ANACONDA MINING INC.

Interim Consolidated Financial Statements

(Unaudited)

First Quarter and Three Months Ended

August 31, 2010

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Anaconda Mining Inc.
Consolidated Balance Sheets

As at	**August 31, 2009**	May 31, 2010
Assets	**$**	$
Current assets		
Cash and cash equivalents*(note*6*)*	**70,102**	533,628
Restricted cash *(note 6)*	**51**	96,068
HST/GST recoverable	**196,419**	592,242
Accounts receivable, prepaids and deposits	**1,033,937**	168,098
Inventory *(note 7)*	**836,329**	903,605
	2,136,838	2,293,641
Investments *(note 8)*	**214,200**	336,600
Shares of New Island Resources Inc.*(note 9)*	**3,011,863**	-
Deferred transaction costs *(note 9)*	**233,158**	79,581
Restricted cash *(note 6)*	**777,546**	777,479
Mineral properties and deferred exploration expenditures *(note 10)*	**1,564,727**	4,700,641
Leasehold improvements *(note 11)*	**3,713**	4,512
Property, mill and equipment*(note 12)*	**14,422,863**	13,192,874
	22,364,908	21,385,328
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**4,150,850**	2,340,293
Due to related parties *(note 18)*	**522,099**	676,436
	4,672,949	3,016,729
Loan *(note 13)*	**437,333**	-
Convertible loan *(note 14)*	**1,798,925**	1,790,000
Convertible debentures *(note 15)*	**1,514,287**	1,499,986
Debentures *(note 16)*	**2,455,222**	2,411,442
Asset retirement obligations*(note 17)*	**624,050**	605,875
	11,502,766	9,342,032
Shareholders' equity		
Common shares*(note 19(a))*	**29,264,420**	26,252,558
Equity portion of convertible loans and debentures *(notes14 & 15)*	**466,700**	466,700
Warrants*(note 19(b))*	**1,223,573**	1,223,573
Contributed surplus*(note 20)*	**5,475,047**	5,247,362
Deficit	**(24,342,596)**	(20,008,547)
Accumulated comprehensive income	**(1,225,002)**	(1,120,350)
	10,862,142	12,061,296
	22,364,908	21,385,328

Going concern *(note 1)*

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

Anaconda Mining Inc.

Consolidated Statements of Operationsand Deficit

	3 months ended	
	August 31, 2010	August 31, 2009
	$	$
Revenue		
Sales	**496,961**	3,182,874
	496,961	3,182,874
Cost of goods sold		
Mill operations	**618,197**	532,592
Mining costs	**323,551**	613,754
Net smelter returns	**5,575**	83,865
Toll-milling costs	**-**	993,690
	947,323	2,223,901
Gross margin	**(450,362)**	958,773
Administrative expenses		
Office and general	**389,595**	194,088
Consulting and professional fees	**345,962**	46,669
Stock-based compensation	**227,685**	35,653
Representation and travel	**13,975**	32,423
Shareholder and regulatory reporting	**83,202**	47,643
Salaries and benefits	**119,821**	77,163
Interest expense	**294,044**	121,767
Depletion and depreciation	**195,311**	-
Write-down of deferred exploration expenditures	**522,812**	-
Loss on sale of properties *(note 10)*	**1,442,281**	-
Foreign exchange losses	**231,251**	21,790
	3,865,939	577,196
Net income (loss) before income taxes	**(4,316,301)**	381,577
Future income (tax) recoveries	**(17,748)**	24,404
Net income (loss)	**(4,334,049)**	405,981
Deficit at beginning of period	**(20,008,547)**	(16,668,503)
Deficit at end of period	**(24,342,596)**	(16,262,522)
Net gain (loss) per share – basic	**$(0.04)**	$0.01
Net gain (loss) per share – fully-diluted	**$(0.04)**	$0.00
Weighted average number of shares outstanding (000's) – basic	**105,129**	87,775
Weighted average number of shares outstanding (000's) – fully-diluted	**105,129**	94,636

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

These interim consolidated financial statements have been approved by the company's Audit Committee

Anaconda Mining Inc.

Consolidated Statements of Comprehensive Income (Loss) and Accumulated Comprehensive Income (Loss)

	3 months ended	
	August 31, 2010	August 31, 2009
	$	$
Net income (loss)	**(4,334,301)**	405,981
Other comprehensive income (loss):		
Unrealized gain (loss) on available-for-sale investments, net of tax benefit *(note 8)*	**(104,652)**	143,926
Total comprehensive income (loss)	**(4,438,953)**	549,907
Comprehensive gain (loss) per share - basic	**$(0.04)**	$0.01
Comprehensive gain (loss) per share – fully-diluted	**$(0.04)**	$0.01

	3 months ended	
	August 31, 2010	August 31, 2009
	$	$
Opening accumulated comprehensive loss	**(1,120,350)**	(1,066,800)
Unrealized gain (loss) on available-for-sale investments	**(104,652)**	143,926
Accumulated comprehensive loss	**(1,225,002)**	(922,874)

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Anaconda Mining Inc.

Consolidated Statements of Cash Flow

	3 months ended	
	August 31, 2010	August 31, 2009
	$	$
Operations		
Net income (loss)	**(4,434,049)**	405,981
Adjustments to reconcile net loss to cash flow fromoperating activities:		
Depletion and amortization	**195,311**	48,386
Stock-based compensation	**227,685**	35,653
Future income taxes (recoveries)	**17,748**	(24,404)
Foreign exchange (gains) losses	**1,383,211**	8,516
Interest accretion on convertible loan and debentures	**67,005**	37,251
Interest accretion on asset retirement obligations	**18,176**	21,672
Loss on sale of property	**1,442,281**	-
Write-down of deferred exploration expenditures	**522,812**	-
Net change in non-cash working capital items:		
HST/GST recoverable	**395,823**	(279,811)
Prepaids, deposits and receivables	**(890,255)**	(52,856)
Inventory	**67,276**	(836,318)
Accounts payable and accrued liabilities	**1,194,547**	333,252
Cash flow used in operating activities	**307,571**	(302,678)
Financing		
Issuance of common shares (net of subscriptions receivable)	**-**	515,900
Due to related parties	**522,099**	4,120
Loan	**437,333**	-
Cash flow provided from financing activities	**959,432**	520,020
Investments		
Expenditures on mineral properties and deferred exploration	**(626,560)**	(157,005)
Purchase of property, mill and equipment	**(1,061,092)**	(155,971)
Deferred transaction costs	**(153,577)**	-
Restricted cash	**95,950**	-
Cash flow used in investing activities	**(1,745,279)**	(312,976)
Effect of exchange rate changes on cash and cash equivalents	**14,750**	7,655
Net decrease in cash and cash equivalents	**(463,526)**	(87,979)
Cash and cash equivalents at beginning of period	**533,628**	887,200
Cash and cash equivalents at end of period	**70,102**	799,221

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General

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

The Company`s principal business activity is that of a mineral exploration and mining company with operations in Canada and Chile. As at May 31, 2009, the Company had completed the construction of its mining project in BaieVerte, Newfoundland (the “Pine Cove project”) and had brought it into limited production. During fiscal 2010, the Company undertook a capital program to expand its existing mill to enable processing of up to 700 tonnes of ore per day. Commissioning of the expanded mill occurred during the first quarter of fiscal 2011 (July 2010).

During the first fiscal quarter of 2011, Anaconda reached the production requirements pursuant to the terms of its Option and Joint venture Agreement with New Island Resources Inc. (“New Island”), allowing it to announce on September 7, 2010 that it had achieved Commercial Production (as defined therein) and therefor had earned its 60% interest in the Pine Cove project. Anaconda also announced that it and New Island had reached an agreement on a friendly transaction that would result in Anaconda acquiring New Island’s 40% interest in the Pine Cove project *(note 9)*.

1. Going concern

These interim 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 Anaconda be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts that may differ from those shown in these consolidated financial statements.

The unanticipated and continued delay in reaching Commercial Production at the Pine Cove project has caused the Company to utilize available working capital on operations and capital requirements at the mine site, thereby impeding its ability to deploy the funds in other areas of its operations.

The Company has not yet established whether its mineral properties in Chile contain reserves that are economically recoverable. The recovery of amounts capitalized for mineral properties and related deferred exploration expenditures on the consolidated balance sheets is dependent upon the existence of economically recoverable reserves, the ability of the Company to arrange appropriate financing to complete the development of the properties and upon future profitable production or, alternatively, the Company’s ability to dispose of its interests on an advantageous basis, all of which are uncertain.

The Company has raised additional funds throughout the prior year and during the first quarter of this yearand it has utilized these funds for working capital and capital expenditure requirements. The ability of Anaconda to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that Anaconda will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from the treasury of the Company, control of Anaconda may change and existing shareholders may suffer dilution. If adequate financing is not available, the Company may be required to relinquish rights to certain of its interests or terminate its operations.

2. Significant accounting policies

(i) Basis of presentation

These interim consolidated financial statements follow the same accounting policies and their methods of application as the audited consolidated financial statements as at May 31, 2010.

Not all disclosure required by generally accepted accounting principles for annual consolidated financial statements are present, and accordingly, these interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements.

(ii) Use of estimates

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

(iii) Carrying value of mineral properties and deferred exploration expenditures

The Company records its interest in mineral properties at cost. Direct costs relating to the acquisition, exploration and development of mineral properties, less recoveries, are deferred until such time as the properties are either put into commercial production, sold, determined not to be economically viable or abandoned. If a property is placed into production, deferred costs will be amortized and depleted using the unit-of-production method over the estimated economic life of the mine. The deferred costs would be written off if the property is sold or abandoned. If it is determined that the carrying value of a property exceeds its net recoverable amount as estimated by management, or exceeds the selling value of the property, a provision is made for the decline in value and charged against operations in the year.

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

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

(iv) Impairment of long-lived assets

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

(v) Depletion and amortization

During the first quarter of 2010, the Company commenced charging depletion on its property and amortization on the mill and equipment and in the first quarter of 2011 also commenced depreciation on its expanded mill. The “units-of-production” basis has been utilized and the calculated amounts will be charged to the income statement over the useful life of the mine.

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

(vi) Financial instruments

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

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

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

(vii)Future accounting changes

International financial reporting standards (“IFRS”)

In January 2006, the Canadian Accounting Standards Board (“AcSB”) published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”) over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after

January 1, 2011. The transition date of June 1, 2011, will require the restatement for comparative purposes of amounts reported by the Company for the year ended May 31, 2011.

2. Capital management

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

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

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

There were no changes in the Company's approach to capital management during the 3 months ended August 31, 2010. The Company is not subject to externally imposed capital restrictions.

3. Property and financial risk factors

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

(ii) Financial risk factors and their impact on Anaconda's financial instruments are summarized below.

Credit risk

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The credit risk is primarily attributable to cash, HST/GST recoverable and accounts receivable. Cash is held with a tier A Canadian chartered bank and one of Chile's largest banks as su management believes the risk of loss to be minimal.

Financial instruments included in HST/GST recoverable consist of goods and services taxes receivable from the Canadian government and such amounts are in good standing as at August 31,

2010. Management believes that the credit risk associated with the financial instruments included in HST/GST recoverable is minimal.

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

Liquidity risk

As at August 31, 2010, the Company had a working capital deficiency of $2,536,111 (August 31, 2009 - $2,157,679).The Company utilized the proceeds from the financings through-out the first quarter of fiscal 2011 for its working capital requirements. However, in order to meet its other short to medium-term working capital obligations, the Company intends to utilize the cash flow generated from the Pine Cove project's operations. If necessary, the Company may seek further financing for capital projects or general working capital purposes. As discussed previously, there can be no assurance that Anaconda will be successful in its efforts to arrange additional financing on terms satisfactory to the Company.

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

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, commodity prices and/or stock market movements (price risk).

(i) Interest rate risk

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

(ii) Foreign currency risk

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

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

(iii) Price risk

The Company is exposed to price risk with respect to commodity prices and stock prices.

(a) 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.

(b) The Company's investment is comprised on common shares of a public-traded company. The value of the investment may fluctuate on a daily basis due to the external market factors that are not within the control of the Company. Anaconda monitors the trading value of these common shares in order to ensure that, if in the best interest of the Company, sale of the shares is made under favourable conditions *(note 8)*with regard to restrictions on the sale of the securities).

(iv) Derivatives – mineral properties

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

4. Fair value of financial assets and liabilities

Anaconda has, designated its cash as held-for-trading, HST/GST recoverable is classified for accounting purposes as loans and receivable, which are measured at amortized cost which equal fair value. Investments (including the shares of New Island that Anaconda acquired – *note 9*) are classified as held-for-sale with fair value based on Level 1 measurements. Accounts payable and accrued liabilities and amounts due to related parties are classified for accounting purposes as other financial liabilities, which are measure at amortized cost which also equals fair value. Fair values of accounts receivable, accounts payable and accrued liabilities and amounts due to related parties are determined from transaction values which were derived from observable market inputs. Fair values of these financial instruments are based on Level 2 measurements.

5. 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 tofloating interest rates. As at August 31, 2010, if interest rates had decreased/increased by 1% withall other variables held constant, the difference in loss for the year ended August 31, 2010would not be material, as a result of lower/higher interest income from cash and cashequivalents. As at August 31, 2010, reported shareholders' equity would also have been immaterially lower/higher as a result of lower/higher interest income from cash and cash equivalents.

(ii) The Company's exploration activities are substantially denominated in the Chilean peso. The Company's funds are kept in Canadian dollars andChilean pesos with a major Canadian and Chilean financial institution.

As at August 31, 2010, 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	115,078
Cash and cash equivalents	United States dollar	86,664
Receivables prepaidsand deposits	Chilean peso	893,658
Accounts payable and accrued liabilities	Chilean peso	235,490

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

	Effect of 10% increase in foreign exchange rates on translation and investments in foreign monetary assets	Effect of 10% decrease in foreign exchange rates on translation and investments in foreign monetary assets
	$Cdn	$Cdn
American dollar	8,666	(8,666)
Chilean peso	77,325	(77,325)

(iii) The Company's investments are subject to fair value fluctuations. As at August 31, 2010, if the fair value of investments had decreased/increased by 50% with all other variables held constant, net comprehensive income for the three months ended August 31, 2010 would have been approximately $46,000 lower/higher. Similarly, as at August 31, 2009, reported shareholders' equity would have been approximately $46,000 lower/higher as a result of a 50% decrease/increase in the fair value of investments.

(iv) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market prices of precious metals. Commodity prices have fluctuated significantly in recent years. If the fair value for commodity prices had decreased/increased by 10% with all other variables held constant, net loss for the year ended August 31, 2010 would have been approximately $50,000 higher.

6.Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit with the banks in general non-interest bearing accounts totaling $70,036 (2010 - $32,846) and interest-generating money-market accounts with no stipulated terms of maturity, of $66 (2010- $500,782).

Restricted cash balances consist of short-term cash on deposit with banks in interest-generating money-market accounts with maturities of 60 days, or less, of $51 (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 $777,546 (2010 - $777,479).

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:

	August 31, 2010	May 31, 2009
	$	$
General purpose		
Cash	**70,036**	32,846
Cash equivalents	**66**	500,782
Total cash and cash equivalents	**70,102**	533,628
Restricted		
Cash[1]	**51**	96,068
Cash equivalents[2]	**777,546**	777,479
Total restricted cash	**777,597**	873,547

[1]This cash is restricted as a debt-reduction escrow account as part of the agreement for the convertible debentures*(note 13)*. This cash can be utilized for debt service and/or principal repayments.

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

7. Inventory

Anaconda's inventory balance of $836,329 (2010 - $903,605) represented allocated costs to ore stockpiles based on quantities of material stockpiled and included cost allocations from waste mining costs, overheads, amortization, depletion and depreciation relating to mining operations.

8. Investments

The Company acquires investments from time to time in the normal course of business. The Company has received shares of publicly-traded companies as part of consideration for mineral property option agreements. The investments consist of common shares of Merc International Minerals Inc. ("MIMI"), a company traded on the TSX Venture Exchange ("TSXV") and were measured at the fair value as determined by the closing prices of the company's shares on the TSXV on the days of receipt. Anaconda has identified these investments as available-for-sale and has measured their fair value, as determined by the closing price of the securities on the TSXV on August 31, 2010, resulting in a decrease, net of tax expense of $17,748 (2010 – tax recoveries of $24,404) of $122,400 for the quarter (2010 – increase of $168,330) in these investments and a corresponding decrease in accumulated other comprehensive income. The tax asset associated with this loss has been offset with a valuation allowance and the corresponding future income taxes are included in the current net loss. As at August 31, 2010, the carrying value of the 1,530,000 (2010 – 1,530,000) MIMI shares was $214,200 (2010 - $336,600) and the accumulated other comprehensive loss relating to these shares was $1,225,002 (20110 – $1,120,350).

These investments are held as security for the convertible debentures and as such, the Company is restricted in its ability to sell the securities before repayment of the convertible debentures in full.

9. Shares of New Island Resources Inc.

On June 11, 2010, Anaconda announced that it formally commenced a share exchange takeover bid for New Island to acquire all of the issued and outstanding common shares of New Island on the basis of 0.3333 Anaconda shares for each whole New Island share (the "Offer"). The Offer contained a minimum tender condition of 66 2/3% of all New Island shares be deposited under the Offer. The Offer was open for acceptance until August 3, 2010. A number of extensions and variations occurred throughout August, 2010 with the final offer expiring on August 31, 2010. Pursuant to the Offer, Anaconda acquired a total of 25,098,860 New Island shares and issued 10,541,520 Anaconda shares in consideration therefor.

On August 30, 2010, Anaconda and New Island issued a joint press release announcing that they reached agreement on a friendly transaction to be structured as a plan of arrangement, pursuant to which 22,602,315 Anaconda shares will be distributed to the shareholders of New Island in exchange for New Island's interest in the Pine Cove property. In addition, pursuant to the proposed plan of arrangement, all of the New Island shares acquired by Anaconda pursuant to its current take-over bid will be returned to tendering shareholders. The proposed transaction was expected to close on or before October 15, 2010, but has been delayed as New Island studies the various legal and tax issues surrounding the transaction. It is now anticipated that the transaction will have received court and New Island minority shareholder approval by November 17, 2010.

As New Island's shares are quoted in an active market (TSXV), *CICA Section 3051.06*, provides that the investment shall not be accounted for using the cost method but rather may be accounted for at fair value, with changes in fair value recorded in net income. New Islands shares closed at $0.12 on August 31, 2010 resulting in a fair value of the New Island shares held by the Company of $3,011,863.

10. Mineral properties and deferred exploration expenditures

Property	May 31, 2010	Additions	Disposals[1]	Loss on Sale[1]	**August 31, 2010**
	$	$	$	**$**	**$**
San Gabriel	4,700,641	722,275	(2,040,322)	(1,965,093)	**1,417,501**
Other Chilean properties[2]	-	147,226	-	**-**	**147,226**
	4,700.641	158,028	(2,040,322)	(1,965,093)	**1,564,727**

Property	May 31, 2009	Additions	Written-off	**May 31, 2010**
	$	$	$	**$**
San Gabriel	4,327,565	302,371	70,705[3]	**4,700,641**
Borthwick Lake	473,752	6,988	(480,740)	**-**
LingmanLake	244,516	-	(244,516)	**-**
	5,045,833	309,359	(654,551)	**4,700,641**

[1]During the quarter, Anaconda sold a 50% interest in its San Gabriel project in exchange for a 50% interest in surrounding iron exploration concessions in the immediate area of San Gabriel.

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

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

11. Leasehold improvements

As at	August 31, 2010		May 31, 2010	
	Cost $	Accumulated Amortization $	Cost $	Accumulated Amortization $
Leasehold Improvements	**16,765**	**13,052**	16,765	12,253
	16,765	**13,052**	16,765	12,253
Net Book Value	**3,713**		4,512	

12. Property, mill and equipment

As at	August 31, 2010		May 31, 2010	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	$	$	$	$
Mill	**5,729,862**	**154,931**	2,725,567	148,268
Equipment	**806,368**	**41,963**	2,541,090	29,733
Property	**8,670,828**	**587,301**	8,670,828	566,610
	15,207,058	**784,195**	13,937,485	744,611
Net Book Value	**14,422,863**		13,192,874	

During the current quarter, the Company commenced depreciation of its expanded millcosts using the "units-of-production" basis.

13. Loan

On August 25, 2010, Anaconda drew down and received funds ($437,000) pursuant to a loan agreement with the government of Newfoundland. The maximum amount that may be drawn under the loan is $500,000. The loan is non-interest bearing and repayable in twelve monthly payments commencing on June 1, 2011 and ending on May 1, 2012.

14. Convertible loan

	$
Principal balance repayable	2,000,000
Less: Value of conversion feature	(184,000)
Original carrying value	1,816,000
Add: Interest accretion on conversion feature	82,072
Ending carrying value – May 31, 2009	**1,898,072**
Add: Interest accretion for year	101,928
Less: Principal repayment	(60,000)
Less: Value of conversion feature of new loan	(150,000)
Ending carrying value – May 31, 2010	**1,790,000**
Add: Interest accretion for 3 months	8,925
Ending carrying value– August 31, 2010	**1,798,925**

15. Convertible debentures

	$
Principal balance repayable	1,713,000
Less: Discount on issuance	(171,300)
Cash proceeds received	1,541,700
Less: Value of conversion feature	(132,700)
Original carrying value	1,409,000
Add: Interest accretion for year	36,574
Ending carrying value – May 31, 2009	**1,445,574**
Add: Interest accretion for year	54,412
Ending carrying value – May 31, 2010	**1,499,986**
Add: Interest accretion for 3 months	14,301
Ending carrying value – August 31, 2010	**1,514,287**

16. Debentures

	$
Principal balance repayable	3,247,000
Less: Discount on issuance	(324,700)
Cash proceeds received	2,922,300
Less: Warrant value	(565,737)
Original carrying value	**2,356,563**
Add: Interest accretion for period	54,879
Ending carrying value – May 31, 2010	**2,411,442**
Add: Interest accretion for 3 months	43,780
Ending carrying value – August 31, 2010	**2,455,222**

17. Asset retirement obligations

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

	August 31, 2009	May 31, 2010
	$	$
Opening balance	**605,875**	722,400
Additions/(deductions) to provision for reclamation	**-**	(162,000)
Interest accretion	**18,176**	45,475
Closing balance	**624,051**	605,875

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

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

18. Related party transactions

For the 3 months ended August 31, 2010, the interim consolidated financial statements include $38,400 (2010 - $44,800) in consulting expense and $67,760 (2010 - $60,493) of interest charges. The consulting expenses and interest charges were incurred with directors and/or officers of the Company or corporations controlled by them.

The consolidated financial statements include demand loans of $522,099 (2010 - $Nil)represented by advances of $682,099 (2010 - $Nil) offset by repaymentsof $160,000 to officers and/or directors of the Company or corporations controlled by them.The demand loans are interest free and have no fixed terms of repayment. The balance of the demand loans is shown as due to related parties on the consolidated balance sheet.

As at August 31, 2010, the accounts receivable balance includes amounts due from the Company's Chilean general manager, Inversiones SBX Limitada ("SBX") (or companies controlled by it), of $878,950.

As at May 31, 2010, the due to related party balance of $676,436 is due to the Company's Chilean general manager, SBX (or companies controlled by it).

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

19.Capital stock

(a) Common shares

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

The issued and outstanding Common shares are as follows:

	Number of Shares	$
Balance at May 31, 2009	**85,021,260**	**23,303,314**
Issued for cash:		
Private placement	3,333,334	500,000
Exercise of warrants	14,809,277	2,221,392
Fair value of exercised warrants	-	511,186
Fair value of issued warrants	-	(283,335)
Balance at May 31, 2010	**103,163,871**	**26,252,557**
Issued for pursuant to New Island take-over offer *(note 9)*	10,541,520	3,011,863
Balance at August 31, 2010	**113,705,391**	**29,264,420**

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

Private Placement – Fiscal 2010

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

(b) Warrants

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

Date of Expiry	Type	Fair Value	No. of Warrants	Exercise Price $
April 23, 2011	Purchase warrants	324,009	9,394,923	0.20
April 23, 2011	Purchase warrants	22,719	500,000	0.20
May 11, 2011	Purchase warrants	27,775	795,800	0.20
June 17, 2011	Purchase warrants	283,333	3,333,334	0.25
July 25, 2011	Purchase warrants	565,737	3,984,069	0.22
Total		**1,223,573**	**18,008,126**	

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

Date of Expiry	Type	Fair Value	No. of Warrants	Exercise Price $
April 23, 2011	Purchase warrants	324,009	9,394,923	0.20
April 23, 2011	Purchase warrants	22,719	500,000	0.20
May 11, 2011	Purchase warrants	27,775	795,800	0.20
June 17, 2011	Purchase warrants	283,333	3,333,334	0.25
July 25, 2011	Purchase warrants	565,737	3,984,069	0.22
Total		**1,223,573**	**18,008,126**	

(c) Options

Anaconda has a 10% rolling stock option plan pursuant to which options to purchase common shares may be granted to certain officers, directors, employees and consultants. As at August 31, 2010, the Company has 4,145,539 (2009 – 5,610,459) options available for issuance under the plan. Continuity of the unexercised options to purchase common shares is as follows:

	August 31, 2010		May 31, 2010	
	Weighted Average Exercise Price ($)	**No. of Options**	Weighted Average Exercise Price ($)	No. of Options
Outstanding at beginning of period	**0.38**	**7,225,000**	0.90	2,645,000
Transactions during the period:				
Granted	**-**	**-**	0.21	5,455,000

Exercised	-	-	-	-
Forfeited	-	-	0.91	(875,000)
Expired	-	-	-	-
Outstanding at end of period	**0.38**	**7,225,000**	0.38	7,225,000
Exercisable at end of period		**2,420,000**		2,060,000

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

Range of Exercise Prices ($)	No. of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price ($)	No. of Options Currently Exercisable
0.00 – 0.50	5,455,000	3.7	0.21	650,000
0.51 – 0.99	1,195,000	1.9	0.81	1,195,000
1.00 – 1.50	575,000	2.2	1.10	575,000
	7,225,000	**3.3**	**0.38**	**2,420,000**

Stock-based compensation

The fair value of the stock options granted for the 3 months ended August 31, 2010 was $Nil (August 31, 2009 – $35,653), which amount has been expensed in the statement of operations. The weighted average grant-date fair value of options granted during the 3 months ended August 31, 2009 was $Nil (August 31, 2008 – $0.185) per option issued.

20. Contributed surplus

	$
Balance at May 31, 2009	**4,561,475**
Stock-based compensation	287,521
Fair value of expired warrants transferred from warrants	398,366
Balance at May 31, 2010	**5,247,362**
Stock-based compensation	227,685
Balance at August 31, 2010	**5,475,047**

21. Segmented information

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

	August 31, 2010	May 31, 2010
	($)	($)
Revenues:		
Canada	**496,961**	11,360,742
Consolidated Revenues	**496,961**	11,360,742
Net Loss		
Canada	**(1,307,545)**	(3,264,760)
Chile	**(2,963,504)**	(75,282)
Consolidated Net Loss	**(4,434,049)**	(3,340,042)
Identifiable Assets:		
Canada	**20,428,105**	16,106,599
Chile	**2,663,377**	5,278,729
Consolidated Identifiable Assets	**23,091,482**	21,385,328
Geographical Allocation of Significant Non-Cash Items		
Canada		
Stock-based compensation	**227,685**	287,521
Interest accretion on convertible loan, convertible debentures and debentures	**67,005**	211,221
Interest accretion on asset retirement obligation	**18,176**	45,475
Reduction to asset retirement obligations	**-**	162,000
Write-down of deferred exploration expenditures	**-**	654,551
Loss on disposition of property	**1,442,281**	-
Write-down of property, mill and equipment	**-**	-
Future income tax expense	**17,748**	7,650
Depreciation, depletion and amortization	**194,512**	585,396
	525,126	1,953,814
Chile		
Write-down of deferred exploration expenditures	**522,812**	-
Loss on disposition of property	**1,442,281**	-
Reversal of previous write-down of IVA costs	**-**	70,706
Amortization	**799**	3,234
	1,965,892	73,940
Consolidated Significant Non-Cash Items	**2,491,018**	2,027,754

22. Subsequent Events

On September 20, 2010, the Company announced that it had closed an offering of non-brokered, secured (by the Company's Chilean assets), 12.5% debentures (the "Series III Debentures") for net discounted proceeds of $750,000, with face value of $770,000, maturing July 20, 2011. Included with the Series III Debentures were 236,000 common share purchase warrants (the "Warrants"), each exercisable for one common share of the Company for a period of 18 months from the date of issue at an exercise price of $0.30 each.