ANACONDA MINING INC.

Consolidated Financial Statements
For the Years Ended
May 31, 2013 and May 31, 2012
(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 2 of the financial statements.

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

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

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

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

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

"Dustin Angelo"
President and Chief Executive Officer
August 22, 2013

"*Errol Farr*"
Chief Financial Officer
August 22, 2013

parker simone LLP

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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, 2013 and 2012, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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, 2013 and 2012, and its consolidated financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

parker simone LLP.

August 22, 2013 Licensed Public Accountants

Anaconda Mining Inc.

Consolidated Statements of Financial Position

(Canadian dollars)

As at	**May 31 2013 $**	May 31 2012 $
Assets		
Current Assets		
Cash (note 3)	**466,899**	678,568
Trade and other receivables (note 4)	**97,711**	100,976
HST receivable	**429,932**	222,767
Prepaid expenses and deposits	**274,000**	84,294
Inventory (note 5)	**1,283,122**	1,593,775
Deferred income tax asset (note 15)	**1,524,000**	-
	4,075,664	2,680,380
Investment (note 6)	**50,000**	50,000
Restricted cash (note 3)	**805,687**	677,147
Deferred income tax asset (note 15)	**2,454,000**	-
Exploration and evaluation assets (note 7)	**1,332,613**	309,539
Property, mill and equipment (note 8)	**16,669,640**	17,327,563
	25,387,604	21,044,629
Liabilities		
Current liabilities		
Trade and other payables (notes 9)	**2,569,385**	2,668,452
Current portion of loans and debentures (note 10)	**173,232**	360,099
	2,742,617	3,028,551
Loans and debentures (note 10)	**89,106**	3,341,727
Decommissioning liability (note 11)	**1,199,045**	1,146,533
	4,030,768	7,516,811
Shareholders' equity		
Share capital, reserves, convertible-debt equity and other comprehensive income (loss) (note 12)	**37,102,692**	41,068,472
Deficit	**(15,745,856)**	(27,540,654)
	21,356,836	13,527,818
	25,387,604	21,044,629

Subsequent events (note 19)

Approved by the Board of Directors on August 22, 2013

"Maruf Raza" — Director

"Lewis Lawrick" — Director

Anaconda Mining Inc.

Consolidated Statements of Comprehensive Income

(Canadian dollars)

For the year ended	May 31 2013 $	May 31 2012 $
Revenue		
Gold sales	**24,173,439**	19,905,756
Less: net smelter royalty	**719,190**	593,079
	23,454,249	19,312,677
Cost of sales		
Mill operations	**6,136,241**	5,116,634
Mining costs	**6,796,240**	4,268,587
Logistics	**257,010**	296,127
Project administration	**1,031,000**	1,174,802
Depletion and depreciation	**2,323,555**	1,732,156
	16,544,046	12,588,306
Gross margin	**6,910,203**	6,724,371
Expenses		
Corporate administration	**2,319,332**	2,252,928
Share-based payments	**146,149**	419,219
Interest expense	**972,554**	1,178,162
Foreign exchange losses	**11,539**	553,810
Gain on sale of Chilean mining interest (note 14)	**-**	(977,811)
	3,449,574	3,426,308
Income before income taxes	**3,460,629**	3,298,063
Deferred income tax recovery	**(3,978,000)**	-
Net income and comprehensive income for the year	**7,438,629**	3,298,063
Net income per share - basic	**$0.04**	$0.02
Net income per share - fully diluted	**$0.04**	$0.02
Weighted average number of shares outstanding		
- basic	**177,175,101**	176,725,431
- fully diluted	**179,483,428**	185,117,017

Anaconda Mining Inc.

Consolidated Statements of Changes in Equity

(Canadian dollars)

	Share capital #	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 $	Total $
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	-	(10,654)	-	-	-	-	(10,654)	-	(10,654)
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 year	-	-	-	-	-	-	-	3,298,063	3,298,063
Balance at May 31, 2012	**176,825,943**	**32,746,097**	**3,823,017**	**4,051,999**	**447,359**	**-**	**41,068,472**	**(27,540,654)**	**13,527,818**
Proceeds from exercise of warrants	3,053,020	244,240	-	-	-	-	244,240	-	244,240
Fair value transfer of warrants	-	143,188	-	(143,188)	-	-	-	-	-
Share-based compensation	-	-	146,149	-	-	-	146,149	-	146,149
Balances transferred to deficit	-	-	-	(3,908,811)	(447,359)	-	(4,356,170)	4,356,170	-
Net income for the year	-	-	-	-	-	-	-	7,438,629	7,438,629
Balance at May 31, 2013	**179,878,963**	**33,133,525**	**3,969,166**	**-**	**-**	**-**	**37,102,692**	**(15,745,856)**	**21,356,836**

The accompanying notes are an integral part of these Consolidated Financial Statements

Anaconda Mining Inc.

Consolidated Statements of Cash Flows

(Canadian dollars)

For the year ended	May 31 2013 $	May 31 2012 $
Operations		
Net income	**7,438,629**	3,298,062
Adjustments to reconcile net income to cash flow from operating activities:		
Depletion and amortization	**2,323,555**	1,732,156
Share-based payments	**146,149**	419,219
Interest accretion of loans and debentures	**615,238**	386,242
Interest accretion of decommissioning liability	**52,512**	50,212
Promissory note interest paid by issuance of shares	**-**	45,252
Deferred income tax recovery	**(3,978,000)**	-
Foreign currency translation of subsidiary	**-**	931,718
Gain on sale of Chilean mining interest	**-**	(977,811)
Net change in non-cash working capital items:		
Trade and other receivables	**3,265**	38,469
HST receivable	**(207,165)**	2,265
Prepaid expenses and deposits	**(189,706)**	(6,698)
Inventory	**310,653**	(799,642)
Trade and other payables	**(99,066)**	(2,691,784)
Cash flow provided from (used in) operating activities	**6,416,064**	2,427,860
Financing		
Issuance of common shares and warrants	**-**	237,580
Issuance costs	**-**	(10,656)
Proceeds from exercise of warrants	**244,240**	-
Repayment of advances to related parties	**-**	275,646
Repayment of loans and debentures	**(3,697,280)**	(4,044,361)
Repayment of government loans	**(357,447)**	(301,572)
Cash flow provided from (used in) financing activities	**(3,810,487)**	(3,843,363)
Investments		
Purchase of property, mill and equipment	**(1,665,632)**	(1,465,865)
Purchase of exploration and evaluation assets	**(1,023,074)**	(1,373,032)
Proceeds from sale of investment	**-**	4,077,000
Restricted cash	**(128,540)**	565,086
Cash flow provided from (used in) investing activities	**(2,817,246)**	1,803,189
Net increase (decrease) in cash	**(211,669)**	387,686
Cash at beginning of year	**678,568**	290,882
Cash at end of year	**466,899**	678,568

Supplemental cash flow information:		
Interest paid	**357,316**	791,500
Taxes paid	**-**	-

General

Corporate
The Company's principal business activity is that of a gold mining and mineral exploration company with operations in Canada and was incorporated under the laws of British Columbia. 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
The Company owns an operating mining project in Baie Verte, Newfoundland (the "Pine Cove Project" or the "Project"). On September 7, 2010, the Company achieved Commercial Production (as defined in its option and joint venture agreement) with a processing capacity of approximately 1,000 tonnes of ore per day earning 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%. The Project includes approximately 660 hectares of mining rights, an open pit mining operation and complete mill infrastructure capable of producing gold dore bars. The Company has entered into option agreements to acquire a 100% interest in four additional exploration properties (as described in note 7 below). The agreements increase the Company's land package of the Pine Cove Project seven-fold to approximately 4,785 hectares.

Chilean Asset Sale
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 0.5% gross sales royalty and a 1.25% carried interest in Compania Portuaria Tal Tal S.A. Sees notes 6 and 14.

1. 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") effective for the Company's reporting for the year ended May 31, 2013.

The policies applied in these Consolidated Financial Statements are based on IFRS issued and outstanding as of August 22, 2013, 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 2.

Recent Accounting Pronouncements
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 ("IFRS 9")** was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013.

- **IFRS 10 - Consolidated Financial Statements ("IFRS 10")** was issued by the IASB in May 2011 and will replace all of the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purposes Entities. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated statements of a parent. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

- **IFRS 11 – Joint arrangements ("IFRS 11")** was issued by the IASB in May 2011. IFRS 11 is a new standard which focuses on classifying joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: parties having rights to the assets and obligations for the liabilities of an arrangement, and rights to the net assets of an arrangement. Entities in the former case account for assets, liabilities, revenues and expenses in accordance with the arrangement, whereas entities in the latter case account for the arrangement using the equity method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

- **IFRS 12 – Disclosure of interests in other entities ("IFRS 12")** was issued by the IASB in May 2011. IFRS 12 is a new standard which provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles, and off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

- **IFRS 13 – Fair value measurement ("IFRS 13")** was issued by the IASB in May 2011. IFRS 13 is a new standard which provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRSs. The key points of IFRS 13 are as follows:
  - fair value is measured using the price in a principal market for the asset or liability, or in the absence of a principal market, the most advantageous market;
  - financial assets and liabilities with offsetting positions in market risks or counterparty credit risks can be measured on the basis of an entity's net risk exposure;
  - disclosures regarding the fair value hierarchy has been moved from IFRS 7 to IFRS 13, and further guidance has been added to the determination of classes of assets and liabilities;
  - a quantitative sensitivity analysis must be provided for financial instruments measured at fair value;
  - a narrative must be provided discussing the sensitivity of fair value measurements categorised under Level 3 of the fair value hierarchy to significant unobservable inputs; and
  - information must be provided on an entity's valuation processes for fair value measurements categorized under Level 3 of the fair value hierarchy.

  IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

- **IAS 1 – Presentation of financial statements ("IAS 1")** was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.

2. 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 fiscal 2012, with La Veta remaining as an inactive subsidiary (see note 14). All intercompany transactions and balances have been eliminated in these consolidated financial statements.

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, the useful lives of property, mill and equipment, profitability of future operations as impacting realization of tax losses, life of Pine Cove mine as it impacts depletion expense, recoverability of property, mill and equipment and exploration and evaluation assets and the valuation of share-based payments. The most significant judgements relate to recognition of deferred tax assets and liabilities, assessment of the going concern assumption and the determination of the economic viability of a project.

Cash and cash equivalents
Cash and cash equivalents comprise cash on deposit at banks 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 or mineral 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 or mineral may be subject to adjustment upon final settlement of shipment weights, assays and estimated metal prices. Adjustments to revenue for metal or mineral prices are recorded monthly and other adjustments are recorded on final settlement. 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 and mill	units-of-production

Property, mill and equipment at the Pine Cove project are depleted over the expected life of the mine.

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.

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.

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.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument, or, where appropriate, a shorter period.

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 significant and prolonged losses in value which are recorded in earnings.

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.

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.

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.

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.

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.

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.

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 non-current 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.

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.

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 asset and 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
Earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if additional common shares are assumed to be issued under securities that entitle their holders to obtain common shares in the future. For stock options/warrants, the number of additional shares for inclusion in diluted earnings per share calculations is determined using the treasury stock method. Under this method, stock options/warrants, whose exercise price is less than the average market price of our common shares, are assumed to be exercised and the proceeds are used to repurchase common shares at the average market price for the period. The incremental number of common shares issued under stock options/warrants and repurchased from proceeds is included in the calculation of diluted earnings per share. For convertible debentures, the number of additional shares for inclusion in diluted earnings per share calculations is determined using the as if converted method. The incremental number of common shares issued is included in the number of weighted average shares outstanding and interest on the convertible debentures is excluded from the calculation of income.

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. 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.

Included in inventory are of a number of materials consumed as part of the gold refining process. Consumable inventories are recorded at the lower of cost, using the weighted average method, and net realizable value.

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 ("CAD"), and the functional currency of the Chilean subsidiaries of the Company is the Chilean Peso. The 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 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.

Derivative instruments and hedge accounting
Derivative instruments are recorded at fair value in the consolidated statement of financial position. Derivative instruments are classified as either hedges of the fair value of recognized assets or liabilities or of firm commitments ("fair value hedges"), hedges of highly probable forecast transactions ("cash flow hedges") or non-hedge derivatives.

Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability or firm commitment that is attributable to the hedged risk.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to the ineffective portion is recognized in the consolidated statement of comprehensive income. Amounts accumulated in equity are transferred to the consolidated statement of comprehensive income in the period when the forecasted transaction impacts earnings. When the forecasted transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial carrying amount of the asset or liability.

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 statement of financial position, with changes in fair value recognized in the consolidated statement of comprehensive 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.

Adoption of new and revised standards

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.

3. Cash and restricted cash

The Company's cash consist of cash on deposit with a Canadian Chartered bank totaling $466,899 (May 31, 2012 - $678,568).

Restricted cash balance consists of long-term cash on deposit with a bank in an interest-generating money-market account with no stipulated terms of maturity of $805,687 (May 31, 2012 - $677,147).

During the years ended May 31, 2013 and 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, 2013, the Company had retired all of the Series I and Series II debt and therefore this security is no longer required.

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 2013 $	May 31 2012 $
General purpose		
Cash	**466,899**	678,568
Restricted		
Cash equivalent[1]	**805,687**	677,147
Total restricted cash	**805,687**	677,147

[1]This cash is restricted in concert with the Company's decommissioning liabilities (note 11). It has issued letters of credit in the amount of $565,500 to the Newfoundland and Labrador government and $211,510 to Fisheries and Oceans Canada in satisfaction of its requirements under the approved site development and that may only be lifted by the 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.

4. 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 2013 $	May 31 2012 $
Due from related party	97,711	100,976

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

As at	May 31 2013 $	May 31 2012 $
Less than 1 month	-	-
30-60 days	-	-
60+ days	97,711	100,976
Total trade and other receivables	97,711	100,976

At May 31, 2013, the Company anticipates full recovery of the amount due from related party therefore no impairment has been recorded. The credit risk on the receivables has been further discussed in note 18. The Company holds no collateral for any receivable amounts outstanding as at May 31, 2013.

5. Inventory

As at	May 31 2013 $	May 31 2012 $
Ore in stock pile	786,887	832,152
Raw materials	195,085	43,832
Work in progress	301,150	478,064
Finished products - Gold dore	-	239,727
	1,283,122	1,593,775

The inventory balance represents allocated costs to ore stockpiles and in-circuit (work in process) 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.

6. Investments

The investment acquired from the Chilean asset sale is described as follows:

As at	May 31 2013 $	May 31 2012 $
1.25% carried interest in Compania Portuaria Tal Tal S.A.	50,000	50,000

See general note and note 14.

7. Exploration and evaluation assets

Properties	Interest	Balance as at May 31 2012	Option of mining property	Expenditures	Disposal/ Write off	Balance as at May 31 2013
	%	$	$	$	$	$
Newfoundland						
Pine Cove Project						
Pine Cove License Area	100	279,012	600	647,878	-	927,490
Tenacity	100	30,527	28,032	60,473	-	119,032
Fair Haven	100	-	15,354	29,806	-	45,160
Froude	100	-	10,000	12,378	-	22,378
Duffitt and Strong	100	-	20, 00(	7,380	-	27,380
Regional (unallocated)	100	-	-	191,173	-	191,173
		309,539	**73,986**	**949,088**	**-**	**1,332,613**

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 License Area	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**

The Company owns 100% of the **Pine Cove Project**. Together the Pine Cove License Area and the Tenacity, Fair Haven, Froude, and Duffitt and Strong Properties comprise the Pine Cove Project encompassing approximately 4,785 hectares.

The **Pine Cove License Area** comprises two contiguous mining leases totaling 659.7 hectares and contains an operating open pit mine, milling and processing plant and equipment and a permitted tailings storage facility. The Pine Cove License Area is subject to two royalty agreements, the first with Tenacity Gold Mining Company Ltd. ("Tenacity"), whereby the Company is required to pay Tenacity a net smelter royalty of 3% of the metal sales from the Pine Cove License Area to a maximum of $3 million. The Company has approximately $1.1 million left on this obligation. The second is a Net Profits Interest ("NPI") agreement with Royal Gold, Inc. ("Royal"), whereby the Company is required to pay Royal a royalty of 7.5% of the net profits; calculated as the gross receipts generated from the claims less all cumulative development and operating expenses. At May 31, 2013 the Company has determined it has approximately $36 million in carry forward expenditures deductible against future receipts.

Year ended May 31, 2012
On May 7, 2012 the Company entered into a five-year property option agreement (the "Agreement") with Tenacity to acquire a 100% undivided interest in 4 mineral exploration licenses (the "**Tenacity Property**") totaling 63 claims or approximately 1,575 hectares contiguous to the Pine Cove License Area. 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 the 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 ("NSR") of 3% when the average price of gold is less than US$2,000 per ounce for the calendar quarter or at 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.

Year ended May 31, 2013
On July 19, 2012 the Company entered into a five-year property option agreement (the "Agreement") with Fair Haven Resources Inc. ("Fair Haven") to acquire a 100% undivided interest in 11 exploration licenses (the "**Fairhaven Property**") totaling 71 claims or approximately 1,804 hectares near its Pine Cove mine. The Fair Haven Property runs adjacent to the optioned Tenacity Property. The Agreement requires the Company to pay to Fair Haven $10,000 at closing (paid) and to fund expenditures over the life of the option to a minimum of $750,000. The Agreement also entitles Fair Haven to a NSR of 2% to an aggregate sum of $3 million; following this and after 200,000 ounces of gold has been sold from the Fair Haven Property, Fair Haven is then entitled to 1% NSR.

On November 13, 2012 the Company entered into a five-year property option agreement (the "Agreement") with Herb Froude ("Froude") to acquire a 100% undivided interest in 1 exploration license (the "**Froude Property**") totaling 11 claims or approximately 275 hectares near its Pine Cove mine. The Froude Property is contiguous and now inclusive in the Pine Cove Project. The Agreement requires the Company to pay to Froude $10,000 on January 1, 2013 (paid) and to fund expenditures over the life of the option to a minimum of $125,000. The Agreement also entitles Froude to a NSR of 3% to an aggregate sum of $3 million; following this and after 200,000 ounces of gold has been sold from the Froude Property, Froude is then entitled to 1% NSR.

On November 19, 2012 the Company entered into a five-year property option agreement (the "Agreement") with Messer's Duffitt and Strong ("Duffitt and Strong") to acquire a 100% undivided interest in 2 exploration licenses (the "**Duffitt and Strong Property**") totaling 7 claims or approximately 175 hectares near its Pine Cove mine. The Duffitt and Strong Property is contiguous with and now inclusive in the Pine Cove Project. The Agreement requires the Company to pay to Duffitt and Strong $20,000 at closing (paid) and to fund expenditures over the life of the option to a minimum of $125,000. The Agreement also entitles Duffitt and Strong to a NSR of 3% to an aggregate sum of $3 million; following this and after 200,000 ounces of gold has been sold from the Duffitt and Strong Property, Duffitt and Strong is then entitled to 1% NSR.

8. Property, mill and equipment

For the year ending May 31, 2013

	Cost beginning of year $	Additions $	Disposals/ transfers $	Impairment $	Cost end of year $
Mill	6,314,954	157,797	(38,150)	-	6,434,601
Equipment	394,393	227,097	-	-	621,490
Property	13,492,595	540,882	17,096	-	14,050,573
Capital in progress	85,676	708,399	-	-	794,075
	20,287,618	**1,634,175**	**(21,054)**	**-**	**21,900,739**

	Accumulated depreciation beginning of year $	Depreciation/ depletion $	Disposals/ transfers $	Accumulated depreciation end of year $	Net book value $
Mill	976,567	676,085	-	1,652,652	4,781,949
Equipment	111,923	130,551	-	242,474	379,016
Property	1,871,564	1,464,409	-	3,335,973	10,714,600
Capital in progress	-		-	-	794,075
	2,960,054	**2,271,045**	**-**	**5,231,099**	**16,669,640**

For the year ending May 31, 2012

	Cost beginning of year $	Additions $	Disposals/ transfers $	Impairment $	Cost end of year $
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	-	85,675	-	-	85,675
	18,852,280	**1,435,337**	**-**	**-**	**20,287,617**

	Accumulated depreciation beginning of year $	Depreciation/ depletion $	Disposals/ transfers $	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	11,621,031
Capital in progress	-	-	-	-	85,675
	1,278,112	**1,681,942**	**-**	**2,960,054**	**17,327,563**

9. Trade and other payables

As at	**May 31 2013 $**	May 31 2012 $
Trade payables	**1,720,334**	1,803,303
Accrued liabilities	**484,450**	346,876
Accrued interest	**-**	311,190
Accrued payroll costs	**364,601**	207,083
Total trade and other payables	**2,569,385**	2,668,452

10. Loans and debentures

The following table provides the details of the current and non-current components of the loans and debentures as at May 31, 2013 and May 31, 2012.

	May 31 2013 $	May 31 2012 $
Convertible loan	**-**	930,997
Series I debenture	**-**	812,046
Series II debenture	**-**	1,338,998
ACOA Loan	**241,890**	394,674
INTRD Loan	**20,448**	225,111
	262,338	3,701,826
Less: current portion	**173,232**	360,099
Non-current portion	**89,106**	3,341,727

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 contained in the unit 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 ended May 31, 2013 the Company paid off the loan.

The balance is made up as follows:	**May 31 2013 $**	May 31 2012 $
Principal balance repayable	**-**	1,009,000
Less: value of equity component	**-**	(334,000)
	-	675,000
Transaction costs	**-**	(18,628)
	-	656,372
Interest accretion	**-**	274,625
Current portion	**-**	-
Non-current portion	**-**	930,997

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 ended May 31, 2013, the Company paid off the loan.

The balance is made up as follows:

	May 31 2013 $	May 31 2012 $
Principal balance repayable	**-**	936,000
Less: discount	**-**	(171,300)
Less: value of equity component	**-**	(132,700)
	-	632,000
Transaction costs	**-**	(129,900)
	-	502,100
Interest accretion	**-**	309,946
Current portion	**-**	-
Non-current portion	**-**	812,046

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 were exercisable until July 22, 2012 (expired) at an exercise price of $0.22 each. During the year ended May 31, 2013, the Company paid off the loan.

The balance is made up as follows:

	May 31 2013 $	May 31 2012 $
Principal balance repayable	**-**	1,752,280
Less: discount	**-**	(324,700)
Less: value of equity component	**-**	(565,738)
	-	861,842
Transaction costs	**-**	(19,166)
	-	842,676
Interest accretion	**-**	496,322
Current portion	**-**	-
Non-current portion	**-**	1,338,998

Loans

ACOA loan payable, due December 14, 2014, is non-interest bearing and repayable in one payment of $41,666 on June 1, 2011, 35 monthly payments of $12,723 commencing on January 1, 2012 and one final payment of $12,714.

The balance is made up as follows:

	May 31 2013 $	May 31 2012 $
Principal balance repayable	**241,890**	394,674
Less: current portion	**152,784**	152,784
Non-current portion	**89,106**	241,890

INTRD 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 2013 $	May 31 2012 $
Principal balance repayable	**20,448**	225,111
Less: current portion	**20,448**	207,315
Non-current portion	**-**	17,796

11. Decommissioning liability

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

	May 31 2013 $	May 31 2012 $
Opening balance	**1,146,533**	1,096,321
Interest accretion	**52,512**	50,212
Closing balance	**1,199,045**	1,146,533

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 $211,510 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.

12. Capital stock

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

Warrants
There were no outstanding warrants as at May 31, 2013.

The outstanding issued warrants as 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**	

During the year ended May 31, 2013, 22,227 purchase warrants with an expiry date of April 22, 2013, 104,208 purchase warrants with an expiry date of March 20, 2013 and 2,926,585 purchase warrants with an expiry date of May 3, 2013 were exercised, all at a price of $0.08. All other warrants expired unexercised.

Options
As at May 31, 2013, 17,987,896 common shares were available for the grant of stock options to directors, officers, employees and service providers in connection with the Company's stock option plan (the "Plan"). The Plan is a 10% rolling option plan based on the number of common shares issued and outstanding. As at May 31, 2013, 14,840,000 were outstanding with 12,040,000 exercisable and 3,147,896 left unallocated. Most stock options issued to date under the Plan vest in two installments over 12 months and expire five years from the date of grant unless specifically approved otherwise by the board of directors.

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

	Options #	Weighted average exercise price $
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**	**0.19**
Granted	3,150,000	0.09
Expired/Forfeited	(1,760,000)	0.59
Outstanding May 31, 2013	**14,840,000**	**0.12**
Options exercisable, May 31, 2013	**12,040,000**	**0.13**

The following table sets out the details of the stock options granted and outstanding as at May 31, 2013:

Number of stock options	Number exercisable	Remaining contractual life	Exercise price per share	Expiry date
480,000	480,000	1.03 years	$0.23	June 11, 2014
3,010,000	3,010,000	1.80 years	$0.20	March 18, 2015
5,300,000	5,300,000	2.72 years	$0.11	February 15, 2016
150,000	150,000	3.16 years	$0.08	July 26, 2016
500,000	500,000	3.25 years	$0.10	August 25, 2016
500,000	500,000	3.67 years	$0.09	January 27, 2017
1,500,000	1,500,000	3.73 years	$0.095	February 17, 2017
300,000	300,000	3.93 years	$0.11	May 1, 2017
300,000	300,000	4.46 years	$0.15	November 8, 2017
2,800,000	-	5.01 years	$0.08	May 29, 2018
14,840,000	**12,040,000**			

The following table sets out the details of the valuation of stock option grants during the years ended May 31, 2013 and May 31, 2012:

Date of grant	Number	Risk 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
June 26, 2012	50,000	1.25%	Nil	115.6%	5 years
November 8, 2012	300,000	1.32%	Nil	114.6%	5 years
May 29, 2013	2,800,000	1.47%	Nil	113.7%	5 years

On June 26, 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 vested 50% on July 1, 2012, and 50% on January 1, 2013.

On November 8, 2012, the board of directors authorized the issuance of 300,000 stock options, exercisable at $0.15 for a period of 5 years from the date of issuance, which vest immediately.

On May 29, 2013, the board of directors authorized the issuance of 2,800,000 stock options, exercisable at $0.08 for a period of 5 years from the date of issuance, which vest 50% on November 29, 2013 and 50% on May 29, 2014.

Share-based payment expense
The fair value of the stock options granted for the year ended May 31, 2013 was $221,530 (May 31, 2012 - $219,760. The fair value of options vested for the year ended May 31, 2013 was $146,149 (May 31, 2012 - $419,219) which amount has been expensed as share-based payments in the statement of comprehensive income.

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

Key management personnel include the members of the Board of Directors, the President/CEO and the CFO. Compensation of key management personnel (including directors) was as follows:

For the year ended May 31	**2013**	2012
	$	$
Salaries and short term benefits [1]	**789,765**	373,522
Post-employment benefits [2]	**-**	-
Share based payments [3]	**114,393**	253,492
	904,158	627,014

[1] Includes salary, management bonus, benefits and directors fees paid during the years ended May 31
[2] Includes termination benefits
[3] Includes share based payments vested during the period

The Company incurred interest expense for the year ended May 31, 2013 of $183,754 of which $78,002 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.

Raven Hill Partners Inc. ("Raven Hill') charged Anaconda a total of $256,500 in respect of corporate administration and accounting services provided by employees of Raven Hill, $210,000 in rent for the Company's head office, and $49,000 for investor relations costs for the year ending May 31, 2013. Raven Hill is beneficially owned by Lewis Lawrick and Dustin Angelo, directors of the Company.

As at May 31, 2013, included in trade and other payables is $41,500 (May 31, 2012 - $154,190) of amounts due to related parties for directors' fees, unpaid interest and consulting costs.

14. 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 uncertainty surrounding the realization of the contingent consideration, it was excluded from the purchase and sale accounting. As at May 31, 2013, the Company had not collected on any of the contingent payments (see subsequent event note 19).

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, 2013, 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, 2013.

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.

15. 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:

	2013		2012	
	$	**%**	$	%
Income tax expense (recovery) at statutory rates	**993,000**	**28.70**	852,600	28.70
Difference between current and future tax rates	**-**	**-**	(49,000)	(1.50)
Non-deductible expenses for tax purposes:				
Stock-based compensation	**42,000**	**1.20**	110,000	3.25
Interest accretion and other	**173,000**	**5.00**	-	-
Change in valuation allowance	**(5,186,000)**		(913,000)	
Income taxes expense (recovery)	**(3,978,000)**		-	

The Canadian statutory income tax rate of 28.70% (2012 – 28.70%) is comprised of the federal income tax rate at approximately 15% (2012 – 15%) and the provincial income tax rate of approximately 13.7% (2012 – 13.7%).

The primary differences which give rise to the deferred income tax balances at May 31, 2013 and 2012 are as follows:

	2013	2012
Deferred income tax assets	**$**	$
Temporary timing differences on non-current assets	**560,000**	936,000
Deductible financing fees	**18,000**	38,000
Capital loss carry forward	**216,000**	216,000
Operating losses carried forward	**3,449,000**	4,261,000
	4,243,000	5,451,000
Less: valuation allowance	**(265,000)**	(5,451,000)
Net deferred tax assets	**3,978,000**	-

The unamortized balance, for income tax purposes, of deductible financing fees amounts to approximately $63,200 (2012 - $133,000) and will be deductible in Canada over the next three years.

The Company also has cumulative Canadian exploration and development expenditures of $15,415,000 (2012 - $18,000,600) that may be carried forward indefinitely.

As at May 31, 2013, the Company has non-capital loss carry forwards expiring as follows:

	Canada	Chile	Total
	$	$	$
2029	2,695,000	-	2,695,000
2030	2,413,800	-	2,413,800
2031	6,738,600	-	6,738,600
Indefinite	-	5,598,300	5,598,300
	11,847,400	**5,598,300**	**17,445,700**

16. 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 a period of time to demonstrate that it can continue to 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, 2013. The Company is not subject to externally imposed capital restrictions.

17. Financial instruments

Classifications
The Company has classified its cash and cash equivalents and restricted cash and non-hedge derivatives as FVTPL, which are measured at fair value. The Company's investments been classified as available-for-sale, which are measured at fair value. Trade and other receivables are classified as loans and receivables, which are measured at amortized cost. Trade and other payables and loans and debentures are classified as other financial liabilities, which are measured at amortized cost.

Fair values of cash and cash equivalents and restricted cash and non-hedge derivatives 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.

Non-hedge derivatives
The Company transacts in commodity derivatives including gold sales forward contracts to manage the exposure of fluctuations in gold prices. In the case of forwards, these contracts are intended to reduce the risk of declining prices on future sales. Some of the derivative transactions are effective in achieving the Company's risk management goals; however, they do not meet the hedging requirements of IAS 39 – Financial Instruments: Recognition and Measurement, therefore, the changes in fair value are recorded in earnings. At yearend, the following forward gold contracts are outstanding:

	Expiry	Ounces	Price CAD$ per ounce	Fair Value at May 31, 2013
Gold forward	June 28, 2013	200	1,440	-
CAD$ denominated	July 31, 2013	200	1,440	-
contracts	August 31, 2013	200	1,440	-
	June 28, 2013	200	1,450	-
	July 31, 2013	200	1,450	-
	August 31, 2013	200	1,450	-
	June 28, 2013	200	1,456	-

18. Property and financial instrument 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 Company's credit risk is attributable to cash and trade and other receivables.

Cash is held with a tier A Canadian chartered bank as such management believes the risk of loss to be minimal. Trade receivables consist of amounts due from the Company's metals broker regarding processed gold and silver en route to the broker. Management believes the credit risk associated with its trade receivables to be remote as the counter-party is a well capitalized international metals broker. No bad debts were incurred during the years ended May 31, 2013 and 2012.

Liquidity risk
Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligation as they come due. As at May 31, 2013, the Company had positive working capital of $1,333,047 (May 31, 2012 – negative $348,171). The Company utilized the cash flow generated from the Project's operations through-out the year 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.

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 liabilities. Accordingly the Company is not exposed to significant interest rate risk. When available, the Company invests excess cash, in short term securities with maturities of less than one month earning nominal interest.

Foreign currency risk
The Company's functional and presentation currency is the Canadian dollar. The Company executes all gold sales in Canadian dollars. Some of the operational and other expenses incurred by the Company are paid in US dollars. As a result, fluctuations in the US dollar against the Canadian dollar could result in unanticipated foreign exchange gains/losses. Given the limited extent of US dollar expenses, the Company considers this risk as remote. The Company has no plans for hedging its foreign currency transactions.

Commodity price risk
Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company is exposed to commodity price risk with respect to gold prices. The Company closely monitors gold prices to determine the appropriate course of action to be taken by the Company. The Company uses derivative contracts to hedge against the risk of falling prices of gold as it enters into short-term gold sales forward contracts on an on-going basis.

19. Subsequent events

Sale of Chilean mining interest
On August 10, 2013 the first shipment of iron ore from the first producing property from the properties sold in the Chilean mining interest occurred. 30 days after this first shipment the Company is due US$ 1 million per the agreement in note 14. As a result of this milestone event the Company is also due an additional $2 million depending on the timing of the shipment from the second producing property or two years from the anniversary date when the first producing property commenced production. The Company will also commence receiving a gross sales royalty of 0.08% of a calendar quarter basis on the sale of iron ore concentrate.