – basic and fully diluted** | **($0.04)** | ($0.08) |
| **Weighted average number of shares outstanding (000's)** | **89,563** | 63,064 |

***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 Loss**
**and Accumulated Other Comprehensive Loss**

| **Years Ended** | **May 31, 2010** | May 31, 2009 |
|---|---|---|
| | **$** | $ |
| Net loss | **(3,340,044)** | (5,164,634) |
| Other comprehensive loss: | | |
| Unrealized loss on available-for-sale investments *(note 7)* | **(53,550)** | (1,242,100) |
| **Total comprehensive loss** | **(3,393,593)** | (6,406,734) |
| **Comprehensive loss per share – basic and fully diluted** | **($0.04)** | ($0.10) |

| | **May 31, 2010** | May 31, 2009 |
|---|---|---|
| | **$** | $ |
| Opening accumulated other comprehensive loss | **(1,066,800)** | 175,300 |
| Unrealized loss on available-for-sale investments for year *(note 7)* | **(53,500)** | (1,242,100) |
| **Accumulated other comprehensive loss** | **(1,120,350)** | (1,066,800) |

***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, 2010** | May 31, 2009 |
|---|---|---|
| | **$** | $ |
| **Operations** | | |
| Net loss | **(3,340,044)** | (5,164,634) |
| Adjustments to reconcile net loss to cash flow from operating activities: | | |
| Stock-based compensation | **287,521** | 120,992 |
| Financing fees | **-** | 22,718 |
| Interest accretion on convertible loans and debentures | **211,221** | 118,646 |
| Interest accretion on asset retirement obligation | **45,475** | 77,400 |
| Write-down of property, mill and equipment | **-** | 366,845 |
| Write-down of deferred exploration expenditures | **654,551** | 540,479 |
| Depreciation, depletion and amortization | **585,396** | 3,274 |
| Unrealized foreign exchange gains | **(10,192)** | 66,415 |
| Future income taxes | **7,650** | 182,100 |
| Issuance of securities to repay trade debt | **-** | 606,176 |
| Net change in non-cash working capital items: | | |
| GST recoverable | **(521,685)** | 131,391 |
| Accounts receivable, prepaids and deposits | **(109,146)** | (42,230) |
| Inventory | **(602,284)** | (129,253) |
| Accounts payable and accrued liabilities | **908,125** | (853,422) |
| **Cash flow used in operating activities** | **(1,883,412)** | (3,953,103) |
| **Financing** | | |
| Issuance of common shares, net of subscriptions receivable | **2,732,292** | 1,932,925 |
| Issuance costs | **-** | (50,400) |
| Convertible loans advanced (repaid) | **(60,000)** | 2,000,000 |
| Convertible debentures advanced | **2,922,300** | 1,514,700 |
| Due to related parties | **4,120** | (4,120) |
| **Cash flow provided from financing activities** | **5,603,712** | 5,393,105 |
| **Investments** | | |
| Expenditures on mineral properties and deferred exploration expenditures | **(308,369)** | (893,469) |
| Property, mill and equipment | **(2,817,896)** | (1,051,275) |
| Deferred transaction costs | **(79,581)** | - |
| Restricted cash | **(272,995)** | (600,552) |
| **Cash flow used in investing activities** | **(3,478,841)** | (2,545,296) |
| **Effect of exchange rate changes on cash and cash equivalents** | **5,522** | 537 |
| **Net increase (decrease) in cash and cash equivalents** | **246,981** | (1,104,757) |
| Cash and cash equivalents at beginning of period | **286,647** | 1,391,404 |
| **Cash and cash equivalents at end of period** | **533,628** | 286,647 |

***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. As at May 31, 2009, the Company had completed the construction of its mining project in Baie Verte, Newfoundland (the “Pine Cove project”) and had brought it into limited production. During fiscal 2010, the Company undertook a capital program to expand its existing mill to enable processing of up to 700 tonnes of ore per day. Commissioning of the expanded mill occurred in July 2010.

Anaconda continues to work toward commercial production, defined in its joint venture agreement 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%.

## 1. *Going concern*

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes 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.

The unanticipated and continued delay in reaching Commercial Production at the Pine Cove project has caused the Company to utilize available working capital on operations and capital requirements at the mine site (including the completion of the above-mentioned mill expansion) as well as to advance expenditures required to increase the inventory stock-pile of ore in anticipation of the commissioning of the expanded mill, thereby impeding its ability to deploy the funds in other areas of its operations.

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 exploration expenditures 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, alternatively, the Company’s ability to dispose of its interests on an advantageous basis, all of which are uncertain.

The Company has raised additional funds throughout the year *(note 13)* and it has utilized these funds for working capital and capital expenditure requirements. The ability of Anaconda 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 interests 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 ("La Veta"), 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 Anaconda 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 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 exploration expenditures***

Anaconda 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.

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

***Joint venture participation and accounting***

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.

***Impairment of long-lived assets***

Management periodically reviews the carrying value of both its p**roperty, mill and equipment and its** mineral properties and deferred exploration expenditures 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 but where other conditions suggest impairment, management assesses if carrying value can be recovered and, if so indicated, provides for the impairment 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.

Property, mill and equipment at the Pine Cove project are depleted and depreciated on a units-of-production basis over the expected life of the mine. As at May 31, 2010, the Company has not recorded any depreciation regarding the expanded mill infrastructure. It will commence depreciation based on a units-of-production basis during the first quarter of fiscal 2011, contemporaneously with the commissioning of the expanded mill.

### *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.

### *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 year 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*

Anaconda applies the fair-value based method to all stock options and granted and warrants issued. Accordingly, compensation cost is measured at fair value at the date of grant and/or issuance and is expensed on a straight line basis over the vesting period, with the related credit included in contributed surplus or warrants, as appropriate. The applicable contributed surplus or warrant amount is transferred to share capital, if and when stock options or warrants are exercised. Any consideration paid on the exercise of stock options or warrants 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 factors used with the Black-Scholes model for determining the value of the stock-based costs for the stock options and warrants issued in 2010 and 2009.

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

| | **2010** | 2009 |
|---|---|---|
| Dividend Yield | - | - |
| Expected volatility | 163% | 135% |
| Risk-free interest rate | 2.5% | 0.0%* |
| Expected life (years) | 2.8 | 2.0 |

*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 ("ARO")***

Anaconda follows *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.)

***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 been processed, into saleable form and sell at a profit. Ore is recorded as an asset and included 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.

Effective June 1, 2009, Anaconda adopted the amendment to CICA Handbook Section 3862, financial instruments, which require disclosure about inputs to fair value measurements within fair value measurement hierarchy as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Inputs for the assets or liabilities that are not based on observable market data.

***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.

***Capital disclosure and financial instruments – disclosure and presentation.***

Section 1535 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.

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. Anaconda's disclosure under these Sections is contained in *note 4* to these consolidated financial statements.

***Transaction costs***

Anaconda's accounting policy with respect to transaction costs is to expense all transaction costs for all financial instruments as incurred (except for those classified as held-for-trading). The Company has expensed $23,510 relating to transaction costs for the year ended May 31, 2010 (2009 - $163,525).

***Credit risk and the fair value of financial assets and financial liabilities***

The Company's credit risk and the credit risk of its counterparties is considered when determining the fair value of its financial assets and financial liabilities, including derivative instruments.

***Goodwill and intangible assets***

As of May 31, 2009, the Company adopted *CICA 3064 - Goodwill and Intangible Assets* (Section 3064). The CICA's Emerging Issues Committee (EIC) Abstract No. 27, *Revenues and Expenditures During the Pre-operating Period*, was no longer applicable once Section 3064 was adopted by the Company. As a result of adopting Section 3064, the Company expensed $Nil (2009 - $1,426,841) of costs incurred in the pre-operating period that otherwise would have been capitalized as property, mill and equipment.

***Account reclassifications***

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

***Future accounting changes***

***International Financial Reporting Standards***

In January 2006, the Canadian Accounting Standards Board ("AcSB") published a 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.

***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 the Company's 2012 fiscal year. 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 production, the mineral properties of Anaconda are in the exploration and development stage and, as a result, the Company currently has limited 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, the issuance of convertible loans and debentures 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, 2010. The Company is not subject to externally imposed capital restrictions.

## *4. Property and financial risk factors*

(i) Property risk – 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 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.

(ii) Financial 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, GST recoverable and accounts receivable. Cash is held with a tier A Canadian chartered bank and one of Chile's largest banks as su 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, 2010. Management believes that the credit risk associated with the financial instruments included in GST recoverable is minimal.

Accounts receivable consists of amounts due from the Company's metals broker regarding processed gold and silver enroute to the broker. Management believes the credit risk associated with the financial instruments contained in accounts receivable is minimal.

***Liquidity risk***

As at May 31, 2010, the Company had a working capital deficiency of $723,088 (2009 - $1,511,771). The Company utilized the proceeds from the financings through-out the year to discharge a portion 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 Pine Cove project's operations. If necessary, the Company may seek further financing for capital projects or general working capital purposes. As discussed previously, there can be no assurance that Anaconda will be successful in its efforts to arrange additional financing on terms satisfactory to the Company.

At May 31, 2010, the carrying value and fair value amounts of the Company's financial instruments are approximately equal.

***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. Anaconda 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.

***Fair value of financial assets and liabilities***

Anaconda has, designated its cash as held-for-trading, GST recoverable is classified for accounting purposes as loans and receivable, which are measured at amortized cost which equal fair value. Investments are classified as held-for-sale with fair value based on Level 1 measurements. Accounts payable and accrued liabilities and amounts due to related parties are classified for accounting purposes as other financial liabilities, which are measure at amortized cost which also equals fair value. Fair values of accounts receivable, accounts payable and accrued liabilities and amounts due to related parties are determined from transaction values which were derived from observable market inputs. Fair values of these financial instruments are based on Level 2 measurements.

**Sensitivity analysis**

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, 2010, if interest rates had decreased/increased by 1% with all other variables held constant, the difference in loss for the year ended May 31, 2010 would not be material, as a result of lower/higher interest income from cash and cash equivalents. As at May 31, 2010, reported shareholders' equity would also have been immaterially 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 the 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, 2010, the Company recorded a non-cash foreign exchange loss of $24,861 (2009 – $105,808) 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 loss 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 | $ 11,746 | $ (11,746) |
| Chilean Peso | (25,872) | 25,872 |

(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, 2010 would have been approximately $1,136,000 higher.

(iv) The Company's investments are subject to fair value fluctuations. As at May 31, 2010, 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, 2010 would have been approximately $260,000 higher/lower. Similarly, as at May 31, 2010, reported shareholders' equity would have been approximately $260,000 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 $32,846 (2009 - $255,958) and interest-generating money-market accounts with no stipulated terms of maturity, of $500,782 (2009- $30,689).

Restricted cash balances consist of short-term cash on deposit with banks in interest-generating money-market accounts with maturities of 60 days, or less, of $96,068 (2009 - $35,053), and long-term cash on deposit with a bank in an interest-generating money-market account with no stipulated terms of maturity of $777,479 (2009 - $565,500).

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, 2010** | May 31, 2009 |
|---|---|---|
| | **$** | $ |
| **General purpose** | | |
| Cash | **32,846** | 255,958 |
| Cash equivalents | **500,782** | 30,689 |
| **Total cash and cash equivalents** | **533,628** | 286,647 |
| | | |
| **Restricted** | | |
| Cash [1] | **96,068** | 35,052 |
| Cash equivalents – long term[2] | **777,479** | 565,500 |
| **Total restricted cash** | **873,547** | 600,552 |

[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, 2010, Anaconda's inventory balance of $903,605 represents allocated costs to ore stockpiles based on quantities of material stockpiled and include cost allocations from waste mining costs, overheads, amortization, depletion and depreciation relating to mining operations.

As at May 31, 2009, the Company's inventory balance of $129,253 was represented by gold dore/bullion that was 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 28, 2010 (the last trading day of MERC shares on the TSXV), resulting in an increase, net of tax recoveries of $7,650 (2009 – tax expense of $182,100) of $53,550 for the year (2009 – decrease of $1,242,100) 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, 2010, the carrying value of the 1,530,000 (2009 – 1,530,000) MIMI shares was $336,600 (2009 - $397,800) and the accumulated other comprehensive loss relating to these shares was $1,120,350 (2009 – $1,066,800).

## 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, 2009 | Additions | Written-off | | **May 31, 2010** |
|---|---|---|---|---|---|
| | $ | $ | $ | | **$** |
| San Gabriel | 4,327,565 | 302,371 | 70,705[1] | | **4,700,641** |
| Borthwick Lake | 473,752 | 6,988 | (480,740) | | **-** |
| Lingman Lake | 244,516 | - | (244,516) | | **-** |
| | 5,045,833 | 308,369 | (654,551) | | **4,700,641** |

| **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[4] | 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** |

| | | | | | |
|---|---|---|---|---|---|
| | 15,099,783 | (651,825) | (599,941) | (8,802,184) | **5,045,833** |

[1] This balance represents a reversal of amounts previously written off regarding local IVA (recoverable tax for services rendered) regarding the Company's San Gabriel property.

[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 3,800 hectare San Gabriel project is located in northern Chile near the coastal deep-water port of Chañaral. 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: 2011 – US$500,000 and 2012 – US$1,720,000.
See subsequent events *(note 19)*.

***Pine Cove***

Located in Baie Verte, Newfoundland, the Pine Cove project consists of two contiguous mining leases totaling 660 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. 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 had 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% NSR 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.

See subsequent events *(note 19)*.

***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 as at May 31, 2009, the Company is carrying no value for this property 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.

During the year, the Company received confirmation from the optionor of its inability to receive the specified work approvals from local native groups and that one significant claim was re-staked by another party. As a result, the optionor is unlikely to proceed with exploration and the Company has written off the carrying value of the property.

***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.

During the year, the Company received confirmation from the optionor of its inability to receive the specified work approvals from local native groups. As a result, the optionor is unlikely to proceed with exploration and the Company has written off the carrying value of the property.

## 9. Leasehold improvements

| As at | May 31, 2010 | | May 31, 2009 | |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| | $ | $ | $ | $ |
| Leasehold Improvements | 16,765 | 12,253 | 16,765 | 9,046 |
| | 16,765 | 12,253 | 16,765 | 9,046 |
| Net Book Value | 4,512 | | 7,749 | |

## 10. Property, mill and equipment

| As at | May 31, 2010 | | May 31, 2009 | |
|---|---|---|---|---|
| | Cost | Accumulated Amortization[1] | Cost | Accumulated Amortization |
| | $ | $ | $ | $ |
| Mill | 4,668,770 | 148,268 | 2,287,174 | - |
| Equipment | 183,426 | 29,733 | 171,203[2] | - |
| Property | 9,085,289 | 566,610 | 8,832,828[3] | - |
| | 13,937,485 | 744,611 | 11,291,205 | - |
| Net book value | 13,192,874 | | 11,291,205 | |

[1]As per the Company's amortization policy *(note 2),* amortization of the Mill and Equipment commenced during the Company's 2010 fiscal year, except for its mill expansion costs that will commence in fiscal 2011.
[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 exploration expenditures of the Pine Cove project thast were transferred to the property account.

## 11. Convertible loan, convertible debentures and debentures

### i) Convertible loan

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 factors: 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, 2010, interest and accretion relating to the debt totaled $341,955 (2009- $233,521).

On May 31, 2010, the Company was granted an extension to the Thorsen Loan maturity date. The new maturity date is co-terminus with the Series I (*note 11(ii)*) and Series II debentures (*note 11(iii)*), being September 15, 2013. The transaction was treated as two events for accounting purposes, being the expiry of the original loan followed by the issuance of a new loan (New Thorsen Loan) with the same terms and conditions as the original loan, except for the maturity date. 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 based on an effective annual interest rate of 15%. The value of the conversion feature of the New Thorsen Loan has been accounted for at $150,000.

The Balance as at May 31, 2010 is made up as follows:

| | $ |
|---|---|
| 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 - May 31, 2009** | **1,898,072** |
| Add: Interest accretion for year | 101,928 |
| Less: Principal repayment | (60,000) |
| Less: Value of conversion feature of new loan | (150,000) |
| **Ending carrying value – May 31, 2010** | **1,790,000** |

**ii) Convertible debentures**

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, 2010, interest of $205,560 (2009 - $43,365) has been incurred with such amount included in interest expense on the consolidated statements of operations and deficit. The Company paid finders' fees of $Nil (2009 - $12,924) and legal costs of $Nil (2009 - $127,883), for total transaction costs of $Nil (2009 - $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 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, 2010, interest and accretion relating to the debt totaled $259,972 (2009 - $181,874).

The balance as at May 31, 2010 is made up as follows:

| | $ |
|---|---|
| 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 for year | 36,574 |
| **Ending carrying value - May 31, 2009** | **1,445,574** |
| Add: Interest accretion for year | 54,412 |
| **Ending carrying value – May 31, 2010** | **1,499,986** |

### iii) Debentures

In January 2010, the Company announced that it had closed an offering of non-brokered, secured, 12% debentures (the "Debentures") for net proceeds of $2,922,300, consisting of 3,247 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. Included with the Debenture Units were 3,984,069 common share purchase warrants (the "Warrants") with a value of $565,737 (using Black-Scholes option pricing model with the following factors: an 18 month expected term; 182.7% volatility, risk free interest rate of 1.18% and a dividend yield of Nil%) that will be exercisable for 18 months from the date of issue at an exercise price of $0.22 each.

Interest will be payable annually until maturity. At the Company's sole discretion, interest payable on the Debentures may be satisfied with the issuance of common shares of the Company, with the value based on the five-day weighted average closing price for the five-day trading period immediately preceding the interest payable date. The Debentures may be prepaid in whole or in part (including accrued interest) at any time without penalty or bonus subsequent to one year after the date of issue.

The Debentures will be secured by a first charge (ranking *pari passu* with the charge held by current debentureholders) over certain of the Company's assets. The Company will use commercially- reasonable efforts to apply 50% of any future financing proceeds between one year after the date of issue and the Maturity date towards repayment of the principal and interest under the Debenture.

In the event that the closing price of the Anaconda's common shares is equal to, or exceeds 100% of the underlying exercise price for a period of 20 consecutive trading days, the Company shall have the right on written notice to accelerate the exercise of all the outstanding Debenture Warrants.

For accounting purposes, the Debenture contains both a liability component and an equity component which has been separately presented in the consolidated balance sheets. The Company has allocated the $3,247,000 face value of the Debenture to the liability and equity components. At issuance, the Company estimated the fair value of the equity component by calculating the fair value of the warrant component using Black-Scholes option pricing model, as described above ($565,737). The value of the discount provided upon issuance ($324,700) was deducted, together with the fair value of the warrants, with the residual value representing the fair value of the liability component. The residual carrying value of the Debenture is required to be accreted to the redemption value of the Debenture based on an effective annual interest rate of approximately 23%. For the year ended May 31, 2010, interest and accretion relating to the debt totaled $189,385 (2009 - $Nil).

The balance as at May 31, 2010 is made up as follows:

| | $ |
|---|---|
| Principal balance repayable | **3,247,000** |
| Less: Discount on issuance | **(324,700)** |
| Cash proceeds received | **2,922,300** |
| Less: Warrant value | **(565,737)** |
| **Original carrying value – January 25, 2010** | **2,356,563** |
| Add: Interest accretion on conversion feature | **54,779** |
| **Ending carrying value – May 31, 2010** | **2,411,442** |

## 12. Related Party Transactions

For the 12 months ended May 31, 2010, the consolidated financial statements include $519,994 (2009 - $453,047) in consulting expense and $240,027 (2009 - $58,646) of interest charges. The consulting expenses and interest charges were incurred with directors and/or officers of the Company or corporations controlled by them.

For the 12 months ended May 31, 2010, the consolidated financial statements include $160,000 (2009 - $Nil) in convertible debt and demand loan repayments to officers and/or directors of the Company or corporations controlled by them (*note 11(i)*).

Due to related party balance of $676,436 (2009 - $Nil) is due to the Company's Chilean general manager, Inversiones SBX Limitada (or companies controlled by it) (*note 19(i)*). Amounts due to related parties included in accounts payable and accrued liabilities as at May 31, 2010 are $Nil (2009 - $Nil).

Subsequent to year end, non-interest bearing demand loans in the amount of $472,000 were advanced by officers and/or directors of the Company. The loans are non-interest bearing with no fixed terms of repayment.

The Company has previously entered into property option agreements with Merc International Minerals Inc. (*note 7 & 8*). The two parties to the agreement share a common director.

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, 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** |
| Issued for cash: | | |
| Private placement | 3,333,334 | 500,000 |
| Exercise of warrants | 14,809,277 | 2,221,392 |
| Fair value of exercised warrants | - | 511,186 |
| Fair value of issued warrants | - | (283,334) |
| **Balance at May 31, 2010** | **103,163,871** | **26,252,558** |

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 (see *note 1(a)*).

***Private placement – fiscal 2010***

In June 2009, Anaconda closed a non-brokered private placement of units at a price of $0.15 per unit, each unit consisting of one common share and one common share purchase warrant. Each warrant expires on June 17, 2011 and has an exercise price of $0.25. The issuance consisted of 3,333,334 units for gross proceeds of $500,000.

The Company used the Black-Scholes option pricing model to determine a value of $283,333 for the underlying warrants. The factors used were as follows: a 2 year expected term; 164.0% volatility, risk free interest rate of 2.59% and a dividend yield of Nil%.

***Private placement – fiscal 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 project 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 factors: 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 the private placement.

***(b) Warrants***

The outstanding Issued Warrants balance at May 31, 2010, is comprised as follows:

| Date of Expiry | Type | Fair Value | No. of Warrants | Exercise Price $ |
|---|---|---|---|---|
| April 23, 2011 | Purchase warrants | 324,009 | 9,394,923 | 0.20 |
| April 23, 2011 | Purchase warrants | 22,719 | 500,000 | 0.20 |
| May 11, 2011 | Purchase warrants | 27,775 | 795,800 | 0.20 |
| June 17, 2011 | Purchase warrants | 283,333 | 3,333,334 | 0.25 |
| July 25, 2011 | Purchase warrants | 565,737 | 3,984,069 | 0.22 |

| | | | | |
|---|---|---|---|---|
| **Total** | | **1,223,573** | **18,008,126** | |

The outstanding Issued Warrants balance at May 31, 2009, was 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 | 0.15 |
| April 23, 2011 | Purchase warrants | 22,718 | 500,000 | 0.20 |
| May 11, 2011 | Purchase warrants | 166,000 | 4,800,000 | 0.15 |
| November 14, 2009 | Purchase warrants | 313,004 | 1,000,000 | 1.25 |
| November 30, 2009 | Purchase warrants | 85,362 | 292,500 | 1.25 |
| **Total** | | **1,284,084** | **26,792,500** | |

***(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, 2010, the Company has 3,091,387 (2009 – 5,857,126) options available for issuance under the plan. Continuity of the unexercised options to purchase common shares is as follows:

| | **May 31, 2010** | | May 31, 2009 | |
|---|---|---|---|---|
| | **Weighted Average Exercise Price ($)** | **No. of Options** | Weighted Average Exercise Price ($) | No. of Options |
| Outstanding at beginning of period | **0.90** | **2,645,000** | 0.93 | 4,012,500 |
| Transactions during the period: | | | | |
| Granted | **0.21** | **5,455,000** | - | - |
| Exercised | **-** | **-** | - | - |
| Forfeited | **0.91** | **(875,000)** | 0.94 | (1,267,500) |
| Expired | **-** | **-** | 0.67 | (100,000) |
| **Outstanding at end of period** | **0.38** | **7,225,000** | 0.90 | 2,645,000 |
| **Exercisable at end of period** | | **2,060,000** | | 2,645,000 |

The following table provides additional information about outstanding stock options at May 31, 2010:

| Range of Exercise Prices ($) | No. of Options Outstanding | Weighted Average Remaining Life (Years) | Weighted Average Exercise Price ($) | No. of Options Currently Exercisable |
|---|---|---|---|---|
| 0.00 – 0.50 | 5,455,000 | 3.9 | 0.21 | 290,000 |
| 0.51 – 0.99 | 1,195,000 | 2.2 | 0.83 | 1,195,000 |
| 1.00 – 1.50 | 575,000 | 2.4 | 1.10 | 575,000 |
| 0.325 – 1.10 | **7,225,000** | **3.5** | **0.38** | **2,060,000** |

***Stock-based compensation***

The fair value of the stock options granted for the 12 months ended May 31, 2010 was $287,520 (2009 – $120,992), which amount has been expensed in the consolidated statement of operations and deficit. The weighted average grant-date fair value of options granted during the year was $0.166 (2009 – $Nil) per option issued.

## 14. Contributed Surplus

| | $ |
|---|---|
| **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** |
| Stock-based compensation | 287,521 |
| Fair value of expired warrants transferred from warrants | 398,366 |
| **Balance at May 31, 2010** | **5,247,362** |

## 15. Asset Retirement Obligations ("ARO")

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

| | **May 31, 2010 $** | May 31, 2009 $ |
|---|---|---|
| Opening balance | **722,400** | 645,000 |
| Additions/(reductions) to provision for reclamation | **(162,000)** | - |
| Interest accretion | **45,475** | 77,400 |
| Closing balance | **605,875** | 722,400 |

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:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **($)** | **%** | ($) | % |
| **Income tax recovery at statutory rates** | **(999,700)** | **(30.0)** | (1,659,200) | (33.3) |
| Difference between Canadian and foreign tax rates | **10,500** | **0.3** | 118,800 | 2.4 |
| Difference between current and future tax rates | **182,300** | **5.5** | 294,000 | 5.9 |
| Changes in F/X rates on Chilean tax assets | **8,600** | **0.2** | 10,500 | 0.2 |
| Non-deductible expenses for tax purposes: | | | | |
| Stock-based compensation | **86,300** | **2.5** | 40,300 | 0.8 |
| Interest accretion and other | **77,000** | **2.3** | 40,300 | 0.8 |
| Unrealized foreign exchange | **143,850** | **4.3** | (189,100) | (3.8) |
| Valuation adjustment of future tax assets | **498,800** | **15.0** | 1,526,500 | 30.6 |
| **Future income taxes expense (recovery)** | **7,650** | **0.2** | 182,100 | 3.6 |

The Canadian statutory income tax rate of 30% (2009 – 33.3%) is comprised of the federal income tax rate at approximately 19% (2009 – 19.3%) and the provincial income tax rate of approximately 11% (2009 – 14.00%). The primary differences which give rise to the future income tax recoveries at May 31, 2010 and 2009 are as follows:

| | **2010** | 2009 |
|---|---|---|
| ***Future income tax assets*** | **$** | $ |
| Temporary timing differences on long-term assets | **1,914,000** | 1,212,000 |
| Unrealized losses on "Available-for-sale investments | **160,000** | 154,000 |
| Deductible financing fees | **128,000** | 222,000 |
| Operating losses carried forward | **1,925,800** | 2,055,000 |

| | | |
|---|---|---|
| | **4,127,800** | 3,643,000 |
| Less: valuation allowance | **(4,107,800)** | (3,609,000) |
| Net future tax assets | **20,000** | 34,000 |
| | | |
| ***Future tax liabilities*** | | |
| Other | **(20,000)** | (34,000) |
| Net future tax liabilities | **(20,000)** | (34,000) |
| | | |
| ***Net future tax asset (liability)*** | **-** | - |

The unamortized balance, for income tax purposes, of the share issuance fees amounts to approximately $889,600 (2008 - $890,000) and will be deductible in Canada over the next four years.

As at May 31, 2010, the Company has income tax loss carry forwards expiring as follows:

| | CANADA | CHILE | Total |
|---|---|---|---|
| | **$** | **$** | **$** |
| 2015 | 81,500 | 0 | 81,500 |
| 2026 | 525,000 | 0 | 525,000 |
| 2027 | 505,000 | 0 | 505,000 |
| 2028 | 1,358,000 | 0 | 1,358,000 |
| 2029 | 3,139,000 | 0 | 3,139,000 |
| Indefinite | | 2,810,300 | 2,810,300 |
| | **5,608,500** | **2,810,300** | **8,418,800** |

### 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, 2010** | May 31, 2009 |
|---|---|---|
| | **($)** | ($) |
| ***Revenues:*** | | |
| Canada | **11,360,742** | 1,726,116 |
| **Consolidated Revenues** | **11,360,742** | 1,726,116 |
| ***Net Loss*** | | |
| Canada | **(3,264,760)** | (4,774,686) |
| Brazil | **-** | (70,854) |
| Chile | **(75,282)** | (319,094) |
| **Consolidated Net Loss** | **(3,340,042)** | (5,164,634) |

| | | |
|---|---|---|
| ***Identifiable Assets:*** | | |
| Canada | **16,106,599** | 13,524,761 |
| Chile | **5,278,729** | 4,371,538 |
| **Consolidated Identifiable Assets** | **21,385,328** | 17,896,299 |
| **Geographical Allocation of Significant Non-Cash Items** | | |
| **Canada** | | |
| Issuance of securities to repay trade debt | **-** | 606,176 |
| Stock-based compensation | **287,521** | 120,992 |
| Interest accretion on convertible loan, convertible debentures and debentures | **211,221** | 118,646 |
| Interest accretion on asset retirement obligation | **45,475** | 77,400 |
| Reduction to asset retirement obligations | **162,000** | - |
| Write-down of deferred exploration expenditures | **654,551** | - |
| Write-down of property, mill and equipment | **-** | 366,845 |
| Future income tax expense | **7,650** | 182,100 |
| Financing fees | **-** | 22,718 |
| Depreciation, depletion and amortization | **585,396** | - |
| | **1,953,814** | 1,494,877 |
| **Chile** | | |
| Write-down of deferred exploration expenditures | **-** | 599,941 |
| Reversal of previous write-down of IVA costs | **70,706** | - |
| Amortization | **3,234** | 3,241 |
| | **73,940** | 603,182 |
| **Consolidated Significant Non-Cash Items** | **2,027,754** | 2,098,059 |

## 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

***i) Transactions regarding La Veta, San Gabriel property and Inversiones S.B.X. Limitada ("SBX")***

On June 1, 2010, Anaconda announced that it had entered into an agreement to acquire interests in two significant iron exploration portfolios from a private Chilean company (SBX). The exploration properties are located in north central Chile, within the Chile-Peru iron ore belt.

Under the terms of the Agreement, Anaconda will acquire the following interests:

1. A 50% interest in iron exploration concessions located in the immediate area of the Company's San Gabriel iron project. The acquired exploration concessions include the Vetarron *magnetite deposit* and the Antonio property concessions, totaling 4,300 hectares.

   In return for the acquisition of the Vetarron and Antonio concessions, SBX will acquire from Anaconda a 50% interest in the Company's San Gabriel property. SBX will fund the remaining US$2.2 million in option payments related to the San Gabriel property. SBX will partially fund these amounts with the repayment of the SBX Amount *(note 12)* by Anaconda to SBX (such amounts having already been transferred to Anaconda's Chilean subsidiary and held in trust for SBX). The combined San Gabriel area assets will be held by a new company, Minera Hierro San Gabriel S.A., which will be owned on a 50:50 basis by Anaconda and SBX.

2. A 20% interest in Inversiones Hierro Antofagasta S.A. ("IHA"), a private Chilean company which owns an 82.5% interest in Minera Hierro Antofagasta S.A. ("MHA"). MHA is a private Chilean company that holds the rights to four main project areas encompassing over 30,000 hectares of exploration concession, 35 to 60 kilometers east of the port city of Taltal.

   Compañia Minera Del Pacifico S.A. ("CMP"), a 75%-owned subsidiary of CAP S.A. (Chile's largest integrated iron miner and steel producer), presently has a 17.5% ownership stake in MHA, and CMP may increase its interest in MHA to 37.5% by making staged exploration and property payments totaling US$15 million over the next 30 months, and under certain conditions and events CMP has the option to increase its ownership to the range of 43% to 52%.

### *ii) New Island Resources Inc. ("New Island") – Dispute and arbitration settlement*

During the fourth quarter of fiscal 2010, Anaconda received notice of arbitration from New Island regarding the custom milling agreement that governed Anaconda and New Island with regard to the toll processing of ore at Nugget Pond, a nearby operating mill. New Island challenged Anaconda's interpretation of the distribution of net profits pursuant to the Custom Milling Agreement and made a claim against Anaconda.

The Company announced on June 2, 2010, that it and New Island had resolved the arbitration issue on mutually acceptable terms and has included all costs of the settlement in its accounts as at May 31, 2010.

### *iii) Share exchange takeover bid for New Island*

On June 11, 2010, Anaconda announced that it formally commenced a share exchange takeover bid for New Island to acquire all of the issued and outstanding common shares of New Island on the basis of 0.3333 Anaconda shares for each whole New Island share (the "Offer"). The Offer contained a minimum tender condition of 66 2/3% of all New Island shares be deposited under the Offer. The Offer was open for acceptance until August 3, 2010.

On July 30, 2010, Anaconda filed a Notice of Variation and Extension of its previously announced Offer whereby it increased the number of Anaconda shares to 0.42 for each New Island share, removed its minimum tender condition and extended the expiry of the Offer until August 9, 2010.

On August 5, 2010, Anaconda announced it had entered into an agreement (the "Lock-up Agreement") with New Island's largest shareholder pursuant to which it agreed to tender all New Island shares it owned (6,205,000 common shares, or approximately 12.35% of New Island's issued and outstanding shares) to Anaconda's take-over bid.

On August 9, 2010, the Company issued a total of 7,532,808 to New Island shareholders that had deposited their shares to the Offer (a total of 17,935,274 New Island shares, or approximately 35.7% of the issued and outstanding New Island shares) and extended the Offer's expiry date until August 20, 2010. As at this date, Anaconda became New Island's largest shareholder.

On August 20, 2010, the Company announced a final extension of the expiry of the Offer until August 31, 2010. As at August 20, 2010, a further 2,663,082 New Island shares had been deposited to the Offer and a further 1,118,494 Anaconda shares had been issued in payment therefor. As at this date, Anaconda beneficially owns 20,498,356 shares of New Island, or approximately 41.01% of the issued and outstanding shares of New Island shares.

***iv) New loan proceeds***

On August 25, 2010, Anaconda drew down and received funds ($437,000) pursuant to a loan agreement with the government of Newfoundland. The loan is non-interest bearing and repayable in twelve monthly payments ending May 1, 2012.