ANACONDA MINING INC.

Consolidated Financial Statements

Years Ended May 31, 2011 and 2010

Anaconda Mining Inc.

Management's responsibility for financial reporting

The accompanying financial statements of Anaconda Mining Inc. (the "Company" or "Anaconda") were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in Note 2 of the financial statements.

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

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

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

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

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

"Dustin Angelo"

Dustin Angelo
President and Chief Executive Officer

August 23, 2011

"Stephen Gledhill"

Stephen Gledhill
Chief Financial Officer

August 23, 2011

parker simone LLP

Chartered Accountants
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Independent Auditors' Report

To the Shareholders of
Anaconda Mining Inc.

We have audited the accompanying consolidated financial statements of Anaconda Mining Inc., which comprise the consolidated balance sheets as at May 31, 2011 and 2010, and the consolidated statements of operations and deficit, comprehensive loss, accumulated other comprehensive loss and cash flow for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

parker simone LLP

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Anaconda Mining Inc. as at May 31, 2011 and 2010, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accounting principles.

Emphasis of Matters

Without qualifying our opinion, the accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As more fully described in the notes to these consolidated financial statements, the Company has not generated net income to date. This condition raises substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of this uncertainty.

parker simone LLP.

Mississauga, Canada.
August 23, 2011

Chartered Accountants
Licensed Public Accountants

Anaconda Mining Inc.
Consolidated Balance Sheets – Canadian dollars

As at	**May 31, 2011**	May 31, 2010
Assets	**$**	$
Current assets		
Cash and cash equivalents *(note 5)*	**290,882**	533,628
Restricted cash *(note 5)*	**565,086**	96,068
HST/GST recoverable	**225,033**	592,242
Accounts receivable, prepaids and deposits	**217,041**	168,098
Due from related party *(note 15)*	**1,181,586**	-
Inventory *(note 6)*	**937,270**	903,605
	3,416,898	2,293,641
Investments *(note 7)*	**-**	336,600
Deferred transaction costs	**-**	79,581
Restricted cash *(note 5)*	**677,499**	777,479
Mineral properties and deferred exploration expenditures *(note 8)*	**1,795,317**	4,700,641
Leasehold improvements *(note 9)*	**-**	4,512
Property, mill and equipment *(note 10)*	**17,574,168**	13,192,874
	23,463,882	21,385,328
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities *(note 15)*	**5,360,235**	2,340,293
Due to related party *(note 15)*	**707,260**	676,436
Current portion of loans and debentures *(notes 12 (iii)(b) and 13)*	**1,531,584**	-
Promissory notes *(notes 11 & 15)*	**1,004,529**	-
	8,603,608	3,016,729
Loans *(note 13)*	**225,111**	-
Convertible loan *(note 12(i))*	**1,829,341**	1,790,000
Convertible debentures *(note 12(ii))*	**1,558,324**	1,499,986
Debentures *(note 12(iii)(a))*	**2,602,551**	2,411,442
Asset retirement obligations *(note 14)*	**678,581**	605,875
	15,497,516	9,342,032
Shareholders' equity		
Capital stock *(note 16(a))*	**31,469,190**	26,252,558
Equity portion of convertible loans and debentures *(notes 12(i) and 12(ii))*	**466,700**	466,700
Warrants *(note 16(b))*	**1,449,873**	1,223,573
Contributed surplus *(note17)*	**6,005,924**	5,247,362
Deficit	**(31,425,321)**	(20,008,547)
Accumulated other comprehensive loss	**-**	(1,120,350)
	7,966,366	12,061,296
	23,463,882	21,385,328

Going concern (note 1)
Commitments (notes 8 and 20)
Subsequent events (note 21)

Approved by the Board of Directors:

"Thomas Pladsen" — *Director*

"Dustin Angelo" — *Director*

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

Anaconda Mining Inc.
Consolidated Statements of Operations and Deficit – Canadian dollars

Years Ended	**May 31, 2011**	May 31, 2010
	$	$
Revenue		
Sales	**7,325,083**	11,360,742
Other income	**150,035**	-
	7,475,118	11,360,742
Cost of goods sold		
Mill operations	**2,556,909**	2,168,405
Mining costs	**3,288,621**	3,009,899
Direct wages	**2,498,065**	608,489
Net smelter return royalties	**209,044**	337,685
Toll-millings costs	**229,523**	3,775,197
	8,782,162	9,899,675
Gross margin	**(1,307,044)**	1,461,067
Administrative expenses		
Office and general	**483,886**	539,007
Consulting and professional fees *(note 15)*	**1,896,650**	1,088,041
Stock-based compensation *(note 16(c))*	**648,098**	287,521
Representation and travel	**123,512**	141,337
Shareholder and regulatory reporting	**206,653**	177,999
Salaries and benefits	**508,803**	345,390
Financing fees *(note 12(i) and 12(ii))*	**-**	23,510
Project investigation costs	**-**	57,598
Foreign exchange losses	**207,804**	24,861
	4,075,406	2,685,263
Interest expense (net of interest income)	**1,686,904**	868,251
Transaction costs *(note 8)*	**533,610**	-
Write-down of deferred exploration expenditures *(note 8)*	**580,896**	654,551
Loss on sale of investments *(note 7)*	**1,464,000**	-
Loss on sale of property *(note 8)*	**1,483,157**	-
Depreciation, depletion and amortization	**445,807**	585,396
	6,194,374	2,108,198
Net loss before taxes	**(11,576,824)**	(3,332,394)
Future income (tax) recoveries	**160,050**	(7,650)
Net loss	**(11,416,774)**	(3,340,044)
Deficit at beginning of period	**(20,008,547)**	(16,668,503)
Deficit at end of period	**(31,425,321)**	(20,008,547)
Net loss per share – basic and fully diluted	**($0.096)**	($0.037)
Weighted average number of shares outstanding (000's)	**119,195**	89,563

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

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

Anaconda Mining Inc.
Consolidated Statements of Comprehensive Loss
and Accumulated Other Comprehensive Loss – Canadian dollars

Years Ended	May 31, 2011	May 31, 2010
	$	$
Net loss	(11,416,774)	(3,340,044)
Other comprehensive loss:		
Unrealized loss on available-for-sale investments	-	(53,550)
Total comprehensive loss	(11,416,774)	(3,393,593)
Comprehensive loss per share – basic and fully diluted	($0.096)	($0.038)

	May 31, 2011	May 31, 2010
	$	$
Opening accumulated other comprehensive loss	(1,120,350)	(1,066,800)
Unrealized loss on available-for-sale investments for year	-	(53,500)
Realized loss reclassified to operations net of future taxes of $160,050 *(note 7)*	1,120,350	-
Accumulated other comprehensive loss	-	(1,120,350)

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

Anaconda Mining Inc.
Consolidated Statements of Cash Flow – Canadian dollars

Years Ended	May 31, 2011	May 31, 2010
Operations	**$**	$
Net loss	**(11,416,774)**	(3,340,044)
Adjustments to reconcile net loss to cash flow from operating activities:		
Stock-based compensation	**648,098**	287,521
Interest accretion on convertible loans and debentures	**340,088**	211,221
Interest accretion on asset retirement obligation	**72,704**	45,475
Write-down of deferred exploration expenditures	**580,896**	654,551
Loss on sale of property	**1,483,157**	-
Loss on sale of investments	**1,464,000**	-
Depletion and amortization	**445,807**	585,396
Unrealized foreign exchange gains	**15,478**	(10,192)
Future income taxes	**(160,050)**	7,650
Promissory note interest paid with issuance of shares	**222,882**	-
Debenture interest paid with issuance of shares	**249,797**	-
Net change in non-cash working capital items:		
HST/GST recoverable	**367,209**	(521,685)
Accounts receivable, prepaids and deposits	**(3,173)**	(109,146)
Inventory	**48,681**	(602,284)
Accounts payable and accrued liabilities	**3,092,095**	908,125
Cash flow provided from (used in) operating activities	**(2,549,105)**	(1,883,412)
Financing		
Issuance of common shares, net of cash issuance	**556,585**	2,737,292
Convertible loans repaid	**-**	(60,000)
Convertible debentures advanced	**-**	2,922,300
Proceeds from loans and debentures	**1,750,000**	-
Proceeds from promissory notes	**2,228,818**	-
Repayment of government loan	**(78,644)**	-
Related party advances (repayments)	**(98,670)**	4,120
Cash flow provided from financing activities	**4,358,105**	5,603,712
Investments		
Deferred exploration and mineral property expenditures	**(222,896)**	(308,369)
Property, mill and equipment purchases	**(1,665,856)**	(2,817,896)
Proceeds from sale of investments	**153,000**	-
Deferred transaction costs	**79,581**	(79,581)
Restricted cash	**(369,038)**	(272,995)
Cash flow used in investing activities	**(2,025,169)**	(3,478,841)
Effect of exchange rate changes on cash and cash equivalents	**(26,561)**	5,522
Net increase (decrease) in cash and cash equivalents	**(242,746)**	246,981
Cash and cash equivalents at beginning of period	**533,628**	286,647
Cash and cash equivalents at end of period	**290,882**	533,628

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

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

General

Corporate

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”) through a share-for-share exchange, which resulted in the former shareholders of Colorado acquiring a majority 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.

Pine Cove project – Baie Verte, Canada

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 700 tonnes of ore per day. Commissioning of the expanded mill occurred during the first quarter of fiscal 2011 (July 2010).

During the first fiscal quarter of 2011, Anaconda reached the production requirements pursuant to the terms of its option and joint venture agreement with New Island Resources Inc. (“New Island”), allowing it to announce on September 7, 2010 that it had achieved Commercial Production (as defined therein) and therefor had earned its 60% interest in the Pine Cove project. Anaconda also announced that it and New Island had reached an agreement on a transaction (the “Acquisition”) that would result in Anaconda acquiring New Island’s 40% interest in the Pine Cove project *(note 10)*. During January 2011, New Island minority shareholders approved the Acquisition and the Plan of Arrangement governing the acquisition and it received final approval by the Court of the Queen’s Bench of Alberta, that resulted in Anaconda’s ownership in the Pine Cove project increasing to 100%.

San Gabriel project – Chile

During the first fiscal quarter of 2011, Anaconda completed transactions (altogether, the “Chilean Transaction”) to acquire interests in two iron exploration portfolios from a private Chilean company, Inversiones SBX Limitada (“SBX”). The exploration properties are located in north central Chile, within the Chile-Peru iron ore belt. Anaconda acquired a 50% interest in iron exploration concessions located in the immediate area of the Company’s San Gabriel iron project and a 20% interest in Inversiones Hierro Antofagasta S.A. (“IHA”), a private Chilean company. In return, SBX acquired from Anaconda a 50% interest in the Company’s San Gabriel property. SBX will also fund the remaining two option payments totaling US$2.2 million (both of which have been paid by SBX, US$500,000 in June 2010 and US$1.72 million in June 2011) related to the San Gabriel property. The combined San Gabriel area assets are held by a new company, Minera Hierro San Gabriel S.A., which is owned on a 50:50 basis by Anaconda and SBX.

Rights offering

On April 1, 2011, Anaconda announced the terms of a rights offering to holders of common shares. Anaconda issued to holders of its common shares as of record at the close of business on April 7, 2011 transferable rights certificates to subscribe for common shares before 4:00 p.m. (Toronto time) on May 3, 2011 on the terms set out in a rights offering circular (the "Rights Offering Circular") dated March 31, 2011. The Rights Offering Circular is also available on the SEDAR website at www.sedar.com. One right (a "Right") was issued for each common share outstanding and four (4) Rights will permit the shareholder to purchase one common share (a "Share") for $0.07 per Share.

The Rights and the underlying common shares have been approved for listing on the TSX. If all Rights had been subscribed for, 31,686,443 Shares would have been issued for total gross proceeds of $2,218,051. Actual subscriptions provided for a total of 31,686,444 common shares being issued, raising gross proceeds of $2,218,051. Certain investors including members of management agreed to provide a standby guarantee in the amount of $2,228,818 (the "Standby Guarantee"), which amount was advanced to Anaconda in the form of promissory notes due on June 29, 2011 and June 30, 2011 *(note 11)*. Pursuant to the Standby Guarantee, the standby guarantors were issued 7,921,611 common share purchase warrants (the "Guarantor Warrants"). Each whole Guarantor Warrant entitles the holder to purchase one common share for $0.08 until May 3, 2013.

Net proceeds after Rights Offering expenses were released to Anaconda and were used for working capital purposes. Anaconda called upon the Standby Guarantee and 20,673,870 shares were issued to the standby guarantors for the amount of unsubscribed Rights and was settled with paydowns totalling $1,447,171 to the applicable promissory notes, that included $336,246 of promissory notes held by insiders.

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 Company is experiencing ongoing losses and negative cash flow from operations both of which raise concerns regarding its ability to continue as a going concern. At this time cash generated from the operations of the Pine Cove project is insufficient to fund the Anaconda's ongoing working capital requirements, corporate and administrative expenses, debt service, capital-expenditure requirements and other contractual obligations, including those for its mineral properties in Chile. The strategy of the Company is to ameliorate the operations of its Pine Cove project to improve processing, grade control and precious metal recovery. If these efforts are successful, management believes the Pine Cove project will generate sufficient cash from operations to fund such corporate obligations for at least the next 12 months. If these efforts are not successful, Anaconda will need to raise additional capital in order to fund any shortfall in working capital, unfunded corporate and administrative expenses, debt service, capital-expenditure requirements and other contractual obligations over the next 12 months.

As at May 31, 2011, the Company had a working capital deficiency of $5,186,710 (2010 - $723,088) and an accumulated deficit of $31,425,321 (2010 - $20,008,547). Anaconda has no proven history of performance, earnings or success. All these factors cast considerable doubt as to whether the Company will be able to continue as a going concern over the next 12 months should it not be able to obtain the necessary financing to fund production enhancement and metallurgical recovery strategies in order to facilitate profitable production.

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 funds throughout the current and prior fiscal years 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.

Also see note 4 – **Property and financial risk factors – liquidity risk**.

2. 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, Inversiones La Veta Limitada ("La Veta"), a limited liability company based in Chile and Minera Hierro San Gabriel S.A. ("San Gabriel"), a limited liability company based in Chile. These consolidated financial statements have been prepared to reflect the combination that occurred in 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 property, 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.

Depletion, depreciation and amortization

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.

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 2011 and 2010.

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

	2011	2010
Dividend Yield	**-**	-
Expected volatility	**136.2%**	163%
Risk-free interest rate	**2.7%**	2.5%
Expected life (years)	**4.9**	2.8

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 $Nil relating to transaction costs for financial instruments for the year ended May 31, 2011 (2010 - $23,510).

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.

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.

Anaconda is experiencing negative cash flow from operations at its Pine Cove project. Anaconda's other mineral properties are in the exploration and development stage and do not produce any cash flow. As a result, the Company currently has negative cash flow. Anaconda's strategy is to ameliorate the operations of its Pine Cove project to improve processing, grade control and precious metal recovery to increase cash flow from operations. It also intends on supplementing this operating cash flow by raising additional funds as and when required to support its other activities or for general working capital purposes. 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 (not within the Company's control), the sale of equity capital of the Company, the issuance of further loans and/or 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, 2011. 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 HST recoverable consist of goods and services taxes receivable from the Canadian government and such amounts are in good standing as at May 31, 2011. Management believes that the credit risk associated with the financial instruments included in HST recoverable is minimal.

Accounts receivable consists mainly 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 and restricted to amounts carried on the balance sheet of $139,446.

Prepaids and deposits consist mainly of amounts pre-paid to the Company's landlord regarding its office facilities in Toronto. Management believes the credit risk associated with the financial instruments contained in prepaids a deposits is minimal and restricted to amounts carried on the balance sheet of $77,595.

Liquidity risk

As at May 31, 2011, the Company had a working capital deficiency of $5,186,710 (2010 - $723,088) and an accumulated deficit of $31,425,321 (2010 - $20,008,547). Anaconda has no proven history of performance, earnings or success. All the factors cast considerable doubt as to whether the Company will be able to continue as a going concern over the next 12 months should it not be able to obtain the necessary financing to fund production enhancement and metallurgical recovery strategies in order to facilitate profitable production.

The Company utilized the proceeds from any financings and related-party loans through-out the year for its working capital requirements. In order to meet other short to medium-term working capital obligations, the Company intends to utilize any cash flow generated from the Pine Cove project's operations and seek further debt and equity financing for general working capital purposes and capital projects.

At May 31, 2011, 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. During fiscal 2011, the Company sold the common shares in order to supplement its working capital requirements.

(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, accounts receivable, due from related party and HST recoverable is classified for accounting purposes as loans and receivables, which are measured at amortized cost which equal fair value. Investments (fiscal 2010) 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 and from 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, 2011, if interest rates had decreased/increased by 1% with all other variables held constant, the difference in loss for the year ended May 31, 2011 would not be material, as a result of lower/higher interest income from cash and cash equivalents. As at May 31, 2011, 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.

As at May 31, 2011, the Company's exposure to foreign currency balances of its monetary assets is as follows:

Account	Foreign Currency	Exposure ($Cdn)
Cash and cash equivalents	Chilean peso	1,358
Cash and cash equivalents	United States dollar	66,109
Due from related party	Chilean peso	110,985
Receivables prepaids and deposits	Chilean peso	1,650
Accounts payable and accrued liabilities	Chilean peso	23,751
Due to related parties	Chilean peso	31,994

The table below summarizes the effects on foreign exchange gains and losses on net loss and comprehensive loss 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 10% increase in foreign exchange rates on translation and investments in foreign monetary assets	Effect of 10% decrease in foreign exchange rates on translation and investments in foreign monetary assets
	$Cdn	$Cdn
American dollar	66,109	(66,109)
Chilean peso	58,249	(58,249)

(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, 2011 would have been approximately $1,145,000 higher.

(iv) As at May 31, 2011, the Company had no 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 $290,796 (2010 - $32,846) and interest-generating money-market accounts with no stipulated terms of maturity, of $86 (2010- $500,782).

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 $565,086 (2010 - $96,068), and long-term cash on deposit with a bank in an interest-generating money-market account with no stipulated terms of maturity of $677,499 (2010 - $777,749).

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

	May 31, 2011	May 31, 2010
	$	$
General purpose		
Cash	**290,796**	32,846
Cash equivalents	**86**	500,782
Total cash and cash equivalents	**290,882**	533,628

Restricted		
Cash [1]	**565,086**	96,068
Cash equivalents – long term[2]	**677,499**	777,479
Total restricted cash	**1,242,585**	873,547

[1] This cash is restricted as a debt-reduction escrow account as part of the agreement for the convertible debentures *(note 12(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 and $79,000 to Fisheries and Oceans Canada in satisfaction of its requirements under the approved site development and that may only be lifted by Newfoundland and Labrador government or Fisheries and Oceans Canada, respectively. The Company also has corporate credit cards that have authorized limits secured by cash collateral of $27,500.

6. Inventory

As at May 31, 2011, Anaconda's inventory balance of $937,270 (2010 - $903,605) represents allocated costs to ore contained in the mill circuit and stockpiles, based on quantities of material stockpiled, and include cost allocations from waste mining costs, overheads, amortization, depletion and depreciation relating to mining operations.

7. Investments

The Company acquires investments from time to time in the normal course of business

During the second fiscal quarter, the Company sold the shares it held in Merc International Minerals Inc. ("MIMI"), a company traded on the TSX Venture Exchange ("TSXV"), for proceeds of $153,000 (2010 - $Nil). As this investment had been classified as available-for-sale, periodic unrealized adjustments to fair value (using the closing price of the securities on the TSXV on the period-end date) had been recorded to other comprehensive income. The prior years' accumulated loss of $1,120,350 as well as the comprehensive loss from the first quarter (both now realized) on this investment has been reclassified and was charged to the statement of operations during the year.

This investment was held as security against the Company's issued debentures and convertible debentures and pursuant to the security agency agreements that govern the administration of the collateral, the Company required the approval of the majority of the debenture holders (for each series) in order to sell the securities. Approval was received from the required number of debenture holders and the investments were sold.

A portion of the sale was made to insiders of Anaconda *(note 15)*. In accordance with *CICA Section 3840 – Related Party Transactions,* in accounting for the related-party loss, the transaction was measured at the exchange amount.

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, 2010	Additions/ (Disposals)	Written-down/off	Loss on Sale	**May 31, 2011**
	$	$	$	**$**	**$**
San Gabriel	4,176,201	(1,044,953)[1]	-	(1,483,157)	**1,648,091**
VAT[4]	524,440	56,456	(580,896)	-	-
Other Chilean properties[2]	-	147,226	-	**-**	**147,226**
	4,700,641	(841,271)	(580,896)	(1,483,157)	**1,795,317**

Property	May 31, 2009	Additions	Written-down/off	**May 31, 2010**
	$	$	$	**$**
San Gabriel	3,878,238	227,258	70,705[3]	**4,176,201**
VAT[4]	449,327	75,113	-	**524,440**
Borthwick Lake	473,752	6,988	(480,740)	**-**
Lingman Lake	244,516	-	(244,516)	**-**
	5,045,833	309,359	(654,551)	**4,700,641**

[1] During the first fiscal quarter of 2011, Anaconda sold a 50% interest in its San Gabriel project in exchange for a 50% interest in surrounding iron exploration concessions in the immediate area of San Gabriel. Balance represents current additions of $995,369 less disposals of $2,040,322.

[2] As further consideration regarding its 50% sale of the San Gabriel project, Anaconda also received a 20% interest in a private Chilean company that has an 82.5% interest in four main project areas east of the port city of Taltal. This interest is characterized as Other Chilean properties.

[3] This balance represents a reversal of amounts previously written off regarding local IVA (recoverable tax for services rendered).

[4] In 2010, VAT incurred by La Veta, the owner of the San Gabriel property. In 2011, VAT balances relating to the San Gabriel property were written off as La Veta sold the property pursuant to the Chilean Transaction.

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

San Gabriel

During the first fiscal quarter of fiscal 2011, Anaconda completed transactions (altogether, the "Chilean Transaction") to acquire interests in two iron exploration portfolios from a private Chilean company, Inversiones SBX Limitada ("SBX"). The exploration properties are located in north central Chile, within the Chile-Peru iron ore belt. Anaconda acquired a 50% interest in iron exploration concessions located in the immediate area of the Company's San Gabriel iron project and a 20% interest in Inversiones Hierro Antofagasta S.A. ("IHA"), a private Chilean company. In return, SBX acquired from Anaconda a 50% interest in the Company's San Gabriel property (a 3,800 hectare project located in northern Chile near the coastal deep-water port of Chañaral). SBX will also fund the remaining US$2.2 million in option payments (the first of which in the amount of US$500,000 has been paid by SBX) related to the San Gabriel property. The combined San Gabriel area assets are held by a new company, Minera Hierro San Gabriel S.A., which is owned on a 50:50 basis by Anaconda and SBX.

The following fiscal commitments exist for the project: 2012 – US$1,720,000 (pursuant to the Transaction with SBX, this amount was paid by SBX in June 2011).

Pine Cove

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

During the first fiscal quarter of 2011, Anaconda reached the production requirements pursuant to the terms of its Option and Joint venture Agreement with New Island Resources Inc. ("New Island"), allowing it to announce on September 7, 2010 that it had achieved Commercial Production (as defined therein) and therefor had earned its 60% interest in the Pine Cove project.

On August 30, 2010, Anaconda and New Island issued a joint press release announcing that they reached agreement on the Acquisition whereby Anaconda would acquire (the "Acquisition") New Island's 40% interest in the Pine Cove project. The Acquisition was to be structured as a plan of arrangement and the 25,098,860 New Island shares acquired by Anaconda pursuant to its take-over bid would be returned to tendering New Island shareholders and Anaconda would issue a total of 22,602,315 shares to New Island. During January 2011, New Island minority shareholders approved the Acquisition and the Plan of Arrangement governing the Acquisition received final approval by the Court of the Queen's Bench of Alberta and Anaconda's ownership in the Pine Cove project was consolidated at 100%.

The Company acquired the Pine Cove assets owned by New Island and valued the acquisition based on the fair value of the securities issued to acquire the remaining 40% interest once the Acquisition was finalized and received both shareholder and court approval (*CICA Section 3381.10 – Non-monetary Transactions*). The Company issued a total of 22,602,315 shares to acquire the asset. The closing price of Anaconda shares on January 13, 2011, was $0.14, resulting in a fair value of $3,164,324. The fair value was increased by payments made to New Island in the amount of $75,000 that have been capitalized.

The Company also incurred $533,610 (2010 - $Nil) of transaction costs as at January 13, 2011, and these costs have been charged to current year's income.

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.

9. Leasehold improvements

As at	May 31, 2011		May 31, 2010	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
	$	**$**	$	$
Leasehold Improvements	**16,765**	**16,765**	16,765	12,253
	16,765	**16,765**	16,765	12,253
Net Book Value	**-**		4,512	

10. Property, mill and equipment

As at	May 31, 2011		May 31, 2010	
	Cost	**Accumulated Amortization[1]**	Cost	Accumulated Amortization
	$	**$**	$	$
Mill	**5,942,786**	**305,860**	4,668,770	148,268
Equipment	**317,594**	**52,222**	183,426	29,733
Property	**9,352,576**	**870,030**	9,085,289	566,610
Property (40% interest)[1]	**3,239,324**	**50,000**	-	-
	18,852,280	**1,278,112**	13,937,485	744,611
Net book value	**17,574,168**		13,192,874	

[1] Acquisition of 40% interest not already owned by Anaconda (note 8).

11. Promissory notes

During the third and fourth fiscal quarters of 2011, Anaconda issued promissory with a face value of $2,451,700 and maturity dates of June 29 and June 30, 2011. The promissory notes were issued at a 9.1% discount to face value, raising proceeds of $2,228,818 that the Company has utilized for working capital purposes. Some promissory notes were issued pursuant to a standby guarantee agreement whereby certain existing shareholders (some insiders *(note 15)*) of the Company agreed to subscribe to and purchase a portion of the Rights Offering. The Company closed on its Rights Offering and issued 20,673,870 common shares (of a total of 31,686,444 common shares) in repayment of $1,447,171 of the promissory notes. The balance remaining at May 31, 2011 was $1,004,529 (2010 - $Nil). Also, see subsequent event *note 21*.

12. 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.

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, 2011 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**
Add: Interest accretion for year	39,341
Ending carrying value – May 31, 2011	**1,829,341**

ii) Convertible debentures – series I

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, 2011, interest of $58,338 (2010 - $205,560) has been incurred with such amount included in interest expense on the consolidated statements of operations and deficit.

The convertible debentures were secured by a charge over certain of the Company's assets, including the common shares of MIMI (the "MIMI Shares") that it owned until the second fiscal quarter of 2011 (note 7). Pursuant to the security agency agreements that govern the administration of collateral, the Company required and received the approval of the majority of the debenture holders (for each series) in order to sell the MIMI Shares.

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.

The balance as at May 31, 2011 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**
Add: Interest accretion for year	58,338
Ending carrying value – May 31, 2011	**1,558,324**

iii) Debentures

a) Series II

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 were secured by a first charge (ranking *pari passu* with the charge held by current debenture holders) over certain of the Company's assets including the MIMI Shares until the second fiscal quarter of 2011. Pursuant to the security agency agreements that govern the administration of collateral, the Company required and received the approval of the majority of the debenture holders (for each series) in order to sell the MIMI Shares. 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, 2011, interest and accretion relating to the debt totaled $191,109 (2010 - $54,779).

The balance as at May 31, 2011 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**
Add: Interest accretion on conversion feature	**191,109**
Ending carrying value – May 31, 2011	**2,602,551**

b) Series III

On September 20, 2010, the Company closed the first tranche ($770,000) of the issuance of $841,667 aggregate principal amount of 12.5% secured, non-convertible debentures maturing July 20, 2011 (the "Series III Debentures"). On October 22, 2010, Anaconda closed on the final tranche ($71,667) of the Series III Debentures. The Series III Debentures also included the issuance of 258,227 warrants and have been valued using Black-Scholes pricing model with risk-free return of 1.5%, dividend yield of 0%, volatility of 138.0% and a forfeiture rate of nil, at $35,743. Each whole warrant entitles the holder to acquire one common share of Anaconda at a price of $0.30 per common share until March 20, 2012 for tranche 1 and until April 22, 2011 for tranche 2. The Series III Debentures were issued at a discount with aggregate net proceeds of $819,780 being received by Anaconda. The discount-to-face-value amount and the warrant value will be accreted to interest expense over the term of the Series III Debentures. The Series III Debentures is secured by a charge over Anaconda's Chilean assets. Interest is payable quarterly until maturity.

As the Series III Debentures are due within the next 12 months, the entire carrying value is included in current portion of long-term debt on the consolidated balance sheets.

	$
Principal balance repayable	841,667
Less: Discount on issuance	(21,886)
Cash proceeds received	819,781
Less: Value of warrants	(35,743)
Original carrying value	784,038
Add: Interest accretion for period	33,291
Ending carrying value (short-term due within 1 year)	**817,329**

13. Loans

During the year, Anaconda drew down and received $500,000 pursuant to a loan agreement with an agency of the federal government of Canada. The loan is non-interest bearing and repayable in twelve monthly payments commencing on June 1, 2011 and ending on May 1, 2012.

During the year, Anaconda drew down and received $500,000 pursuant to a loan agreement with the government of Newfoundland. The term of the loan is 30 months and it accrues interest at 5.5% annually with monthly blended (interest and principal) repayments that commenced in January, 2011 and terminates in June, 2013.

The following table provides the details of the short and long-term components of the loans as at May 31, 2011:

	$
Principal balance repayable	1,000,000
Less: principal repayments for the period	(78,644)
Principal balance due – May 31, 2011	**921,356**
Less: short-term component (due within 1 year)	(696,245)
Long-term component – May 31, 2011	**225,111**

14. Asset retirement obligations ("ARO")

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

	May 31, 2011 $	May 31, 2010 $
Opening balance	**605,875**	722,400
Additions/(reductions) to provision for reclamation	**-**	(162,000)
Interest accretion	**72,706**	45,475
Closing balance	**678,581**	605,875

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.

15. Related-party transactions

For the year ended May 31, 2011, the consolidated financial statements include $597,082 (2010 - $519,994) in consulting expenses and $289,141 (2010 - $240,027) of interest charges of which $39,341 (2010 - $101,928) is non-cash interest accretion regarding the conversion feature of the convertible loan (note 11 (i)). The consulting expenses and interest charges were incurred with directors and/or officers of the Company or corporations controlled by them.

During the year ended May 31, 2011, insiders of the Company purchased $26,500 (2010 - $Nil) of the total of $153,000 (2010 - $Nil) of the investments that were sold by Anaconda (note 7).

As at May 31, 2011, the due to related party balance contains amounts in the form of demand loans of $387,320 (2010 - $Nil) to officers and/or directors of the Company or corporations controlled by them and amounts due to the Company's Chilean General Manager, SBX (or companies controlled by it) in the form of trade-payable reimbursements of $319,940 (2010 - $676,436). The demand loans are unsecured, interest free and have no fixed terms of repayment. During the year, the balances of the demand loans increased by $547,098 (2010 - $Nil) and decreased by repayments from partial proceeds of the Rights Offering totalling $99,779 (2010 - $Nil) and $60,000 (2010- $Nil) from cash balances on hand.

As at May 31, 2011, the promissory notes balance (note 11) includes $76,255 (2010 - $Nil) issued in consideration of loans provided by officers and/or directors of the Company.

As at May 31, 2011, the due from related party balance contains $1,109,856 (2010 – $Nil) due from SBX pursuant to the sale of the Company's 50% interest in its San Gabriel project and $71,736 from officers and/or directors of the Company or corporations controlled by them regarding recharges for office costs.

As at May 31, 2011, the accounts payable and accrued liabilities balance includes $154,190 (2010 - $47,087) of amounts due to related parties for unpaid interest on the convertible loan and consulting costs.

These transactions are measured at their exchange amounts, being the amounts agreed upon between the Company and the related parties.

16. 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, 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**
Issued for cash:		
Rights offering	9,587,164	671,101
Issued under rights offering to repay promissory notes	20,673,870	1,447,171
Issued under rights offering to repay related-party loans	1,425,410	99,779
Costs of issuance	-	(118,766)
Issued pursuant to acquisition of 40% interest in Pine Cove project *(note 8)*	22,602,315	3,168,571
Issued in lieu of series II debenture interest	979,586	249,797[1]
Fair value of warrants issued	-	(301,021)
Balance at May 31, 2011	**158,432,216**	**31,469,190**

[1]This amount was calculated using the 5-day, volume-weighted-average closing price of the Company's common shares immediately preceding the interest-payment date. Pursuant to *CICA 3855.52*, the difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the fair value of the consideration paid, including any non-cash assets transferred or liabilities assumed, should be included in net income for the period. The fair value of the securities issued (as determined by the closing price of Anaconda's shares on the date of issuance was not materially different from the 5-day volume weighted average of the closing price of the Company's shares as required pursuant to the series II debentures.

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 as at the date in 2007 that Colorado acquired Anaconda in its reverse takeover transaction plus Anaconda's share activity since the date of acquisition. 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%.

(b) Warrants

The outstanding Issued Warrants balance at May 31, 2011, is comprised as follows:

Date of Expiry	Type	Fair Value	No. of Warrants	Exercise Price $
April 23, 2012*	Purchase warrants	256,976	7,294,923	0.20
May 11, 2012*	Purchase warrants	7,063	195,800	0.20
June 17, 2012*	Purchase warrants	283,333	3,333,334	0.25
July 25, 2012*	Purchase warrants	565,737	3,984,069	0.22
March 20, 2012**	Purchase warrants	33,276	236,000	0.30
April 22, 2012**	Purchase warrants	2,467	22,227	0.30
May 3, 2013	Purchase warrants	301,021	7,921,611	0.08
Total		**1,449,873**	**22,987,964**	

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

Date of Expiry	Type	Fair Value	No. of Warrants	Exercise Price $
April 23, 2012*	Purchase warrants	346,728	9,894,923	0.20
May 11, 2012*	Purchase warrants	27,775	795,800	0.20
June 17, 2012*	Purchase warrants	283,333	3,333,334	0.25
July 25, 2012*	Purchase warrants	565,737	3,984,069	0.22
Total		**1,223,573**	**18,008,126**	

*On April 11, 2011, Anaconda announced its intention to extend the expiry date of unlisted common share purchase warrants ("Warrants") originally issued under a non-brokered private placement in two tranches on April 23, 2009 and May 11, 2009 (the "2009 Warrants") and Warrants originally issued under a non-brokered private placement on January 25, 2010 (the "2010 Warrants").

Prior to the amendment, the 2009 Warrants entitle the holders to purchase common shares of Anaconda at an exercise price of $0.20 per common share until 5:00 p.m. (Toronto time) on April 23, 2011 and May 11, 2011, as applicable. There are 7,490,723, 2009 Warrants outstanding, of which 3,655,723, 2009 Warrants are held by non-insiders and 3,835,000, 2009 Warrants are held by insiders of the Company. The fair value of the expired 2009 Warrants that has been transferred to contributed surplus is $110,464 (2010 - $398,366).

The 2010 Warrants entitle the holders to purchase common shares of Anaconda at an exercise price of $0.22 until 5:00 p.m. (Toronto time) on July 25, 2011. There are 3,984,069 2010 Warrants outstanding, of which 3,576,705 2010 Warrants are held by non-insiders and 407,364 2010 Warrants are held by insiders of the Company.

**See subsequent event note regarding reduction to exercise price.

The 2009 Warrants and the 2010 Warrants held by insiders of the Company will not be extended, as consented to by such insiders. The 2009 Warrants held by non-insiders, as a result of the proposed amendment, will entitle such holders to purchase common shares at an exercise price of $0.20 per common share until 5:00 p.m. (Toronto time) on April 23, 2012 and May 11, 2012, as applicable. And the 2010 Warrants held by non-insiders, as a result of the proposed amendment, will entitle such holders to purchase common shares at an exercise price of $0.22 per common share until 5:00 p.m. (Toronto time) on July 25, 2012. The common shares underlying the 2009 Warrants and the 2010 Warrants held by non-insiders which are subject to the proposed amendment represent approximately 8.2% of the currently issued and outstanding common shares of the Company.

(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, 2011, the Company has 3,428,222 (2010 – 3,091,387) options available for issuance under the plan. Continuity of the unexercised options to purchase common shares is as follows:

	May 31, 2011		May 31, 2010	
	Weighted Average Exercise Price ($)	**No. of Options**	Weighted Average Exercise Price ($)	No. of Options
Outstanding at beginning of period	**0.38**	**7,225,000**	0.90	2,645,000
Transactions during the period:				
Granted	**0.11**	**5,850,000**	0.21	5,455,000
Exercised	**-**	**-**	-	-
Forfeited	**0.66**	**(660,000)**	0.91	(875,000)
Expired	**-**	**-**	-	-
Outstanding at end of year	**0.24**	**12,415,000**	0.38	7,225,000
Exercisable at end of year		**5,365,000**		2,060,000

The following table provides additional information about outstanding stock options at May 31, 2011:

Range of Exercise Prices ($)	No. of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price ($)	No. of Options Currently Exercisable
0.00 – 0.15	5,850,000	4.7	0.11	0
0.16 – 0.79	5,350,000	2.9	0.21	4,150,000
0.80 – 1.10	1,215,000	1.3	0.94	1,215,000
0.11 – 1.10	**12,415,000**	**3.6**	**0.24**	**5,365,000**

Stock-based compensation

The fair value of the stock options granted for the 12 months ended May 31, 2011 was $648,098 (2010 – $287,521), 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 $0.091 (2010 – $0.166) per option issued.

17. Contributed surplus

	$
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**
Stock-based compensation	648,098
Fair value of expired warrants transferred from warrants	110,464
Balance at May 31, 2011	**6,005,924**

18. 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:

	2011		2010	
	($)	**%**	($)	%
Income tax recovery at statutory rates	**(3,299,400)**	**(28.5)**	(999,700)	(30.0)
Difference between Canadian and foreign tax rates (2010 – 16%)	26,250	0.2	10,500	0.3
Difference between current and future tax rates	138,500	1.2	182,300	5.5
Changes in F/X rates on Chilean tax assets	-	-	8,600	0.2
Non-deductible expenses for tax purposes:				
Stock-based compensation	184,700	1.6	86,300	2.5
Interest accretion and other	93,500	0.8	77,000	2.3
Unrealized foreign exchange	(220,800)	(1.9)	143,850	4.3
Valuation allowance	2,917,200	25.2	498,800	15.0
Future income taxes expense (recovery)	**(160,050)**	**(1.4)**	7,650	0.2

The Canadian statutory income tax rate of 28.5% (2010 – 30.0%) is comprised of the federal income tax rate at approximately 16.5% (2010 – 19.0%) and the provincial income tax rate of approximately 12% (2010 – 11.00%). The primary differences which give rise to the future income tax recoveries at May 31, 2011 and 2010 are as follows:

	2011	2010
Future income tax assets	**$**	$
Temporary timing differences on long-term assets	1,683,000	1,914,000
Unrealized losses on “Available-for-sale investments	166,000	160,000
Deductible financing fees	114,000	128,000
Operating losses carried forward	5,062,000	1,925,800
	7,025,000	4,127,800
Less: valuation allowance	(7,025,000)	(4,107,800)
Net future tax assets	-	20,000
Future tax liabilities		
Other	-	(20,000)
Net future tax liabilities	-	(20,000)
Net future tax asset (liability)	**-**	-

The unamortized balance, for income tax purposes, of the share issuance fees amounts to approximately $459,937 (2010 - $889,600) and will be deductible in Canada over the next four years.

The Company also has cumulative Canadian Exploration and development expenditures of $17,376,011 that may be carried forward indefinitely.

As at May 31, 2011, the Company has income tax loss carry forwards expiring as follows:

	CANADA	CHILE	Total
	$	$	$
2015	81,500	0	81,500
2016	405,100	0	405,100
2027	525,000	0	525,000
2028	505,000	0	505,000
2029	1,358,000	0	1,358,000
2030	3,139,000	0	3,139,000
2031	2,414,000	0	2,414,000
2032	8,068,096	0	8,068,096
Indefinite	0	5,598,300	5,598,300
	16,495,696	**5,598,300**	**22,093,996**

19. 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, 2011	May 31, 2010
	($)	($)
Revenues:		
Canada	**7,325,083**	11,360,742
Consolidated revenues	**7,325,083**	11,360,742
Net loss		
Canada	**(8,628,736)**	(3,264,760)
Chile	**(2,788,038)**	(75,282)
Consolidated net loss	**(11,416,774)**	(3,340,042)
Identifiable assets:		
Canada	**20,422,999**	16,106,599
Chile	**3,040,883**	5,278,729
Consolidated identifiable assets	**23,463,882**	21,385,328
Geographical allocation of significant non-cash items		
Canada		
Stock-based compensation	**648,098**	287,521
Interest accretion on convertible loan, convertible debentures and debentures	**340,088**	211,221
Interest accretion on asset retirement obligation	**72,704**	45,475

Reduction to asset retirement obligations	**-**	162,000
Write-down of deferred exploration expenditures	**-**	654,551
Future income tax expense (recovery)	**(160,050)**	7,650
Depreciation, depletion and amortization	**441,537**	585,396
	1,342,377	1,953,814
Chile		
Write-down of deferred exploration expenditures		-
Reversal of previous write-down of IVA costs		70,706
Amortization	**4,270**	3,234
Write-down of deferred exploration expenditures	**580,896**	-
Loss on sale of property	**1,483,157**	-
	2,068,323	73,940
Consolidated significant non-cash items	**3,410,700**	2,027,754

20. Commitments

During the second fiscal quarter, Anaconda entered into a lease agreement for its new office premises. The lease commences on April 1, 2011 and runs through March 31, 2017, inclusive. Under the terms of the lease, Anaconda is also responsible for realty taxes, insurance, maintenance and its proportionate share of common area costs. Minimum payments over the lease period are as follows: Fiscal 2012 - $222,375; fiscal 2013 - $222,375; fiscal 2014 - $222,375; fiscal 2015 - $222,375; fiscal 2016 – $185,313.

21. Subsequent events

Private placement

On June 6, 2011, the Company announced that it had closed a non-brokered private placement of 16,999,728 common shares at $0.07 per share. The common shares were issued, in part, to retire $1,049,981 of promissory notes including accrued interest thereon, that were coming due at the end of June, 2011. The remainder of the common shares issued generated gross cash proceeds of approximately $140,000.

In addition, the Company issued on a non-brokered private placement basis, 1,394,000 flow-through common shares issuable pursuant to the private placement raising additional proceeds of $97,580.

Series III Debentures and warrant strike-price reduction

On August 15, 2011, Anaconda announced that it had reached an agreement with the holders of $842,574 face-amount of 12.5% Series III Debentures *(note 12(iii)(b))* to extend the maturity date from July 20, 2011 to April 20, 2012, subject to a principal payment of $150,000 on October 20, 2011. Interest at 12.5% shall continue to be payable quarterly.

As part of the agreement, the Company has agreed to reduce the exercise price of 258,227 unlisted common share purchase warrants *(note 16(b))* originally issued to such Debentureholders from $0.30

to $0.08 per common share as well as extend the exercise date by one year to March 20, 2012 (with respect to 236,000 warrants) and to April 22, 2013 (with respect to 22,227 warrants).

Issuance of stock options

Subsequent to May 31, 2011, the Company issued a total of 750,000 stock options to eligible participants of its stock option plan. The options are exercisable over a 5 year period and vest 50% in 6 months and the remaining 50% in 1 year after issuance.