Consolidated Financial Statements
For the Years Ended
May 31, 2012 and 2011
(Expressed in Canadian Dollars)

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 International Financial Reporting Standards ("IFRS"). Management acknowledges responsibility for the preparation and presentation of the financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in Note 4 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"
President and Chief Executive Officer
August 22, 2012

"Errol Farr"
Chief Financial Officer
August 22, 2012

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Independent Auditor's Report

To the Shareholders of
Anaconda Mining Inc.

We have audited the accompanying consolidated financial statements of Anaconda Mining Inc, which comprise the consolidated statements of financial position as at May 31, 2012 and 2011, and June 1, 2010, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years ended May 31, 2012 and 2011, 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 consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated 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 consolidated financial statements.

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

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, 2012 and 2011, and June 1, 2010, and its consolidated financial performance and its cash flows for the years ended May 31, 2012 and 2011, in accordance with International Financial Reporting Standards.

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 does not have a proven history of earnings. This condition raises uncertainty which may cast doubt upon the Company's ability to continue as a going concern. These 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 these uncertainties.

August 22, 2012

Licensed Public Accountants

Anaconda Mining Inc.

Consolidated Statements of Financial Position

(Canadian dollars)

As at	**May 31 2012 $**	May 31 2011 $ IFRS Transition Note 3 Restated Note 24	June 1 2010 $ IFRS Transition Note 3 Restated Note 24
Assets			
Current assets			
Cash and cash equivalents (note 9)	**678,568**	290,882	533,628
Restricted cash (note 9)	**-**	565,086	96,068
Trade and other receivables (note 18)	**100,976**	139,445	144,437
HST receivable	**222,767**	225,033	592,242
Prepaid expenses and deposits	**84,294**	77,596	23,660
Due from related parties (note 16)	**-**	1,181,586	-
Inventory (notes 10 & 24)	**1,593,775**	794,132	731,537
	2,680,381	3,273,760	2,121,572
Investments (note 20)	**50,000**	-	336,600
Deferred transaction costs	**-**	-	79,581
Restricted cash (note 9)	**677,147**	677,499	777,479
Exploration and evaluation assets (note 11)	**309,539**	1,795,317	4,700,641
Leasehold improvements	**-**	-	4,512
Property, mill and equipment (note 12)	**17,327,563**	17,574,168	13,192,874
	21,044,630	23,320,744	21,213,259
Liabilities			
Current liabilities			
Trade and other payables (notes 16 & 19)	**2,668,453**	5,360,237	2,340,291
Due to related parties (note 16)	**-**	707,260	676,436
Current portion of loans and debentures (note 14)	**360,099**	1,531,584	-
Promissory notes (note 13)	**-**	1,004,529	-
	3,028,552	8,603,610	3,016,727
Loans and debentures (note 14)	**3,341,728**	6,129,617	5,582,227
Decommissioning liability (note 15)	**1,146,533**	1,096,321	1,048,309
	7,516,812	15,829,548	9,647,263
Shareholders' equity			
Share capital, reserves, convertible-debt equity and other comprehensive income (loss) (note 17)	**41,068,473**	38,329,912	33,170,852
Deficit	**(27,540,654)**	(30,838,716)	(21,604,856)
	13,527,818	7,491,196	11,565,996
	21,044,630	23,320,744	21,213,259

Going concern (note 1)
Subsequent events (note 23)
Change in accounting policy (note 24)

Approved by the Board of Directors on August 22, 2012

"Maruf Raza"
Director

"Lewis Lawrick"
Director

Anaconda Mining Inc.

Consolidated Statements of Comprehensive Income

(Canadian dollars)

	For the year ended	
	May 31 2012	May 31 2011
	$	$
Revenue		
Gold sales	**19,905,756**	7,325,083
Net smelter royalty	**593,079**	209,044
	19,312,677	7,116,039
Cost of sales		
Mill operations	**4,767,518**	3,953,417
Mining costs	**3,943,542**	3,336,583
Logistics	**296,127**	229,523
Project administration	**1,848,963**	1,271,511
Depletion and depreciation (note 24)	**1,732,156**	416,876
Cost of sales	**12,588,306**	9,207,910
Gross margin (deficit)	**6,724,371**	(2,091,871)
Expenses		
Corporate administration	**2,252,928**	3,385,159
Share-based compensation	**419,219**	648,098
Operating income (loss)	**4,052,224**	(6,125,128)
Interest expense	**1,178,162**	1,695,705
Foreign exchange (gains) losses	**553,810**	(834,630)
Write-off of exploration and evaluation assets (note 11)	**-**	580,896
Loss on sale of investments	**-**	343,655
Loss on sale of exploration and evaluation assets (note 11)	**-**	1,483,157
Gain on sale of Chilean mining interest (note 20)	**(977,811)**	-
	754,161	3,268,783
Income (loss) before income taxes	**3,298,062**	(9,393,911)
Deferred income tax recovery (note 21)	**-**	160,050
Net income (loss) for the year	**3,298,062**	(9,233,861)
Other comprehensive income (loss):		
Foreign exchange translation of foreign operations	**-**	(1,042,434)
Comprehensive income (loss) for the year	**3,298,062**	(10,276,295)
Net income (loss) per share – basic	**$0.02**	($0.08)
Net income (loss) per share - fully diluted	**$0.02**	($0.09)
Comprehensive income (loss) – basic	**$0.02**	($0.08)
Comprehensive income (loss) – fully diluted	**$0.02**	($0.09)
Weighted average number of shares outstanding - basic	**176,725,431**	119,195,000
Weighted average number of shares outstanding - fully diluted	**185,117,017**	119,824,567

Anaconda Mining Inc.

Consolidated Statements of Changes in Equity

(Canadian dollars)

	Share capital		Share based payments	Warrants	Convertible debt equity	Accumulated other comprehensive income (loss)	Share capital, reserves, convertible-debt equity and other comprehensive income (loss)	Deficit Restated Note 24	Total
	#	$	$	$	$	$	$	$	$
Balance at June 1, 2010	**103,163,871**	**26,252,558**	**2,755,700**	**3,715,235**	**447,359**	**-**	**33,170,852**	**(21,604,856)**	**11,565,996**
Issued pursuant to take-over bid	22,602,315	3,168,571	-	-	-	-	3,168,571	-	3,168,571
Issued pursuant to Rights Offering	31,686,444	2,218,051	-	-	-	-	2,218,051	-	2,218,051
Issued for Series II debenture interest	979,585	249,797	-	-	-	-	249,797	-	249,797
Cost of issuance	-	(118,766)	-	-	-	-	(118,766)	-	(118,766)
Fair value of warrants issued	-	(301,021)	-	301,021	-	-	-	-	-
Fair value of Series III debenture warrants	-	-	-	35,743	-	-	35,743	-	35,743
Share-based compensation	-	-	648,098	-	-	-	648,098	-	648,098
Translation loss on foreign operations	-	-	-	-	-	(1,042,434)	(1,042,434)	-	(1,042,434)
Net loss for the period (restated – note 24)	-	-	-	-	-	-	-	(9,233,861)	(9,233,861)
Balance at May 31, 2011	**158,432,215**	**31,469,190**	**3,403,798**	**4,051,999**	**447,359**	**(1,042,434)**	**38,329,912**	**(30,838,717)**	**7,491,195**
Private placement and settlement of promissory note	18,393,728	1,287,561	-	-	-	-	1,287,561	-	1,287,561
Cost of issuance	-	(10,656)	-	-	-	-	(10,656)	-	(10,656)
Share-based compensation	-	-	419,219	-	-	-	419,219	-	419,219
Elimination of cumulative translation loss on divestiture of Chilean mining interest	-	-	-	-	-	1,042,434	1,042,434	-	1,042,434
Net income for the period	-	-	-	-	-	-	-	3,298,062	3,298,062
Balance at May 31, 2012	**176,825,943**	**32,746,095**	**3,823,017**	**4,051,999**	**447,359**	**-**	**41,068,470**	**(27,540,654)**	**13,527,816**

Anaconda Mining Inc.

Consolidated Statements of Cash Flows

(Canadian dollars)

	For the year ended	
	May 31 2012 $	May 31 2011 $ Restated Note 24
Operations		
Net income (loss)	**3,298,062**	(9,233,861)
Adjustments to reconcile net income (loss) to cash flow from operating activities:		
Depletion and amortization	**1,732,156**	416,876
Share-based compensation	**419,219**	648,098
Deferred income taxes (recovery)	**-**	(160,050)
Foreign exchange loss (gain)	**931,718**	(1,026,956)
Loss on sale of investments	**-**	343,650
Write-off of exploration and evaluation assets	**-**	580,896
Gain on sale of Chilean mining interest	**(977,811)**	-
Loss on sale of exploration and evaluation assets	**-**	1,483,157
Deferred transaction costs	**-**	79,581
Promissory note interest paid by issuance of shares	**45,252**	222,882
Debenture interest paid by issuance of shares	**-**	249,797
Interest accretion of loans and debentures	**366,242**	373,580
Interest accretion of decommissioning liability	**50,212**	48,013
Net change in non-cash working capital items:		
Trade and other receivables	**38,469**	367,209
HST receivable	**2,265**	-
Prepaid expenses and deposits	**(6,698)**	(3,173)
Inventory	**(799,642)**	48,681
Trade and other payables	**(2,691,784)**	3,092,094
Cash flow provided from (used in) operating activities	**2,427,860**	(2,469,525)
Financing		
Issuance of common shares	**237,580**	675,351
Issuance costs	**(10,656)**	(118,766)
Proceeds from (repayment of) advances to related parties	**275,646**	(98,670)
Repayment of government loans	**(301,572)**	(78,644)
Proceeds from promissory notes	**-**	2,228,818
Proceeds from loan and debentures	**-**	1,750,000
Repayment of loans and debentures	**(4,044,361)**	-
Cash flow provided from (used in) financing activities	**(3,843,363)**	4,358,089
Investments		
Purchase of property, mill and equipment	**(1,465,865)**	(1,665,856)
Purchase of exploration and evaluation assets	**(1,373,032)**	(222,896)
Proceeds from sale of investments	**4,077,000**	153,000
Restricted cash	**565,086**	(369,038)
Cash flow provided from (used in) investing activities	**1,803,189**	(2,104,790)
Effect of exchange rate changes on cash and cash equivalents	**-**	(26,520)
Net increase (decrease) in cash and cash equivalents	**387,686**	(242,746)
Cash and cash equivalents at beginning of year	**290,882**	533,628
Cash and cash equivalents at end of year	**676,568**	290,882
Supplemental cash flow information:		
Interest paid	**791,500**	1,204,200
Taxes paid	**-**	-

General

Corporate
The Company's principal business activity is that of a gold mining and mineral exploration company with operations in Canada. The Company's common shares are listed on the Toronto Stock Exchange, with ticker symbol "ANX". The Company's registered office is located at The Exchange Tower, 130 King Street West, Suite 2120, Toronto, Ontario, M5X 1C8.

Pine Cove Project – Baie Verte, Canada
As at May 31, 2009, the Company had completed the construction of its mining project in Baie Verte, Newfoundland (the "Pine Cove project") and brought it into limited production. During fiscal 2010, the Company undertook a capital program to expand its existing mill to enable processing of approximately 1,000 tonnes of ore per day. Commissioning of the expanded mill occurred during the first quarter of fiscal 2011 (July 2010). On September 7, 2010, the Company achieved Commercial Production (as defined in its option and joint venture agreement) and therefore had earned a 60% interest in the Pine Cove project from Anaconda's joint venture partner, New Island Resources Inc ("New Island"). During January 2011, the Company and New Island completed a Plan of Arrangement that resulted in Anaconda's ownership in the Pine Cove project increasing to 100%.

Chilean Operations
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 also funded the remaining two option payments totaling US$2.2 million (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.

On December 7, 2011, the Company announced that, pursuant to an agreement dated that day, it had closed the sale of its Chilean iron-ore business operations (the "Chilean Assets") to a private Chilean company, Hierro Tal Tal S.A. ("Tal Tal"), for up to US$11 million in cash payments (including US$2 million at closing and US$2 million on or before May 31, 2012, both payments received), a gross sales royalty and a 1.25% carried interest in Compania Portuaria Tal Tal S.A. (see note 20).

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 in the normal course of business and at amounts that may differ from those shown in these consolidated financial statements.

The Company has experienced historic losses and negative cash flows from operations both of which raised concerns regarding its ability to continue as a going concern. Cash flows generated from the operations of the Pine Cove project are currently sufficient to fund all of Anaconda's ongoing working capital requirements, corporate and administrative expenses, debt service, capital expenditure requirements and other contractual obligations.

As at May 31, 2012, the Company had a working capital deficit of $348,171 (May 31, 2011 – $5,329,850, as restated, note 24), an accumulated deficit of $27,540,654 (May 31, 2011 - $30,838,716, as restated, note 24) and cash flow from operations of $2,427,860 (May 31, 2011 – deficiency $2,469,525 as restated, note 24). Anaconda is currently in the process of demonstrating a history of performance, earnings and success; however the period of demonstration is not sufficient. All these factors cast 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 profitably produce and sell its gold production and/or obtain the necessary financing to fund working capital and capital expenditures.

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. Should the Company attempt to raise capital, there can be no assurance that Anaconda will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from the treasury of the Company, control of Anaconda may change and existing shareholders may suffer dilution. If adequate financing is not available, the Company may be required to relinquish rights to certain of its interests or terminate its operations.

2. Basis of preparation

Statement of compliance
The Company's Consolidated Financial Statements, including comparatives, have been prepared in accordance with and using accounting policies in full compliance with the International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's reporting for the year ended May 31, 2011.

These are the Company's first IFRS consolidated annual financial statements for the year ending May 31, 2012. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP").

The policies applied in these Consolidated Financial Statements are based on IFRS issued and outstanding as of August 22, 2012, the date the Board of Directors approved the financial statements.

Basis of presentation
These Financial Statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in note 4. The comparative figures presented in these Financial Statements are in accordance with IFRS. Also, see note 24 regarding the Company's change of accounting policy with regard to inventory valuation.

Adoption of new and revised standards and interpretations
The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial year beginning on or after June 1, 2011. For the purpose of preparing and presenting the financial information for the relevant periods, the Company has consistently adopted all these new standards for the relevant reporting periods.

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

- **IFRS 9** ***'Financial Instruments: Classification and Measurement'*** – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.

- **IFRS 10 '*Consolidated Financial Statements'*** – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

- **IFRS 11 '*Joint Arrangements'*** - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.

- **IFRS 12 '*Disclosure of Interests in Other Entities'*** - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

- **IFRS 13 '*Fair Value Measurement'*** - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy.

The Company has not early adopted these standards, amendments and interpretations, however it is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company.

3. First time adoption of IFRS

The Company has adopted IFRS on June 1, 2011 with a transition date of June 1, 2010 (the **"Transition Date"**). Under **IFRS 1** ***'First time Adoption of International Financial Reporting Standards'***, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to retained earnings unless certain exemptions or mandatory exceptions are applied.

The Company elected to take the following IFRS 1 optional exemptions:

- to apply the requirements of **IFRS 2,** ***Share-based payments***, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date;

- to apply the requirements of **IFRS 3,** ***Business Combinations****,* prospectively from the Transition Date;

- to apply the requirements of IAS 23 (paragraphs 27 and 28) only to borrowing costs prospectively from the Transition Date;

- retrospective application of IFRS would require the Company to determine cumulative currency translation difference in accordance with *IAS 21 – The effects of Changes in Foreign Exchange Rates* from the date a subsidiary was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at the transition date. The Company elected to reset all cumulative translation gains and losses to zero in opening deficit at the Transition Date; and

- International Financial Reporting Interpretation Committee's *IFRIC 1 - Changes in Existing Decommission, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration of similar liability to be added to or deducted from the cost of the asset to which it relates. IFRS 1 exemption allows a first-time adopter to not comply with these requirements for changes in such liabilities that occurred before the date of transition to IFRS. The Company has elected to take this exemption.

The Company has complied with the following mandatory exceptions:

- IFRS 1.B3 allows the Company to apply the de-recognition requirements of IAS 39 retrospectively from a date of entity's choosing. The Company has chosen the Transition Date.

- Estimates - Hindsight is not to be used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for the application of IFRS.

IFRS employs a conceptual framework that is similar to Canadian GAAP. The adoption has resulted in significant changes to the reported financial position, results of operations, and cash flows of the Company. Presented below are reconciliations prepared by the Company to reconcile to IFRS the assets, liabilities, equity, net loss and cash flows of the Company from those reported under Canadian GAAP:

Reconciliation of assets, liabilities and equity as at the Transition Date of June 1, 2010 under IFRS:

As at June 1, 2010	CGAAP Restated Note 23 $	Effect of transition to IFRS $	IFRS Restated Note 23 $	Notes
Assets				
Current assets				
Cash and cash equivalents	533,628	-	533,628	
Restricted cash	96,068	-	96,068	
Trade and other receivables	736,979	-	736,979	
Prepaid expenses and deposits	23,660	-	23,661	
Inventory	731,537	-	731,537	
	2,121,572	-	2,121,572	
Investments	336,600	-	336,600	
Deferred transaction costs	79,581	-	79,581	
Restricted cash	777,479	-	777,479	
Exploration and evaluation assets	4,700,641	-	4,700,641	
Leasehold improvements	4,512	-	4,512	
Property, mill and equipment	13,192,874	-	13,192,874	
	21,213,259	-	21,213,259	
Liabilities				
Current liabilities				
Trade and other payables	2,340,291	-	2,340,291	
Due to related parties	676,436	-	676,436	
	3,016,727	-	3,016,727	
Loans and debentures	5,701,429	(119,202)	5,582,227	(a)
Decommissioning liability	605,875	442,434	1,048,309	(b)
	9,324,031	323,232	9,647,263	
Equity				
Common shares	26,252,558	-	26,252,558	
Equity portion of convertible loans and debentures	466,700	(19,341)	447,359	(a)
Reserve for warrants	1,223,573	2,491,662	3,715,235	(e)
Contributed surplus	5,247,362	(2,491,662)	2,755,700	(e)
Deficit	(20,180,615)	(1,424,241)	(21,604,856)	(a)-(e)
Accumulated other comprehensive loss	(1,120,350)	1,120,350	-	(d)
	11,918,149	(323,232)	11,565,996	
	21,213,259	-	21,213,259	

Reconciliation of assets, liabilities and equity

As at May 31, 2011	CGAAP Restated Note 23 $	Effect of transition to IFRS $	IFRS Restated Note 23 $	Notes
Assets				
Current assets				
Cash and cash equivalents	290,882	-	290,882	
Restricted cash	565,086	-	565,086	
Trade and other receivables	364,478	-	364,478	
Due from related parties	1,181,586	-	1,181,586	
Prepaid expenses and deposits	77,596	-	77,596	
Inventory	794,132	-	794,132	
	3,273,760	-	3,273,760	
Restricted cash	677,499	-	677,499	
Exploration and evaluation assets	1,795,317		1,795,317	
Property, mill and equipment	17,574,168	-	17,574,168	
	23,320,744	-	23,320,744	
Liabilities				
Current liabilities				
Trade and other payables	5,360,237	-	5,360,237	
Due to related parties	707,260	-	707,260	
Current portion of long-term debt	1,531,584	-	1,531,584	
Promissory notes	1,004,529	-	1004,529	
	8,603,610	-	8,603,610	
Loans	225,111	-	225,111	
Convertible loan	1,829,341	(13,346)	1,815,995	(a)
Debentures	4,160,875	(72,364)	4,088,511	
Decommissioning liability	678,579	417,742	1,096,321	
	15,497,516	332,032	15,829,548	
Equity				
Common shares	31,469,190	-	31,469,190	
Equity portion of convertible loans and debentures	466,700	(19,341)	447,359	(a)
Reserve for warrants	1,449,873	2,602,126	4,051,999	(e)
Contributed surplus	6,005,924	(2,602,126)	3,403,798	(e)
Deficit	(31,568,459)	729,743	(30,838,716)	(a)-(e)
Accumulated other comprehensive loss	-	(1,042,434)	(1,042,434)	(d)
	7,823,228	(332,032)	7,491,196	
	23,320,744	-	23,320,744	

Reconciliation of statement of loss and comprehensive loss

For the year ended May 31, 2011	CGAAP Restated Note 23 $	Effect of transition to IFRS $	IFRS Restated Note 23 $	Notes
Revenue				
Sales	7,325,083	-	7,325,083	
Other income	150,035	-	150,035	
	7,475,118	-	7,475,118	
Cost of goods sold				
Mill operations	2,556,909	-	2,596,909	
Mining costs	3,288,622	-	3,288,622	
Direct wages	2,498,065	-	2,498,065	
Net smelter returns	209,044	-	209,044	
Toll-milling costs	229,523	-	229,523	
	8,782,163	-	8,782,163	
Gross margin	(1,307,045)	-	(1,307,045)	
Administrative expenses				
Office and general	483,886	-	483,886	
Consulting and professional fees	1,896,650	-	1,896,650	
Share-based compensation	648,098	-	648,098	
Representation and travel	123,512	-	123,512	
Shareholder and regulatory reporting	206,653	-	206,653	
Salaries and benefits	508,803	-	508,803	
Depletion and depreciation	416,876	-	445,807	
	4,284,478	-	4,456,547	
Transaction costs	533,610	-	533,610	
Loss on sale of investments	1,464,000	(1,120,350)	343,650	(d)
Write-down of deferred exploration expenditures	580,896	-	580,896	
Loss on sale of property	1,483,157	-	1,483,157	
Interest expense	1,686,904	8,801	1,695,705	(a)(b)
Foreign exchange gains (losses)	207,804	(1,042,434)	(834,630)	(c)
	10,240,849	(2,153,983)	8,086,866	
Net loss before income taxes	(11,547,894)	2,153,983	(9,393,911)	
Deferred income tax expense	160,050	-	160,050	
Net loss	(11,387,844)	2,153,983	(9,233,861)	
Other comprehensive loss:				
Translation gains (losses) on foreign operations	-	1,042,434	1,042,434	(c)
Total comprehensive loss	(11,387,844)	3,196,417	(8,191,427)	

Reconciliation of cash flows

Year ended May 31, 2011	CGAAP Restated Note 23 $	Effect of transition to IFRS $	IFRS Restated Note 23 $	Notes
Operations				
Net loss	(11,387,844)	2,153,983	(9,233,861)	(a)-(e)
Adjustments to reconcile net loss to cash flow from operating activities:				
Depletion and amortization	416,876	-	416,876	
Share-based compensation	648,098	-	648,098	
Deferred income taxes (recoveries)	(160,050)	-	(160,050)	
Foreign exchange (gains) losses	15,478	(1,042,434)	(1,026,956)	(d)
Interest accretion on convertible loans and debentures	340,088	33,492	373,580	(a)
Interest accretion on asset retirement obligations	72,704	(24,692)	48,013	(b)
Loss on sale of investments	1,464,000	(1,120,350)	343,650	(d)
Loss on sale of property	580,896	-	580,896	
Write-down of exploration and evaluation assets	1,483,157	-	1,483,157	
Promissory note interest paid by issuance of shares	222,882	-	222,882	
Debenture interest paid by issuance of shares	249,797	-	249,797	
Net change in non-cash operating working capital items:				
Trade and other receivables	367,209	-	367,209	
Prepaid expenses and deposits	(3,713)	-	(3,713)	
Inventory	48,681	-	48,681	
Trade and other payables	3,092,095	-	3,092,095	
	(2,549,646)	-	(2,549,646)	
Financing				
Issuance of common shares	556,585	-	556,585	
Related party repayments	(98,670)	-	(98,670)	
Repayment of government loan	(78,644)	-	(78,644)	
Proceeds from promissory notes	2,228,818	-	2,228,818	
Proceeds from loans and debentures	1,750,000	-	1,750,000	
	4,358,089	-	4,358,089	
Investing				
Purchase of property, mill and equipment	(1,665,856)	-	(1,665,856)	
Expenditures on deferred exploration	(222,896)	-	(222,896)	
Proceeds from sale of investments	153,000	-	153,000	
Deferred transaction costs	79,581	-	79,581	
Restricted cash	(369,068)	-	(369,068)	
	(2,025,209)	-	(1,802,209)	
Effect of exchange rate changes on cash and cash Equivalents	(26,561)	-	(26,561)	
Net increase (decrease) in cash and cash equivalents	(242,327)	-	(242,327)	
Cash and cash equivalents at beginning of period	533,628	-	533,628	
Cash and cash equivalents, end of period	290,301	-	290,301	

Notes to Reconciliations

a) Financial instruments

Transaction costs
Canadian GAAP – provides a policy choice election either to capitalize transaction costs as part of the fair value on initially acquiring a financial asset or a financial liability not classified as held-for-trading ("HFT") or fair value through profit and loss ("FVTPL") or to expense them directly through profit and loss. The Company has been expensing such transaction costs through profit and loss.

IFRS – IAS 32 and IAS 39 require, for a financial asset or a financial liability not classified as FVTPL, transaction costs directly attributable to acquiring or issuing the asset or liability to be added or deducted from the fair value on initial recognition.

Compound financial instruments
Canadian GAAP – provides an entity with choices of the method of determination of allocation of the liability and the equity components. One method is consistent the requirements of IAS 32 as noted below; alternatively an entity may assign a residual value to the less easily measurable component (liability or equity) after deducting from the issue proceeds the fair value of the more easily fair-valued component.

IFRS – IAS 32 and IAS 39 require a compound financial instrument to be separated into its liability and equity components upon initially recognizing the instrument, and this is not subsequently revised. IFRS requires first to determine the fair value of the liability component with the resulting residual amount being the equity component.

b) Decommissioning liability

Canadian GAAP – requires the fair value of the asset retirement obligation to be recorded when it is incurred and when a reasonable estimate of fair value can be made, with a corresponding increase to the asset to be amortized over the life of the asset. The liability is increased to reflect the passage of time through/by an accretion element considered in the initial measurement of fair value. Under CGAAP, the Company used a 12% interest rate to discount the liability, which was an observable market rate.

IFRS – IAS 37.47 requires the discount rate to be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate shall not reflect risks for which future cash-flow estimates have been adjusted. Under IFRS, the Company used the interest-free rate adjusted for inflation, that being 4.58%.

c) Functional currency and foreign operations

IFRS requires that the functional currency of each entity in the consolidated group be determined separately in accordance with the indicators as per IAS 21 – Foreign exchange and should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is the Canadian dollar ("CDN$") for operations in Canada with La Veta and San Gabriel's functional currency being the Chilean Peso for operations in Chile. The consolidated financial statements are presented in Canadian dollars which is the group's presentation currency.

Under IFRS, the results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for each statement of loss are translated at exchange rates in effect at the date of the transaction); and

- all resulting exchange differences are recognized in a separate component of equity, that being accumulated other comprehensive income.

d) Other comprehensive income

Under IFRS, If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from AOCI to profit or loss.

e) Reserves

Under Canadian GAAP – the Company recorded the value of share-based compensation and expire warrants to contributed surplus.

Under IFRS –IAS1 requires an entity to present for each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. IFRS requires a separate disclosure of the value that relates to "Reserves for warrants", "Share based payments" and any other component of equity.

4. Significant accounting policies

Principles of consolidation
These 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. The business and mineral properties of La Veta and San Gabriel were sold during the year, with La Veta remaining as an inactive subsidiary (see note 20). These 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 acquisition accounting. As a result of the combination, control of Anaconda passed to the shareholders of Colorado. As such, 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.

Significant accounting judgments and estimates
The preparation of these Financial Statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates relate to asset retirement obligations; property, mill and equipment, recoverability of trade and other receivables, valuation of deferred income tax amounts, impairment testing and the calculation of share-based payments. The most significant judgements relate to recognition of deferred tax assets and liabilities and the determination of the economic viability of a project.

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.

Property, mill and equipment ("PME")
Property, mill and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PME consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depletion and depreciation are provided at rates calculated to write off the cost of PME, less their estimated residual value, using the declining balance method or unit-of-production method over the following expected useful lives:

Computer equipment and software	20%
Office equipment	20%
Field Equipment	20%
Property	units-of-production

An item of PME is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of comprehensive income.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PME and any changes arising from the assessment are applied by the Company prospectively.

Where an item of mill and equipment comprises major components with different useful lives, the components are accounted for as separate items of mill and equipment. Expenditures incurred to replace a component of an item of property, mill and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

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.

Financial instruments 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.

Financial assets
All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash and cash equivalents are classified as FVTPL.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost. The Company's trade and other receivables are classified as loans-and-receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. The Company's other financial assets and instalments receivable are classified financial assets as available-for-sale.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities
All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other-financial-liabilities.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's trade and other payables are classified as other-financial-liabilities.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income. As at May 31, 2012, the Company has not classified any financial liabilities as FVTPL.

Impairment of financial assets
The Company assesses at each date of the statement of financial position whether a financial asset is impaired:

Assets carried at amortized cost
If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the

amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

Available-for-sale
If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from AOCI to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

Impairment of non-financial assets
At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

Stripping costs
Development stage
During the development stage of any mine activities, any stripping costs are capitalized as part of the mining asset under development. These capitalized costs are depreciated on a units of production method, once commercial production begins.

Production stage
During the production stage of any mining activities, to the extent that the benefit from the stripping activity is realized in the form of inventory produced, costs are included as part of inventory. To the extent that the benefit is new or improved access to ore bodies, the costs are capitalized as stripping activity asset, as part of the existing mining asset, provided there is a reasonable expectation of recovering the benefit of these assets.

Decommissioning, restoration and similar liabilities
The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and PME, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

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
Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

Deferred income tax
Deferred income tax is provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is

probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Related-party transactions
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Share-based payment transactions
Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (“equity-settled transactions”). In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

Equity-settled transactions
The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“the vesting date”). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company’s best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

Income per share and comprehensive income per share
Income per share and comprehensive income 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.

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) are 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 and overheads relating to mining operations (excluding depletion and depreciation – see note 24 regarding accounting policy change in this regard). 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.

Transaction costs
Transactions costs associated with FVTPL financial assets and FVTPL financial liabilities are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset. The Company has no financial liabilities classified as FVTPL.

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

Foreign currency transactions
Functional and presentation currency
Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company is the Canadian Dollar ("Cdn"), and the functional currency of the

Chilean subsidiaries of the Company is the Chilean Peso. The consolidated financial statements are presented in Canadian Dollars, which is the Company's presentation currency. The translation difference arising from the translation of subsidiaries, with functional currency different that the consolidated functional currency is recorded to 'other comprehensive income'.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting form the settlement of such transactions and from the translation at year-end exchange rates of the monetary assets and liabilities denominated in foreign currencies are recognized in operations.

The results and financial position of the Company's entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expensed are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognized in other comprehensive loss and the cumulative effect as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive loss and shareholders equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in operations.

Non-Hedge Derivatives
Derivative instruments that do not qualify as either fair value or cash flow hedges are recorded at their fair value at the balance sheet date, changes in their fair value recognized in the consolidated statement of income.

Exploration and evaluations assets ("E&E")
E&E assets consist of exploration and mining concessions, options and contracts. Acquisition and leasehold costs and exploration costs are capitalized and deferred until such time as the property is put into production or the properties are disposed of either through sale or abandonment.

E&E costs consist of:

- Acquisition of exploration properties;
- Gathering exploration data through topographical and geological studies;
- Exploratory drilling, trenching and sampling;
- Determining the volume and grade of the resource;
- Test work on geology, metallurgy, mining, geotechnical and environmental; and
- Conducting engineering, marketing and financial studies.

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

5. Capital management

The Company's capital structure is adjusted based on management's and the Board of Directors' decision to fund expenditures with the issuance of debt or equity such that it may complete the acquisition, exploration, development and operation of properties for the mining of minerals that are economically recoverable. The Board of Directors does not establish quantitative return on capital criteria, but rather relies on the expertise of management and other professionals to sustain future development of the business.

The Company's Pine Cove project, which is now in production, is currently producing cash flow to fund ongoing working capital requirements, corporate and administrative expenses, debt service, capital expenditure requirements and other contractual obligations. However, management believes the Pine Cove project must continue to maintain current recovery, throughput, grade and production levels for at least 12 months so that it can continue meet its corporate obligations. The Company intends to supplement its Pine Cove project cash flow and raise such funds as and when required to complete its projects as they arise. There is no assurance that the Company will be able to raise additional funds on reasonable terms. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that Anaconda will be successful in its efforts to arrange additional financing, 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, 2012. The Company is not subject to externally imposed capital restrictions.

6. Financial instruments

Fair value
The Company has classified its cash and cash equivalents and restricted cash as FVTPL, which are measured at fair value. The Company's investments have been classified as available-for-sale, which are measured at fair value. Trade and other receivables and due from related parties are classified as loans and receivables, which are measured at amortized cost. Trade and other payables, due to related parties, promissory notes and loans and debentures are classified as other financial liabilities, which are measured at amortized cost .

Fair values of trade and other receivables, due to and from related parties, trade and other payables, promissory notes and loans and debentures are determined from transaction values, which were derived from observable market inputs; resulting in a level two valuations. Fair values of cash and cash equivalents and restricted cash are based on quoted prices in active markets for identical assets; resulting in a level one valuation. Fair values of investments are not based on observable market data; resulting in a level three valuation (see note 20).

As at May 31, 2012, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent due to the relatively short periods to maturity of these investments.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates are subject to and involve uncertainties and matters of significant judgment, therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

7. Property and financial risk factors

Property risk
The Company's major project is its Pine Cove project (the "Project"). Unless the Company acquires or develops additional material properties, the Company will be mainly dependent upon the Project. Any adverse developments affecting the Company's Project would have a material adverse effect on the Company's financial condition and results of operations.

Credit risk
Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The credit risk is primarily attributable to cash, trade and other receivables, prepaid expenses and deposits and due from related parties. Cash is held with a tier A Canadian chartered bank and one of Chile's largest banks as such management believes the risk of loss to be minimal.

Financial instruments included in trade and other receivables consist of, in part, goods and services taxes receivable from the Canadian government and such amounts are in good standing as at May 31, 2012, 2012. Management believes that the credit risk associated with the financial instruments included relating to HST recoverable, is minimal.

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

Financial instruments included in due from related parties include reimbursement of office costs and rent (and in fiscal 2011, property payments due from SBX). The credit risk associated with these financial instruments is limited to the carrying value, being $nil at May 31, 2012 (May 31, 2011 - $906,089).

Liquidity risk
As at May 31, 2012, the Company had a working capital deficit of $347,922 (May 31, 2011 – $5,329,850, as restated, note 24). The Company utilized the cash flow generated from the Pine Cove project's operations and the proceeds from the financings through-out the first nine months of fiscal 2012 for its working capital requirements. If necessary, the Company may seek further financing for capital projects or general working capital purposes. As discussed previously, there can be no assurance that Anaconda will be successful in its efforts to arrange additional financing on terms satisfactory to the Company.

At May 31, 2012, 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 (price risk).

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

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.

Some of the operational and other expenses incurred by the Company are paid in US dollars or in the Chilean Peso. 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.

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. The Company is further exposed to price risk as it enters into gold sales forward contracts, from time to time.

8. 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, 2012, if interest rates had decreased/increased by 1% with all other variables held constant, the difference in loss for the year ended May 31, 2012 would not be material, as a result of lower/higher interest income from cash and cash equivalents. As at May 31, 2012, 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 activities were substantially denominated in the Chilean peso. With the sale if its Chilean Assets, the Company no longer has a material Chilean Peso exchange risk.

As at May 31, 2012, 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	2,571
Cash and cash equivalents	United States dollar	30

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 $Cdn	Effect of 10% decrease in foreign exchange rates on translation and investments in foreign monetary assets $Cdn
American dollar	1,069	(1,069)
Chilean peso	221	(221)

(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 income for the year ended May 31, 2012 would have been approximately $1.9 million lower.

9. Cash and cash equivalents and restricted cash

Cash and cash equivalents consist of cash on deposit with the banks in general non-interest bearing accounts totaling $678,568 (May 31, 2011 - $290,882 and June 1, 2010 - $533,628).

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 $nil (May 31, 2011 - $565,086 and June 1, 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 $677,147 (May 31, 2011 - $677,499 and June 1, 2010 - $777,479).

During the year ended May 31, 2012, the Company sought relief from the Series I and Series II debentures collateral security requirement to maintain restricted funds equal to 10% of gold revenues. As at May 31, 2012, the Company has received approval for the release of the short-term restricted cash covenant from all debenture holders. The debenture holder release is not permanent and must be sought and received at each of the Company's reporting dates until the debentures have matured and repaid in full.

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

	May 31 2012 $	May 31 2011 $	June 1 2010 $
General purpose			
Cash and cash equivalents	**678,568**	290,882	533,628
Restricted			
Cash[1]	**-**	565,086	96,068
Cash equivalents[2]	**677,147**	677,499	777,479
Total restricted cash	**677,147**	1,242,585	873,547

[1]During the year ended May 31, 2012, the Company received verbal approval to release the balance of funds previously restricted in a debt-reduction escrow account as part of the agreement for the debentures and convertible debentures (note 14). The cash was utilized for general working capital purposes.
[2]This cash is restricted in concert with the Company's decommissioning liabilities (note 15). It has issued letters of credit in the amount of $565,500 to the Newfoundland and Labrador 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.

10. Inventory

	May 31 2012 $	May 31 2011 Restated note 24 $	June 1 2010 Restated note 24 $
Inventory			
Ore in stock pile	**832,152**	293,574	731,537
Raw materials	**43,832**	500,558	-
Work in progress	**478,064**	-	-
Finished products - Gold dore	**239,727**	-	-
	1,593,775	794,132	731,537

The inventory balance represents allocated costs (see note 24, regarding the Company's inventory valuation policy change) to ore stockpiles and in-circuit inventory based on quantities of material stockpiled and in the mill circuit including cost allocations from waste mining costs and overheads relating to mining and milling operations.

11. Exploration and evaluation assets

Properties	Interest	Balance as at May 31, 2011	Option of mining property	Expenditures	Disposal/ Write off	Balance as at May 31, 2012
	%	$	$	$	$	$
Newfoundland						
Pine Cove	100	-	-	279,012	-	279,012
Tenacity	100	-	30,527	-	-	30,527
Chile	50	1,795,317	-	1,094,020	(2,889,337)	-
		1,795,317	30,527	1,373,032	(2,889,337)	309,539

Properties	Interest	Balance as at May 31, 2010	Option of mining property	Expenditures	Disposal/ Write off	Balance as at May 31, 2011
	%	$	$	$	$	$
Newfoundland	100	-	-	-	-	-
Pine Cove	100	-	-	-	-	-
Tenacity	100	-	-	-	-	-
Chile	100/50	4,700,641	-	503,135	(3,408,459)	1,795,317
		4,700,641	-	503,135	(3,408,459)	1,795,317

On May 7, 2012 the Company into a five-year property option agreement (the "Agreement") with Tenacity Gold Mining Company Ltd. ("Tenacity") to acquire a 100% undivided interest in 4 mineral exploration licenses (the "Licenses") totaling 63 claims or approximately 1,575 hectares near its Pine Cove mine. The Agreement requires the Company to pay to Tenacity $25,000 at closing (paid), an additional $275,000 in cash payments over the option period and incur $750,000 in expenditures over the life of the option. At the Company's option, 50% of cash payments can be settled with the issuance of common shares; with value determined based on a weighted average of the 30 trading days preceding payment. The Agreement also entitles Tenacity to a net smelter royalty of 3% when the average price of gold is less than US$2,000 per ounce for the calendar quarter or a 4% when the average price of gold is more than US$2,000 per ounce for the calendar quarter, with a cap of $3 million.

On July 25, 2012, the Company entered into an additional property option agreement – see subsequent event note 23.

12. Property, mill and equipment

As at May 31, 2012	Cost beginning of period	Additions	Disposals	Impairment	Cost end of period
	$	$	$	$	$
Mill	5,942,786	372,168	-	-	6,314,954
Equipment	317,594	76,799	-	-	394,393
Property	12,591,900	900,695	-	-	13,492,595
Capital in progress	-	85,676	-	-	85,676
	18,852,280	**1,435,338**	**-**	**-**	**20,287,618**

For the year ending May 31, 2012	Accumulated depreciation beginning of year	Depreciation	Disposals	Accumulated depreciation end of year	Net book value
	$	$	$	$	$
Mill	305,860	670,707	-	976,567	5,338,387
Equipment	52,222	59,701	-	111,923	282,470
Property	920,030	951,534	-	1,871,564	111,621,031
Capital in progress	-	-	-	-	85,676
	1,278,112	**1,681,942**	**-**	**2,960,054**	**17,327,564**

As at May 31, 2011	Cost beginning of period	Additions	Disposals	Impairment	Cost end of period
	$	$	$	$	$
Mill	4,668,770	1,274,016	-	-	5,942,786
Equipment	183,426	134,168	-	-	317,594
Property[1]	9,085,289	3,506,611	-	-	12,591,900
	13,937,485	**4,914,795**	**-**	**-**	**18,852,280**

For the year ended May 31, 2011	Accumulated depreciation beginning of year	Depreciation	Disposals	Accumulated depreciation end of year	Net book value
	$	$	$	$	$
Mill	148,268	157,592	-	305,860	5,636,926
Equipment	29,733	22,489	-	52,222	265,372
Property	566,610	353,420	-	920,030	11,671,870
	744,611	**533,501**	**-**	**1,278,112**	**17,574,168**

[1] Additions include the acquisition of 40% interest not already owned by Anaconda.

13. 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 utilized for working capital purposes. Some promissory notes were issued pursuant to a standby guarantee agreement whereby certain existing shareholders of the Company agreed to subscribe to and purchase a portion of the rights offering (see note 17). 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, 2012 was $nil (May 31, 2011 - $1,004,529).

14. Loans and debentures

The following table provides the details of the short and long-term components of the loans and debentures as at May 31, 2012 and May 31, 2011:

	May 31 2012 $	May 31 2011 $	June 1 2010 $
Convertible loan	**930,997**	1,815,995	1,773,438
Series I debenture	**812,046**	1,449,869	1,415,552
Series II debenture	**1,338,998**	2,588,642	2,393,237
Series III debenture	**-**	835,338	-
ACOA Loan	**394,674**	500,000	-
INRTD Loan	**225,111**	421,357	-
	3,701,826	7,661,201	5,582,227
Less: current portion	**360,099**	1,531,584	-
Non-current portion	**3,341,726**	6,129,617	5,582,227

Convertible loan

The convertible loan (also the “Thorsen Loan”) is unsecured and bears interest at 12% per annum, interest payable monthly and is owed to a company controlled by the Chairman of the Company. The loan is due September 15, 2013, $1.5 million of the face value is convertible to units of the Company 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. During the year the Company paid down the principal amount by $931,000.

The balance is made up as follows:

	May 31 2012 $	May 31 2011 $	June 1 2010 $
Principal balance repayable	**1,009,000**	1,940,000	1,940,000
Less: value of equity component	**(334,000)**	(334,000)	(334,000)
	675,000	1,606,000	1,606,000
Transaction costs	**(18,628)**	(18,628)	(18,628)
	656,372	1,687,372	1,687,372
Interest accretion	**274,625**	228,623	86,066
Non-current portion	**930,997**	1,815,995	1,773,438

Series I Debentures

The Series I Debentures are secured by a charge over certain of the Company’s assets and bear interest at 12% per annum, interest payable semi-annually. The Debenture is due September 15, 2013, and is convertible at the holder’s option into common shares of the Company on the following basis: 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. During the year the Company paid down the principal amount of the Debentures by $777,000.

The balance is made up as follows:

	May 31 2012 $	May 31 2011 $	June 1 2010 $
Principal balance repayable	**936,000**	1,713,000	1,713,000
Less: discount	**(171,300)**	(171,300)	(171,300)
Less: value of equity component	**(132,700)**	(132,700)	(132,700)
	632,000	1,409,000	1,409,000
Transaction costs	**(129,900)**	(129,900)	(129,900
	502,100	1,279,100	1,279,100
Interest accretion	**309,946**	220,769	136,452
Non-current portion	**812,046**	1,499,869	1,415,522

Series II Debentures

The Series II Debentures Units are secured by a charge over certain of the Company's assets and bear interest at 12% per annum, interest payable annually. The Debenture is due September 15, 2013. Included with the Debenture Units were 3,984,069 common share purchase warrants that are exercisable until July 22, 2012 at an exercise price of $0.22 each. During the year the Company paid down the principal amount of the Debentures by $1,494,720.

The balance is made up as follows:

	May 31 2012 $	May 31 2011 $	June 1 2010 $
Principal balance repayable	**1,752,280**	3,247,000	3,247,000
Less: discount	**(324,700)**	(324,700)	(324,700)
Less: value of equity component	**(565,738)**	(565,738)	(565,738)
	861,842	2,356,562	2,356,562
Transaction costs	**(19,166)**	(19,166)	(19,166)
	842,676	2,337,396	2,337,396
Interest accretion	**496,322**	240,868	55,841
Non-current portion	**1,338,998**	2,588,642	2,393,237

Series III Debentures

The Series III Debentures Units were secured by a charge over certain of the Company's assets and bear interest at 12.5% per annum, interest payable quarterly. The Debenture was due April 20, 2012. Included with the Debenture Units were 258,227 common share purchase warrants, of these 236,000 are exercisable until March 13, 2013 and 22,227 are exercisable until April 22, 2013, all at an exercise price of $0.08. On December 12, 2011 the Company paid all of the outstanding principal and interest.

The balance is made up as follows:

	May 31 2012 $	May 31 2011 $	June 1 2010 $
Principal balance repayable	**-**	841,667	-
Less: discount	**-**	(21,886)	-
Less: value of equity component	**-**	(35,743)	-
	-	784,038	-
Interest accretion	**-**	51,300	-
	-	835,338	-
Less: current portion	**-**	(835,338)	-
Non-current portion	**-**	-	-

Loans

Loan payable, due December 14, 2014, is non-interest bearing and repayable in one payment of $41,666 on June 1, 2011 and 36 monthly payments of $12,723 commencing on January 1, 2012.

The balance is made up as follows:

	May 31 2012 $	May 31 2011 $	June 1 2010 $
Principal balance repayable	**394,674**	500,000	-
Less: current portion	**(152,784)**	(500,000)	-
Non-current portion	**241,890**	-	-

Loan payable, due June 16, 2013, bears interest at 5% per annum and repayable in 30 blended monthly payments of $17,877, commencing on January 16, 2011.

The balance is made up as follows:

	May 31 2012 $	May 31 2011 $	June 1 2010 $
Principal balance repayable	**225,111**	421,357	-
Less: current portion	**(207,315)**	(196,246)	-
Non-current portion	**17,796**	225,111	-

15. Decommissioning liability

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

	May 31 2012 $	May 31 2011 $	June 1 2010 $
Opening balance	**1,096,321**	1,048,309	1,002,399
Interest accretion	**50,212**	48,012	45,910
Closing balance	**1,146,533**	1,096,321	1,048,309

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 decommissioning liabilities, 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.

16. Remuneration of key management personnel and related-party transactions

Key management personnel include the members of the Board of Directors and the senior leadership team. Compensation of key management personnel (including directors) was as follows:

For the year ended May 31	**2012**	2011
	$	$
Salaries and short term benefits [1]	**673,054**	321,385
Post employment benefits [2]	**180,000**	-
Share based payments [3]	**313,642**	481,536
	1,166,696	802,921

[1] Includes annual salary and deferred salary from prior years and accumulated directors fees paid as at May 31 and annual short-term incentives/other bonuses earned in the year
[2] Includes termination benefits
[3] Includes share based payments vested during the year

Keshill Consulting Associates Inc. (“KCA”) charged the Company a total of $74,000 in respect of the services of Stephen Gledhill the former CFO of the Company. Stephen Gledhill beneficially owns KCA.

The Company incurred interest expense of $269,232 of which $42,168 related to non-cash interest accretion on the valuation of the conversion feature of the convertible loan payable to Thorsen-Fordyce Merchant Capital Inc. (“Thorsen”). Thorsen is controlled by Lewis Lawrick, a director of the Company.

Woodgrove Technologies Inc. (“Woodgrove”) charged Anaconda a total of $31,200 in respect of consulting services provided by Glenn Dobby and Glenn Kosick, a current and former director of the Company, to the Pine Cove project for services that were provided during the year ended May 31, 2011, Glenn Dobby and Glenn Kosick beneficially own Woodgrove.

Raven Hill Partners Inc. (“Raven Hill’) charged Anaconda a total of $330,000 in respect of corporate administration and accounting services provided by employees of Raven Hill and $210,000 in rent for the Company’s head office. As at May 31, 2012, the due from related parties account balance includes amounts due from Raven Hill in the amount of $100,976. Raven Hill is beneficially owned by John McBride, Lewis Lawrick, David Wiley and Dustin Angelo, all directors or former directors of the Company.

During the year ended May 31, 2011, insiders of the Company purchased $26,500 of the total of $153,000 of the investments that were sold by Anaconda.

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 13) 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.

17. Capital stock

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, 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	979,585	249,797
Fair value of warrants issued	-	(301,021)
Balance at May 31, 2011	**158,432,215**	**31,469,190**
Issued for cash: Private placement	3,394,000	237,580
Issued under rights offering to repay promissory notes	14,999,728	1,049,981
Cost of issuance	-	(10,656)
Balance at May 31, 2012	**176,825,943**	**32,746,095**

The table above reflects the legal number of outstanding shares of Anaconda, the book value associated with outstanding shares for accounting purposes is based upon Colorado's share capital account as at the date in 2007 that Colorado acquired Anaconda in its reverse acquisition transaction plus Anaconda's share activity since the date of the reverse acquisition. The dollar amount of the legal stated capital of Anaconda therefore differs from the amounts reflected above.

Private placement
On June 6, 2011, the Company completed a non-brokered private placement of 16,999,728 common shares at $0.07 per share, for gross proceeds of $1,189,981. The common shares were issued, in part, to retire $1,049,981 of promissory notes including accrued interest thereon, that were due at the end of June, 2011 and pay issuance costs of $10,656.

In addition, the Company completed on a non-brokered private placement of 1,394,000 flow-through common shares issuable pursuant to the private placement, raising additional proceeds of $97,580. The gross proceeds of the flow-through financing were required to be spent on qualifying exploration expenditures. That requirement was fulfilled during the year.

Rights offering
During fiscal 2011, the Company completed a rights offering of 31,686,444 common shares, raising gross proceeds of $2,218,051. Net proceeds after rights offering expenses were used for working capital purposes. Anaconda called upon a standby guarantee and 20,673,870 shares were issued to the standby guarantors for the amount of unsubscribed rights and consideration was settled with the pay down of promissory notes totalling $1,447,171.

Warrants

The outstanding issued warrants balance at May 31, 2012, is comprised as follows:

Date of Expiry	Type	Fair Value $	No. of Warrants	Exercise Price $
July 25, 2012	Purchase warrants	565,735	3,984,069	0.22
March 20, 2013**	Purchase warrants	33,276	236,000	0.08
April 22, 2013**	Purchase warrants	2,467	22,227	0.08
May 3, 2013	Purchase warrants	301,021	7,921,611	0.08
		902,499	**12,163,907**	

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, 2011	Purchase warrants	283,333	3,333,334	0.25
July 25, 2012*	Purchase warrants	565,737	3,984,069	0.22
March 20, 2013**	Purchase warrants	33,276	236,000	0.08
April 22, 2013**	Purchase warrants	2,467	22,227	0.08
May 3, 2013	Purchase warrants	301,021	7,921,611	0.08
Total		**1,449,873**	**22,987,964**	

*On April 11, 2011, Anaconda announced its intention to extend the expiry date by of unlisted common share purchase warrants originally issued under a non-brokered private placement in two tranches on April 23, 2009 and May 11, 2009, as well as warrants originally issued under a non-brokered private placement on January 25, 2010, by one year.
**The Company reduced the exercise price of these warrants from $0.30 to $0.08, as well as extending the exercise date by one year to March 20, 2013 and to April 22, 2013, respectively.

On June 17, 2011, 3,333,334 purchase warrants expired unexercised, on April 23 and May 11, 2012, 7,294,923 and 195,800 purchase warrants expired unexercised

Options

As at May 31, 2012, 17,682,594 common shares were available for the grant of stock options to directors, officers, employees and service providers in connection with the Company's stock option plan (the "Plan"). The Plan is a 10% rolling option plan based on the number of common shares issued and outstanding. 13,450,000 were granted and reserved for exercise, with 4,232,594 left unallocated. All stock options issued to date under the Plan vest in two installments over 12 months and expire five years from the date of grant.

The following summary sets out the activity in the Plan over the period.

	Options #	Weighted average exercise price $
Outstanding, May 31, 2010	**7,225,000**	**0.38**
Granted	5,850,000	0.11
Expired/forfeited	(660,000)	0.66
Outstanding, May 31, 2011	**12,415,000**	**0.38**
Granted	3,050,000	0.10
Expired/forfeited	(2,015,000)	0.30
Outstanding, May 31, 2012	**13,450,000**	**0.32**
Options exercisable, May 31, 2012	**10,775,000**	**0.22**

The following table sets out the details of the stock options granted and outstanding as per the terms restated following the consolidation of the issued and outstanding common shares:

Number of stock options	Number exercisable	Remaining contractual life	Exercise price per share	Expiry date
450,000	450,000	0.05 years	$0.80	June 21, 2012
30,000	30,000	0.10 years	$0.80	July 9, 2012
450,000	450,000	0.43 years	$1.10	November 6, 2012
30,000	30,000	0.51 years	$1.10	December 5, 2012
530,000	530,000	2.03 years	$0.23	June 11, 2014
3,360,000	3,360,000	2.79 years	$0.23	March 18, 2015
5,550,000	5,550,000	3.71 years	$0.20	February 15, 2016
250,000	125,000	4.15 years	$0.08	July 26, 2016
500,000	250,000	4.24 years	$0.10	August 25, 2016
500,000	-	4.66 years	$0.09	January 27, 2017
1,500,000	-	4.70 years	$0.095	February 17, 2017
300,000	-	4.92 years	$0.11	May 1, 2017
13,450,000	**10,775,000**	**3.17 years**	**$0.19**	

The following table sets out the details of the valuation of stock option grants during the year:

Date of grant	Number	Riske free interest rate	Expected dividend yield	Expected volatility	Expected life
July 26, 2011	250,000	1.47%	Nil	139%	5 years
August 16, 2011	500,000	1.00%	Nil	139%	5 years
January 27, 2012	500,000	1.31%	Nil	139%	5 years
February 17, 2012	1,500,000	1.47%	Nil	139%	5 years
May 1, 2012	300,000	1.60%	Nil	139%	5 years

On June 29, 2012, the board of directors authorized the issuance of 50,000 stock options, exercisable at $0.10 for a period of 5 years from the date of issuance, which vest 50% on July 1, 2012, and 50% on January 1, 2013.

Share-based compensation
The fair value of the stock options granted for the year ended May 31, 2012 was $219,760 (May 31, 2011 – $532,350). The fair value of options vested for the year ended May 31, 2012, was $419,219 (2011 - $648,098), which amount has been expensed as share-based compensation in the statement of operations.

18. Trade and other receivables

The Company's trade and other receivables arise from two main sources: Trade receivables from the Company's metals broker for sold but unpaid gold and a trade receivable from a related party. The details of the Company's trade and other receivables are set out below:

As at	May 31 2012 $	May 31 2011 $	June 1 2010 $
Due from related party	**100,976**	44,442	-
Gold sales receivable	**-**	94,378	128,820
Other	**-**	-	15,917
Total trade and other receivables	**100,976**	139,445	144,437

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

As at	**May 31 2012 $**	May 31 2011 $	June 1 2010 $
Less than 1 month	**-**	94,379	141,050
30-60 days	**-**	624	3,387
60+ days	**100,976**	44,442	-
Total trade and other receivables	**100,976**	139,445	144,437

At May 31, 2012, the Company anticipates full recovery of these amounts and therefore no impairment has been recorded against these receivables. The credit risk on the receivables has been further discussed in note 7.

The Company holds no collateral for any receivable amounts outstanding as at May 31, 2012.

19. Trade and other payables

As at	**May 31 2012 $**	May 31 2011 $	June 1 2010 $
Trade payables	**1,803,303**	3,548,954	1,166,096
Accrued liabilities	**346,876**	1,121,915	883,885
Accrued interest	**311,190**	355,280	182,852
Accrued payroll costs	**207,084**	334,085	107,458
Total trade and other payables	**2,668,453**	5,360,234	2,340,291

20. Sale of Chilean mining interest

On December 7, 2011, the Company announced that, pursuant to an agreement it had closed the sale of its Chilean mining interest to Companis Portuaria Tal Tal S.A., for consideration of the following:

	US$
Payment in cash at closing (received)	2,000,000
Payment in cash on May 31, 2012 (received)	2,000,000
Contingent payments	
At Commercial Production	
30 days after first shipment of production from the first producing property	1,000,000
30 days after first shipment of production from the second producing property or two years from first production of the first producing property	2,000,000
Sales Price Payments	
Based on the selling price of the initial 900,000 tons of iron ore (between US$90 and US$150 per ton) from the first producing property	250,000 – 2,000,000
Based on the earlier of: selling price of the initial 900,000 tons of iron ore (between US$90 and US$150 per ton) from the second producing property or selling price from the 1,800,000 – 2,700,000 tons of the first producing property	250,000 – 2,000,000
	7,500,000 – 11,000,000

Given some uncertainty surrounding the realization of the contingent consideration, it was excluded from the purchase and sale accounting. Future receipts will be recorded directly as income, if and when received.

In addition the Company has a 1.25% carried interest in Compania Portuaria Tal Tal S.A. The Company designated this investment as available for sale. At May 31, 2012, a reliable price in an active market was unavailable; accordingly it was carried at its fair value on recognition. No indicators of impairment were noted during the year ended May 31, 2012.

In accounting for the sale of its Chilean mining interest the Company has recorded the sale price consideration as follows:

	$
Initial cash payments	**4,077,000**
Interest in Compania Portuaria Tal Tal S.A.	**50,000**
Less	
Carrying value - net assets sold	**(2,510,935)**
Settlement of accounts payable and intercompany loans	**(135,000)**
Elimination of cumulative translation differences on divestiture of Chilean Assets	**(503,254)**
Gain of sale of Chilean mining interest	**977,811**

Given the nature of the Chilean operations, all activity was capitalized as exploration rather than charged to 'operations'. Accordingly, no amounts are presented as 'discontinued operations' in the statement of comprehensive income as a result of this sale.

21. Income taxes

Income tax expense

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:

	2012		2011	
	$	**%**	$	%
Income tax expense (recovery) at statutory rates	**852,600**	26.25	(3,299,400)	(28.5)
Difference between Canadian and foreign tax rates (2011 – 16%)	**-**	-	26,250	0.2
Difference between current and future tax rates	**(49,600)**	(1.5)	138,500	1.2
Non-deductible expenses for tax purposes:				
Stock-based compensation	**110,000**	3.25	184,700	1.6
Interest accretion and other	**-**	-	93,500	0.8
Unrealized foreign exchange	**-**	-	(220,800)	(1.9)
Valuation allowance	**(913,000)**	28.0	2,917,200	25.2
Deferred income taxes expense (recovery)	**-**	-	(160,050)	(1.4)

The Canadian statutory income tax rate of 26.25% (2011 – 28.25%) is comprised of the federal income tax rate at approximately 15% (2011 – 16.25%) and the provincial income tax rate of approximately 11.25% (2011 – 11.75%). The primary differences which give rise to the deferred income tax balances at May 31, 2012 and 2011 are as follows:

	2012	2011
Deferred income tax assets	**$**	$
Temporary timing differences on long-term assets	1,369,000	1,597,000
Unrealized losses on "Available-for-sale investments	-	185,000
Deductible financing fees	33,000	39,000
Operating losses carried forward	3,297,000	3,791,000
	4,699,000	5,612,000
Less: valuation allowance	(4,699,000)	(5,612,000)
Net deferred tax assets	-	-

The unamortized balance, for income tax purposes, of deductible financing fees amounts to approximately $133,000 (2011 - $156,500) and will be deductible in Canada over the next four years.

The Company also has cumulative Canadian exploration and development expenditures of $18,000,600 (2011 - $17,376,000) that may be carried forward indefinitely.

As at May 31, 2012, the Company has non-capital loss carry forwards expiring as follows:

	Canada	**Chile**	**Total**
	$	**$**	**$**
2028	155,800	-	155,800
2029	3,138,900	-	3,138,900
2030	2,413,800	-	2,413,800
2031	6,738,600	-	6,738,600
Indefinite	-	5,598,300	5,598,300
	12,447,100	**5,598,300**	**18,054,400**

22. Segmented information

On May 31, 2011, the Company had assets and operations in Chile and Canada. During the year ended May 31, 2012, the Company sold its mining assets and business operations in Chile and had no material profit and loss impact other than the gain on sale of its assets and operations (see note 20). As such no segmented information has been presented for the year ended December 31, 2012. Information regarding the Company's reportable segments for the year ended May 31, 2011 that is by geographical area is as follows:

Year ended	May 31 2011 Restated Note 23 $
Revenues:	
Canada	7,325,083
Net income (loss)	
Canada	(7,487,865)
Chile	(1,745,604)
	(9,233,469)

Geographical Allocation of Significant Non-Cash Items	
Canada	
Share-based compensation	648,098
Interest accretion on convertible loan, convertible debentures and debentures	463,201
Interest accretion on decommissioning liability	48,013
Future income tax expense (recovery)	(160,050)
Depreciation, depletion and amortization	412,607
	1,411,869
Chile	
Amortization	4,269
Consolidated Significant Non-Cash Items	1,416,138

As at	May 31 2011
Identifiable Assets:	
Canada	19,967,692
Chile	1,245,567
	21,213,259

23. Subsequent events

On July 25, 2012 the Company announced that, effective July 19, 2012, it entered into a five-year option agreement (the “Agreement”) with Fair Haven Resources Inc. ("Fair Haven") to acquire a 100% undivided interest in 11 exploration licenses (the "Licenses") totaling 71 claims or approximately 1,804 hectares near its Pine Cove mine. The Agreement requires the Company to pay to Fair Haven $10,000 at closing (paid), and incur $750,000 in expenditures over the life of the Agreement. The Agreement also entitles Fair Haven to a 2% net smelter royalty with a cap of $3 million and 1% thereafter.

On August 28, 2012, the Company made principal payment against the outstanding Convertible Loan, Series I Debentures and Series II Debentures The principal payments totaled $600,000 and were divided pro rata across the loans.

24. Change in accounting policy

In the period ending November 30, 2011, the Company decided to change its inventory valuation accounting policy (note 10) and restated its comparative balances. The change in policy was initiated to provide more relevant financial information by allocating only those costs considered fully incremental to the Company’s inventory reserve. The Company had been including an allocation of depreciation in its valuation of inventory. The change resulted in reduction to the previously reported inventory and a corresponding increase to the deficit of $172,068 at June 1, 2010 (the IFRS transition date) and $143,138 at May 31, 2011.