



**Condensed Consolidated Interim Financial Statements**  
**Three Months Ended**  
**August 31, 2014 and August 31, 2013**  
(Expressed in Canadian Dollars)

### ***Management's responsibility for financial reporting***

The accompanying financial statements (the "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 audited annual consolidated Financial Statements for the year ended May 31, 2014.

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.

### **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 these Financial Statements they must be accompanied by a notice indicating that the Financial Statements have not been reviewed by an auditor.

The accompanying 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.

### ***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  
October 8, 2014

*"Errol Farr"*  
Chief Financial Officer  
October 8, 2014

# Anaconda Mining Inc.

## Condensed Consolidated Interim Statements of Financial Position

(Canadian dollars)

As at	August 31 2014	May 31 2014
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash (note 2)	2,208,969	2,754,225
Trade and other receivables (note 3)	332,967	56,722
HST receivable	184,743	292,596
Prepaid expenses and deposits	417,231	395,061
Inventory (note 4)	2,667,785	2,657,999
Milestone payment receivable (note 14)	2,038,493	1,989,601
	<b>7,850,188</b>	<b>8,146,204</b>
Investment (note 5)	50,000	50,000
Restricted cash (note 2)	593,000	595,726
Deferred income tax asset	3,998,000	3,935,000
Exploration and evaluation assets (note 6)	2,657,230	2,233,299
Production stripping assets (note 7)	755,692	612,654
Property, mill and equipment (note 8)	13,952,538	14,825,416
	<b>29,856,648</b>	<b>30,398,299</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables (note 9)	2,558,655	2,982,896
Current portion of loans (note 10)	67,963	96,831
	<b>2,626,618</b>	<b>3,079,727</b>
Loans (note 10)	56,336	31,545
Decommissioning liability (note 11)	1,268,319	1,253,961
	<b>3,951,273</b>	<b>4,365,233</b>
<b>Shareholders' equity</b>		
Share capital, reserves, and convertible-debt equity (note 12)	37,351,393	37,303,274
Deficit	(11,446,018)	(11,270,208)
	<b>25,905,375</b>	<b>26,033,066</b>
	<b>29,856,648</b>	<b>30,398,299</b>

Approved by the Board of Directors on October 8, 2014

*"Maruf Raza"*  
Director

*"Lewis Lawrick"*  
Director



# Anaconda Mining Inc.

## Condensed Consolidated Interim Statements of Comprehensive Income

(Canadian dollars)

For the three months ended	August 31 2014 \$	August 31 2013 \$
<b>Revenue</b>		
Gold sales	5,511,612	5,731,783
<b>Cost of sales</b>		
Mill operations	1,894,890	1,624,551
Mining costs	2,148,345	1,386,429
Net smelter royalty	164,771	169,352
Logistics	39,798	99,320
Project administration	199,592	174,430
Depletion and depreciation	1,080,633	815,185
	<b>5,528,029</b>	<b>4,269,267</b>
<b>Gross margin</b>	<b>(16,417)</b>	<b>1,462,516</b>
<b>Expenses</b>		
Corporate administration	504,496	491,349
Other revenues (note 14)	(305,452)	-
Share-based payments (note 12)	48,119	68,070
Finance expense	336	192
Foreign exchange loss (gain)	(9,884)	370
Unrealized loss (gain) on forward sales contract derivative (note 17)	(15,222)	62,239
	<b>222,393</b>	<b>622,220</b>
<b>Income (loss) before income taxes</b>	<b>(238,810)</b>	<b>840,296</b>
Current income tax expense	-	244,000
Deferred income tax recovery	(63,000)	-
	<b>(63,000)</b>	<b>244,000</b>
<b>Net income and comprehensive income (loss) for the period</b>	<b>(175,810)</b>	<b>596,296</b>
Net income per share - basic	0.00	0.00
Net income per share - fully diluted	0.00	0.00
Weighted average number of shares outstanding		
- basic	179,878,963	179,878,964
- fully diluted	179,878,963	180,025,854

# Anaconda Mining Inc.

## Condensed Consolidated Interim Statement of Changes in Equity

(Canadian dollars)

	Share capital		Share-based payments	Share capital, reserves, convertible debt equity	Deficit	Total
	#	\$	\$	\$	\$	\$
<b>Balance at May 31, 2013</b>	<b>179,878,963</b>	<b>33,133,525</b>	<b>3,969,166</b>	<b>37,102,691</b>	<b>(15,562,564)</b>	<b>21,540,127</b>
Share-based payments	-	-	68,070	68,070	-	68,070
Net income for the period	-	-	-	-	596,296	596,296
<b>Balance at August 31, 2013</b>	<b>179,878,963</b>	<b>33,133,525</b>	<b>4,037,236</b>	<b>37,170,761</b>	<b>(14,966,268)</b>	<b>22,204,493</b>
Share-based payments	-	-	132,513	132,513	-	132,513
Net income for the period	-	-	-	-	3,696,060	3,696,060
<b>Balance at May 31, 2014</b>	<b>179,878,963</b>	<b>33,133,525</b>	<b>4,169,749</b>	<b>37,303,274</b>	<b>(11,270,208)</b>	<b>26,033,066</b>
Share-based payments	-	-	48,119	48,119	-	48,119
Net income for the period	-	-	-	-	(175,810)	(175,810)
<b>Balance at August 31, 2014</b>	<b>179,878,963</b>	<b>33,133,525</b>	<b>4,217,868</b>	<b>37,351,393</b>	<b>(11,446,018)</b>	<b>25,905,375</b>



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

# Anaconda Mining Inc.

## Condensed Consolidated Interim Statements of Cash Flows

(Canadian dollars)

For the three months ended	August 31 2014 \$	August 31 2013 \$
<b>Operations</b>		
Net income (loss)	(175,810)	596,296
Adjustments to reconcile net income (loss) to cash flow from operating activities:		
Depletion and depreciation	1,066,275	815,185
Share-based payment expense	48,119	68,070
Current income tax expense	-	244,000
Deferred income tax recovery	(63,000)	-
Other revenue	(260,952)	-
Accretion of milestone payment receivable	(46,589)	-
Interest accretion of decommissioning liability	14,358	13,729
Unrealized gain on forward sales contract derivative	(15,222)	-
Unrealized foreign exchange gains	(2,303)	-
Net change in non-cash working capital items:		
Trade and other receivables	(71)	(399,613)
HST receivable	107,853	91,094
Prepaid expenses and deposits	(22,170)	(50,423)
Inventory	150,336	(242,682)
Trade and other payables	(424,241)	(343,987)
<b>Cash flow provided from operating activities</b>	<b>376,583</b>	<b>791,669</b>
<b>Financing</b>		
Proceeds from capital lease	38,000	-
Proceeds from bank loan	-	46,354
Repayment of bank loan	(1,931)	-
Repayment of capital lease	(1,950)	-
Repayment of government loans	(38,196)	(59,934)
<b>Cash flow used in financing activities</b>	<b>(4,077)</b>	<b>(13,580)</b>
<b>Investments</b>		
Purchase of property, mill and equipment	(355,419)	(403,060)
Additions to production stripping assets	(143,038)	(362,361)
Purchase of exploration and evaluation assets	(422,031)	(478,643)
Restricted cash	2,726	-
<b>Cash flow used in investing activities</b>	<b>(917,762)</b>	<b>(1,244,064)</b>
<b>Net increase (decrease) in cash</b>	<b>(545,256)</b>	<b>(465,975)</b>
<b>Cash at beginning of period</b>	<b>2,754,225</b>	<b>466,899</b>
<b>Cash at end of period</b>	<b>2,208,969</b>	<b>924</b>
<b>Supplemental cash flow information:</b>		
Interest paid	535	-
Taxes paid	-	-



# Anaconda Mining Inc.

Notes to the condensed consolidated interim financial statements  
For the three months ended August 31, 2014 and August 31, 2013

---

## General

### Corporate

The Company's principal business activities are gold mining and mineral exploration with operations in Canada. It is incorporated under the laws of Ontario. The Company's common shares are listed on the Toronto Stock Exchange under the ticker symbol "ANX". The Company's registered office is located at 150 York Street, Suite 410, Toronto, Ontario, M5H 3S5.

### Pine Cove Project – Baie Verte, Canada

The Company owns 100% of the Pine Cove mine and mill, and controls approximately 6,000 hectares on the Ming's Bight Peninsula, which is situated within the larger Baie Verte Peninsula on the north-central part of Newfoundland (the "Pine Cove Project" or the "Project"). On September 7, 2010, the Company achieved Commercial Production with a processing capacity of approximately 1,000 tonnes per day. The Pine Cove Project originally included approximately 660 hectares of mining rights, an open pit mining operation and complete mill infrastructure capable of producing gold dore bars. In 2012 and 2013, the Company entered into option agreements to acquire a 100%-interest in six additional exploration properties and staked four other properties (as described in note 7). The agreements and staked claims increased the Company's land package of the Pine Cove Project nine-fold to approximately 6,000 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 equity interests (the "Chilean Assets") to a private Chilean company, Hierro Tal Tal S.A. ("Tal Tal"), for up to US\$11 million in cash milestone payments (\$5.25 million received to date), a gross sales royalty of between 0.50% and 0.80% and a 1.25% carried interest in Compania Portuaria Tal Tal S.A. See notes 5 and 14.

## 1. Basis of preparation

### Statement of compliance

The Company's Financial Statements, including comparatives, have been prepared in accordance with and using accounting policies in full compliance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standards ("IAS") 34, Interim Financial Reporting. The Financial Statements should be read in conjunction with the audited annual consolidated financial statements for the year ended May 31, 2014, which have been prepared in accordance with IFRS as issued by the IASB.

### Recent accounting pronouncements

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

- **IFRS 15 - Revenue from Contracts with Customers ("IFRS 15")** was issued in May 2014 when the IASB and the Financial Accounting Standards Board ("FASB") completed its joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for IFRS and US GAAP. As a result of the joint project, the IASB issued IFRS 15 to establish principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2017.

The Company is currently assessing the effect of this standard on its financial statements.

# Anaconda Mining Inc.

Notes to the condensed consolidated interim financial statements  
For the three months ended August 31, 2014 and August 31, 2013

---

## 2. Cash and restricted cash

The Company's cash balances consist of cash on deposit with a Canadian Chartered bank totaling \$2,208,969 (May 31, 2014 - \$2,754,225).

Restricted cash balance consists of long-term cash on deposit with a Canadian Chartered bank in interest-generating Guaranteed Investment Certificates maturing September 9, 2015, totaling \$593,000 (May 31, 2014 - \$595,726). Anaconda 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 in concert with the Company's decommissioning liabilities (note 11). The Company also has corporate credit cards that have authorized limits secured by cash collateral of \$27,500.

## 3. Trade and other receivables

The Company's trade and other receivables arise from five main sources: gold sales, royalty revenue, unrealized gain on non-hedged forward sales contract derivatives, accrued interest and trade receivables from related parties. The details of the Company's trade and other receivables are set out below:

As at	August 31 2014 \$	May 31 2014 \$
Unrealized gain on non-hedged forward sales contract derivatives	54,407	39,185
Accrued interest	4,636	3,439
Royalty revenue receivable	260,952	-
Other	-	4,599
Due from related parties	12,972	9,499
	<b>332,967</b>	<b>56,722</b>

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

As at	August 31 2014 \$	May 31 2014 \$
Less than 1 month	260,952	-
30-60 days	54,407	43,784
60+ days	17,608	12,938
	<b>332,967</b>	<b>56,722</b>

At August 31, 2014, the Company anticipates full recovery of the amount due from related parties 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 August 31, 2014.



# Anaconda Mining Inc.

Notes to the condensed consolidated interim financial statements  
For the three months ended August 31, 2014 and August 31, 2013

## 4. Inventory

As at	August 31 2014 \$	May 31 2014 \$
Ore in stock piles	1,533,582	1,484,035
Raw materials	216,975	300,060
Work in progress	917,228	873,904
	<b>2,667,785</b>	<b>2,657,999</b>

Cost of sales for the three months ended August 31, 2014 of \$5,528,029 (August 31, 2013 - \$4,269,267) includes a credit of \$12,004 (August 31, 2013 - \$16,225) relating to the sale of silver by-product.

## 5. Investment

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

As at	August 31 2014 \$	May 31 2014 \$
1.25% carried interest in Compania Portuaria Tal Tal S.A.	50,000	50,000

See general note and note 14.

## 6. Exploration and evaluation assets

Properties	Interest %	Balance as at May 31 2014 \$	Option of mining property \$	Expenditures \$	Balance as at August 31 2014 \$
Newfoundland					
Pine Cove Project					
Pine Cove Lease Area	100	1,428,912	-	10,762	1,439,674
Tenacity	100	171,220	-	10,183	181,403
Fair Haven	100	47,398	-	7,224	54,622
Froude	100	23,107	-	1,514	24,621
Duffitt and Strong	100	29,668	-	56	29,724
Stog'er Tight	100	50,689	-	78,033	128,722
Deer Cove	100	95,691	-	316,159	411,850
Regional (unallocated)	100	386,614	-	-	386,614
		<b>2,233,299</b>	<b>-</b>	<b>423,931</b>	<b>2,657,230</b>

# Anaconda Mining Inc.

Notes to the condensed consolidated interim financial statements  
For the three months ended August 31, 2014 and August 31, 2013

Properties	Interest %	Balance as at May 31 2013 \$	Option of mining property \$	Expenditures \$	Balance as at May 31 2014 \$
Newfoundland					
Pine Cove Project					
Pine Cove Lease Area	100	927,490	-	501,422	1,428,912
Tenacity	100	119,032	50,000	2,188	171,220
Fair Haven	100	45,160	-	2,238	47,398
Froude	100	22,378	-	729	23,107
Duffitt and Strong	100	27,380	-	2,288	29,668
Stog'er Tight	100	-	25,000	25,689	50,689
Deer Cove	100	-	25,000	70,691	95,691
Regional (unallocated)	100	191,173	-	195,441	386,614
		<b>1,332,613</b>	<b>100,000</b>	<b>800,686</b>	<b>2,233,299</b>

The Company owns 100% of the Pine Cove Project, which contains four mining leases totaling 707 hectares and 24 mining licenses totaling approximately 5,360 hectares. The mining leases were optioned from Tenacity Gold Mining Company Ltd. ("Tenacity") and 1512513 Alberta Ltd. ("Alberta"), a subsidiary of Coordinates Capital Corporation ("Coordinates"), while the mining licenses were optioned from several different parties including Tenacity, Alberta, Fair Haven Resources Inc. ("Fair Haven"), Herb Froude, and Messrs Alexander Duffitt and Paul Strong. Four of the licenses are owned by Anaconda.

The current operating area of the Pine Cove Project comprises two contiguous mining leases from Tenacity totaling 660 hectares (the Pine Cove Lease Area) and contains an operating open pit mine, milling and processing plant and equipment and a permitted tailings storage facility. It is subject to two royalty agreements, the first with Tenacity, whereby the Company is required to pay Tenacity a net smelter royalty of 3% of the metal sales from this area to a maximum of \$3 million. The Company has approximately \$340,000 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 August 31, 2014, the Company has determined it has approximately \$36 million in carry-forward expenditures deductible against future receipts, related to the NPI agreement.

## Option Agreements

On May 7, 2012, the Company entered into a five-year property option agreement (the "Tenacity 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 Tenacity Agreement requires the Company to pay to Tenacity \$25,000 at closing (paid), an additional \$275,000 in cash payments over the option period (of which \$75,000 has been paid) 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 Tenacity 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 on the NSR of \$3 million.

On July 19, 2012, the Company entered into a five-year property option agreement (the "Fair Haven Agreement") with Fair Haven to acquire a 100%-undivided interest in 11 exploration licenses (the "**Fair Haven 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 Fair Haven Agreement requires the Company to pay to Fair

# Anaconda Mining Inc.

Notes to the condensed consolidated interim financial statements  
For the three months ended August 31, 2014 and August 31, 2013

---

Haven \$10,000 at closing (paid) and to fund expenditures over the life of the option to a minimum of \$750,000. The Fair Haven Agreement also entitles Fair Haven to an 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 a 1% NSR.

On November 13, 2012, the Company entered into a five-year property option agreement (the "Froude 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 inclusive in the Pine Cove Project. The Froude 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 Froude Agreement also entitles Froude to an 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 a 1% NSR.

On November 19, 2012, the Company entered into a five-year property option agreement (the "DS Agreement") with Messrs 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 DS 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 DS Agreement also entitles Duffitt and Strong to an 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 a 1% NSR.

On November 13, 2013, the Company entered into a three-year property option agreement (the "Deer Cove Agreement") with 1512513 Alberta Ltd. ("Alberta"), a subsidiary of Coordinates, to acquire a 100%-undivided interest in one mining lease, a surface lease and three exploration licenses (the "**Deer Cove Property**") totaling 48 claims or approximately 1,200 hectares contiguous to the Pine Cove Project. The Deer Cove Agreement requires the Company to pay to Alberta \$25,000 at closing (paid), an additional \$175,000 in cash payments over the option period and to incur \$500,000 in expenditures over the life of the option. The Deer Cove Agreement also entitles Alberta to an NSR of 3%. The Company has the right to buy back 1.8% of the NSR for \$1 million.

On November 13, 2013, the Company entered into a three-year property option agreement (the "Stog'er Tight Agreement") with Alberta to acquire a 100%-undivided interest in one mining lease and one surface lease (the "**Stog'er Tight Property**") totaling approximately 35 hectares contiguous to the Pine Cove Project. The Stog'er Tight Agreement requires the Company to pay to Alberta \$25,000 at closing (paid), an additional \$175,000 in cash payments over the option period and to incur \$500,000 in expenditures over the life of the option. The Stog'er Tight Agreement also entitles Alberta to an NSR of 3%. The Company has the right to buy back 1.8% of the NSR for \$1 million.

As at August 31, 2014 and the financial statement report date, the Company had met all required property option commitments and accordingly the properties were in good standing.

# Anaconda Mining Inc.

Notes to the condensed consolidated interim financial statements  
For the three months ended August 31, 2014 and August 31, 2013

## 7. Production stripping assets

As at	August 31 2014 \$	May 31 2014 \$
Opening balance	612,654	229,766
Additions	143,038	751,102
Depreciation	-	(368,214)
<b>Closing balance</b>	<b>755,692</b>	<b>612,654</b>

## 8. Property, mill and equipment

For the three months ended August 31, 2014

	Cost beginning of period \$	Additions \$	Disposals/ transfers \$	Cost end of period \$
Mill	7,213,957	74,222	-	7,288,179
Equipment	1,163,776	38,000	(5,306)	1,196,470
Property	14,617,417	22,111	-	14,639,528
Capital in progress	358,216	355,419	(129,027)	584,608
	<b>23,353,366</b>	<b>489,752</b>	<b>(134,333)</b>	<b>23,708,785</b>

	Accumulated depreciation beginning of period \$	Depreciation/ depletion \$	Accumulated depreciation end of period \$	Net book value \$
Mill	2,517,777	325,405	2,843,182	4,444,997
Equipment	510,917	133,336	644,253	552,217
Property	5,499,256	769,556	6,268,812	8,370,716
Capital in progress	-	-	-	584,608
	<b>8,527,950</b>	<b>1,228,297</b>	<b>9,756,247</b>	<b>13,952,538</b>

# Anaconda Mining Inc.

Notes to the condensed consolidated interim financial statements  
For the three months ended August 31, 2014 and August 31, 2013

## For the year ended May 31, 2014

	Cost beginning of year \$	Additions \$	Disposals/ transfers \$	Cost end of year \$
Mill	6,434,601	779,356	-	7,213,957
Equipment	621,490	542,286	-	1,163,776
Property	14,050,573	566,844	-	14,617,417
Capital in progress	794,075	1,638,096	(2,073,955)	358,216
	<b>21,900,739</b>	<b>3,526,582</b>	<b>(2,073,955)</b>	<b>23,353,366</b>

	Accumulated depreciation beginning of year \$	Depreciation/ depletion \$	Accumulated depreciation end of year \$	Net book value \$
Mill	1,652,652	865,125	2,517,777	4,696,180
Equipment	242,474	268,443	510,917	652,859
Property	3,335,973	2,163,283	5,499,256	9,118,161
Capital in progress	-	-	-	358,216
	<b>5,231,099</b>	<b>3,296,851</b>	<b>8,527,950</b>	<b>14,825,416</b>

## 9. Trade and other payables

As at	August 31 2014 \$	May 31 2014 \$
Trade payables	1,902,774	2,282,610
Accrued liabilities	491,464	463,095
Accrued payroll costs	164,417	237,191
	<b>2,558,655</b>	<b>2,982,896</b>

The trade and other payables which arise from the Company's day-to-day operations have standard vendor trade terms and are typically due within 30 days.

## 10. Loans

The following table provides the details of the current and non-current components of loans:

As at	August 31 2014 \$	May 31 2014 \$
ACOA Loan	50,910	89,106
Bank loan	37,339	39,270
Capital Lease	36,050	-
	<b>124,299</b>	<b>128,376</b>
<b>Less: current portion</b>	<b>67,963</b>	<b>96,831</b>
<b>Non-current portion</b>	<b>56,336</b>	<b>31,545</b>

# Anaconda Mining Inc.

Notes to the condensed consolidated interim financial statements  
For the three months ended August 31, 2014 and August 31, 2013

ACOA Loan payable, due December 14, 2014, is non-interest bearing and is repayable in one payment of \$41,666 on June 1, 2011, 35 monthly payments of \$12,732 commencing on January 1, 2012 and one final payment of \$12,714.

The balance is made up as follows:

As at	August 31 2014 \$	May 31 2014 \$
Principal balance repayable	50,910	89,106
Less: current portion	50,910	89,106
<b>Non-current portion</b>	-	-

Bank loan, due July 2019, is non-interest bearing and repayable in 72 monthly payments of \$644.

The balance is made up as follows:

As at	August 31 2014 \$	May 31 2014 \$
Principal balance repayable	37,339	39,270
Less: current portion	7,725	7,725
<b>Non-current portion</b>	29,614	31,545

Capital Lease payable, due October 1, 2017, is repayable in 39 monthly payments of \$1,242 commencing on July 4, 2014. Remaining net minimum lease payments are \$47,196 with total interest of \$11,146 resulting in a present value of net minimum capital lease payments of \$36,050.

The balance is made up as follows:

As at	August 31 2014 \$	May 31 2014 \$
Principal balance repayable	36,050	-
Less: current portion	9,328	-
<b>Non-current portion</b>	26,722	-

## 11. Decommissioning liability

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

As at	August 31 2014 \$	May 31 2014 \$
Opening balance	1,253,961	1,199,045
Interest accretion	14,358	54,916
Closing balance	1,268,319	1,253,961

# Anaconda Mining Inc.

Notes to the condensed consolidated interim financial statements  
For the three months ended August 31, 2014 and August 31, 2013

---

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 in satisfaction of its requirements under the approved site development and that may only be lifted by the Newfoundland and Labrador government.

## 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 August 31, 2014 or May 31, 2014.

### Options

As at August 31, 2014, 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 August 31, 2014, 16,800,000 options were outstanding with 14,350,000 exercisable and 1,187,896 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
	#	\$
<b>Outstanding, May 31, 2013</b>	<b>14,840,000</b>	<b>0.12</b>
Granted	400,000	0.08
Expired/Forfeited	(310,000)	0.17
<b>Outstanding, May 31, 2014</b>	<b>14,930,000</b>	<b>0.12</b>
Granted	2,250,000	0.08
Expired/Forfeited	(380,000)	0.23
<b>Outstanding, August 31, 2014</b>	<b>16,800,000</b>	<b>0.11</b>
<b>Options exercisable, August 31, 2014</b>	<b>14,350,000</b>	<b>0.12</b>

# Anaconda Mining Inc.

Notes to the condensed consolidated interim financial statements  
For the three months ended August 31, 2014 and August 31, 2013

The following table sets out the details of the stock options granted and outstanding as at August 31, 2014:

Number of stock options	Number exercisable	Remaining contractual life	Exercise price per share	Expiry date
2,950,000	2,950,000	0.55 years	\$0.20	March 18, 2015
5,150,000	5,150,000	1.46 years	\$0.11	February 15, 2016
150,000	150,000	1.91 years	\$0.08	July 26, 2016
500,000	500,000	1.99 years	\$0.10	August 25, 2016
500,000	500,000	2.42 years	\$0.09	January 27, 2017
1,500,000	1,500,000	2.48 years	\$0.10	February 17, 2017
300,000	300,000	2.68 years	\$0.11	May 1, 2017
300,000	300,000	3.20 years	\$0.15	November 8, 2017
2,800,000	2,800,000	3.76 years	\$0.08	May 29, 2018
400,000	200,000	4.12 years	\$0.08	October 9, 2018
2,250,000	-	4.79 years	\$0.08	June 10, 2019
<b>16,800,000</b>	<b>14,350,000</b>	<b>1.98 years</b>		

The following table sets out the details of the valuation of stock option grants for the year ended May 31, 2014 and the three months ended August 31, 2014:

Date of grant	Number	Risk free interest rate	Expected dividend yield	Expected volatility	Expected life
October 9, 2013	400,000	1.89%	Nil	107.9%	5 years
June 10, 2014	2,250,000	1.60%	Nil	97.9%	5 years

## Share-based payment expense

The fair value of the stock options granted for three months ended August 31, 2014 was \$132,750 (August 31, 2013 - \$nil). The fair value of options vested for the three months ended August 31, 2014 was \$48,119 (August 31, 2013 - \$68,070), an amount which 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 three months ended August 31	2014	2013
	\$	\$
Salaries and short term benefits <sup>1</sup>	151,235	140,236
Share based payments <sup>2</sup>	33,206	59,561
	<b>184,441</b>	<b>199,797</b>

<sup>1</sup> Includes salary, management bonus, benefits and directors' fees

<sup>2</sup> Includes share based payments vested during the period

For the three months ended August 31, 2014, Raven Hill Partners Inc. ("Raven Hill") charged Anaconda a total of \$nil in respect of corporate administration and accounting services provided by employees of Raven Hill and \$nil in rent for the Company's head office (\$13,500, and \$52,500 respectively for the three months ended August 31, 2013). Raven Hill is beneficially owned by Lewis Lawrick and Dustin Angelo, directors of the Company.



# Anaconda Mining Inc.

Notes to the condensed consolidated interim financial statements  
For the three months ended August 31, 2014 and August 31, 2013

---

For the three months ended August 31, 2014, included in trade and other payables is \$38,500 (August 31, 2013 - \$34,000) of amounts due for directors' fees.

## 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 Tal Tal for consideration of the following:

	<b>US\$</b>
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 (received)	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 (due no later than May 20, 2015) <sup>1</sup>	2,000,000
Sales Price Payments:	
Based on the selling price of the initial 900,000 tonnes of iron ore (between US\$90 and US\$150 per tonne) from the first producing property	250,000 – 2,000,000
Based on the earlier of: selling price of the initial 900,000 tonnes of iron ore (between US\$90 and US\$150 per tonne) from the second producing property or selling price from the 1,800,000 – 2,700,000 tonnes of the first producing property	250,000 – 2,000,000
	<b>7,500,000 – 11,000,000</b>

<sup>1</sup> In the event the second producing property does not go into production, the milestone payment may be deferred for a period up to five years or thirty days after the first shipment from the second producing property, bearing interest at 5%.

In addition, the Company received a 1.25% carried interest in Compania Portuaria Tal Tal S.A. The Company designated this investment as available for sale. At August 31, 2014, 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 three months ended August 31, 2014 and 2013.

During fiscal 2014, the Company received its first Commercial Production milestone payment of US\$1 million. It also recognised the second payment of US\$2 million that is due no later than May 20, 2015 as a milestone payment receivable discounted at 10%, with a present value of \$2,038,493. The Company also began receiving a gross sales royalty of 0.80% of iron ore product sold from the property and sales price payments. See note 15.

## 15. Segmented information

The Company has identified its reportable operating segments based on the information used by management to make operating decisions. The Company primarily manages its business by looking at the geographical location that segregates its operations.

# Anaconda Mining Inc.

Notes to the condensed consolidated interim financial statements  
For the three months ended August 31, 2014 and August 31, 2013

As at	August 31 2014		May 31 2014	
	Non-current assets	Total assets	Non-current assets	Total assets
	\$	\$	\$	\$
Canada	21,956,460	27,542,342	22,202,095	27,866,060
Chile	50,000	2,314,306	50,000	2,532,239
	<b>22,006,460</b>	<b>29,856,648</b>	<b>22,252,095</b>	<b>30,398,299</b>

For the three months ended August 31	2014		2013	
	Canada	Chile	Canada	Chile
	\$	\$	\$	\$
<b>Revenue segments</b>				
Gold sales	5,511,612	-	5,731,783	-
Royalty revenue	-	260,952	-	-
Accretion income	-	46,589	-	-
Foreign exchange gain	-	2,303	-	-
Chile expenses	-	(4,392)	-	-
	<b>5,511,612</b>	<b>305,452</b>	<b>5,731,783</b>	<b>-</b>

## 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. 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 three months ended August 31, 2014. Unless otherwise noted (i.e. restricted cash), the Company is not subject to externally-imposed capital restrictions.

## 17. Financial instruments

### Classifications

The Company has classified its cash and restricted cash and forward sales contract derivatives as fair value through profit and loss, which are measured at fair value. The Company's investment has been classified as available-for-sale, which is measured at fair value. Trade and other receivables and the milestone payment receivable are classified as loans and receivables, which are measured at amortized cost. Trade and other

# Anaconda Mining Inc.

Notes to the condensed consolidated interim financial statements  
For the three months ended August 31, 2014 and August 31, 2013

---

payables and loans and debentures are classified as other financial liabilities, which are measured at amortized cost.

Fair values of cash and restricted cash are based on quoted prices in active markets for identical assets, resulting in a level-one valuation. Forward sales contract derivatives are level two. Fair values of investments are not based on observable market data, resulting in a level-three valuation. The carrying amount of the Company's financial instruments approximates fair value due to their short-term nature.

## Non-hedged forward sales contract derivative

The Company enters into commodity derivatives including forward gold 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 unrealized changes in fair value are recorded in earnings.

At August 31, 2014, the following forward gold contracts are outstanding:

	Expiry range	Ounces	Price CAD\$ per ounce	Fair Value at August 31, 2014
Gold forward	September to November 2014	600	1,428	18,002
CAD\$ denominated	September to November 2014	300	1,406	2,401
contracts	September to November 2014	300	1,418	6,001
	September to November 2014	700	1,438	28,003
		<b>1,900</b>		<b>54,407</b>

## 18. Property and financial instrument risk factors

### Property risk

The Company's major project is its Pine Cove 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 and a milestone payment receivable.

Cash is held with a tier-1 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 merchant. No bad debts were incurred during the three months ended August 31, 2014 and 2013.

### Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. As at August 31, 2014, the Company had positive working capital of \$5,223,570 (May 31, 2014 – \$5,066,477). The Company utilizes the cash flow generated from the Pine Cove Project's operations throughout 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.

# Anaconda Mining Inc.

Notes to the condensed consolidated interim financial statements  
For the three months ended August 31, 2014 and August 31, 2013

---

## **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, other than cash in operating bank accounts 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 year, 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 and Chilean Pesos. As a result, fluctuations in the US dollar and Chilean Peso against the Canadian dollar could result in foreign exchange gains/losses. Given the limited exposure 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. As these derivative contracts come due there is a risk of opportunity loss if gold prices move substantially higher.