



**Management's Discussion and Analysis  
of the  
Financial Condition and Results of Operations**

**For the three and six months ended  
November 30, 2014 and November 30, 2013**

# ANACONDA MINING INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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*This management discussion and analysis ("MD&A") has been prepared based on information available to Anaconda Mining Inc. ("Anaconda" or the "Company") as at January 8, 2015. The MD&A of the operating results and financial condition of the Company for the three months ended (the "Quarter") and the six months ended November 30, 2014, should be read in conjunction with the Company's condensed consolidated interim financial statements (the "Financial Statements") and the related notes thereto for the three and six months ended November 30, 2014, and the Company's audited financial statements for the year ended May 31, 2014, prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are expressed in Canadian dollars unless otherwise noted. Other information contained in this document has also been prepared by management and is consistent with the data contained in the Financial Statements. This MD&A contains forward looking statements about expected future events and financial and operating performance of the Company, and that actual events may vary from management's expectations. Additional information relating to the Company can be found on the Company's website at [www.anacondamining.com](http://www.anacondamining.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).*

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### Executive summary

#### General

Anaconda Mining Inc. is incorporated under the laws of Ontario, with its registered head office located at 150 York Street, Suite 410, Toronto, Ontario, M5H 3S5. The Company owns 100% of the Pine Cove Project, located 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"). The Pine Cove Project includes approximately 660 hectares of original mining rights, containing 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. The agreements and staked claims increase the Company's land package of the Pine Cove Project nine-fold to approximately 6,000 hectares.

#### Highlights for the three and six months ended November 30, 2014

- As at November 30, 2014, the Company had cash and cash equivalents of \$1,368,936 and net working capital of \$1,195,115.
- For the three months ended November 30, 2014, the Company sold 3,431 ounces of gold and generated \$4,798,179 in revenue at an average sales price of \$1,398 per ounce.
- For the six months ended November 30, 2014, the Company sold 7,364 ounces of gold and generated \$10,309,791 in revenue at an average sales price of \$1,400 per ounce.
- The mill processed 1,056 tonnes of ore per operating day for the three months ended November 30, 2014.
- The overall recovery in the mill for the three and six months ended November 30, 2014 was 85%.
- Mill availability was 88% for the three months ended November 30, 2014 and was as high as 98% for the month of October.
- Cash flow from operations was \$1,282,338 for the six months ended November 30, 2014.
- Cash cost per ounce sold at the Pine Cove Project for the three and six months ended November 30, 2014 was \$1,220 and \$1,172 per ounce respectively.
- All-in sustaining cash cost per ounce sold ("AISC"), including corporate administration, capital expenditures and exploration costs for the three and six months ended November 30, 2014 was \$1,792 and \$1,613 per ounce respectively.
- A write down of Chilean assets was recognized during the three months ended November 30, 2014 of \$2,260,158.
- At the Pine Cove Project, EBITDA (see Reconciliation of Non-GAAP Financial Measures) for the three and six months ended November 30, 2014 was \$613,468 and \$1,677,684 respectively.



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- On a consolidated basis, EBITDA for the three and six months ended November 30, 2014 was \$115,658 and \$980,830, respectively, excluding the write down of Chilean assets.
- Net loss for the three and six months ended November 30, 2014 was \$3,170,174 and \$3,345,984 respectively. Adjusted net loss for the three and six months ended November 30, 2014 was \$828,120 and \$1,014,678, which excluded the write down of the Chilean assets.
- Purchase of property, mill and equipment for the six months ended November 30, 2014 was \$1,168,931. Key items included tailing expansion costs of \$676,000, dry stacking of \$138,000, a compressor of \$88,000, waste dump development of \$60,000, blast monitoring of \$58,000, men's dry upgrades of \$50,000 and survey equipment of \$38,000.
- Additions to production stripping assets for the six months ended November 30, 2014 were \$353,988.
- Approximately \$1,100,000 was spent at the Pine Cove Project on exploration for the six months ended November 30, 2014. The Company's exploration initiatives included a diamond drill program at the Stog'er Tight deposit, the commencement of a drill program at the Pine Cove deposit and trenching and soil sampling.

### **Overall performance**

Net loss for the three months ended November 30, 2014 was \$3,170,174 (net income of \$2,646,938 for the three months ended November 30, 2013). Results were negatively impacted by a write down of Chilean assets of \$2,260,158. The Company generated a gross operating deficit of \$339,455 for the three months ended November 30, 2014 (gross margin of \$585,152 for the three months ended November 30, 2013). Earnings were negatively impacted as a result of lower gold sales of \$501,267, higher mining costs of \$177,125, milling costs of \$82,373 and increased depletion and depreciation of \$172,353. The Company generated negative EBITDA of \$2,144,500 for the three months ended November 30, 2014 (positive EBITDA of \$4,139,163 for the three months ended November 30, 2013). EBITDA for the three months ended November 30, 2014 was \$115,658, excluding the write down of Chilean assets.

Net loss for the six months ended November 30, 2014 was \$3,345,984 (net income of \$3,243,234 for the six months ended November 30, 2013). The net loss was negatively impacted by a write down of Chilean assets of \$2,260,158. The Company generated a gross operating deficit of \$355,872 for the six months ended November 30, 2014 (gross margin of \$2,047,668 for the six months ended November 30, 2013). Earnings were negatively impacted as a result of lower gold sales of \$721,438, higher mining costs of \$939,040, milling costs of \$352,712 and increased depletion and depreciation of \$437,801. Cash flow from operations for the six months ended November 30, 2014 was \$1,282,338. Cash of approximately \$2.27 million was used in exploration activities and capital expenditures. The Company generated negative EBITDA of \$1,279,328 for the six months ended November 30, 2014 (positive EBITDA of \$3,643,423 for the six months ended November 30, 2013). EBITDA for the six months ended November 30, 2014 was \$980,830, excluding the write down of Chilean assets.

### **The Pine Cove Project**

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 acquired from Tenacity totaling 660 hectares that contains an operating open pit mine, milling and processing plant and



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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 \$200,000 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 November 30, 2014, the Company has determined it has approximately \$36 million in carry forward expenditures deductible against future receipts.

### Operations overview

During the three months ended November 30, 2014, the gold sales volume of 3,431 ounces represented a 11% decrease over the same period in fiscal 2014 largely due to a change in ore grade from 1.80 grams per tonne ("gpt") for the three months ended November 30, 2013 to 1.60 gpt for the three months ended November 30, 2014. Average sales price for the three months ended November 30, 2014 was \$1,398 per ounce versus \$1,376 per ounce for the same period in fiscal 2014. As a result of the lower sales volume, gross revenue for the three months ended November 30, 2014 of \$4,798,179 was lower than the same period of fiscal 2014 by \$501,267 or 9%.

The following table summarizes the key operating metrics for the three and six months ended November 30, 2014 and 2013:

OPERATING STATISTICS:	For the three months ended		For the six months ended	
	November 30 2014	November 30 2013	November 30 2014	November 30 2013
<b>Mill</b>				
Operating days	81	79	168	164
Availability	88%	87%	92%	90%
Dry tonnes processed	85,515	76,114	169,297	160,004
Tonnes per 24-hour period	1,056	963	1,008	976
Grade (grams per tonne)	1.60	1.80	1.70	1.86
Overall mill recovery	85%	83%	85%	83%
Gold sales volume (troy oz.)	3,431	3,852	7,364	7,948
<b>Mine</b>				
Operating days	63	62	127	126
Ore production (tonnes)	77,489	84,533	166,728	158,722
Waste production (tonnes)	457,387	427,845	949,427	912,359
Total production (tonnes)	534,876	512,378	1,116,155	1,071,081
Waste: Ore ratio	5.9	5.1	5.7	5.7

### Milling operations

The mill operated for 81 days during the second quarter of fiscal 2015 and processed 85,515 dry tonnes of ore resulting in a record average run rate of 1,056 tonnes per operating day. Tonnes processed in the second quarter of fiscal 2015 were 12% higher than the similar period in fiscal 2014. Mill availability was 88% and recovery was 85%, both improvements in comparison to 87% and 83%, respectively, in the second quarter of fiscal 2014. During the month of September, a preventative mill maintenance program was performed which included a liner and lifter change and repairs on the thickener tank, cyclone feed pump and floatation air compressor. On the crushing plant, the crusher enclosure was completed to mitigate previous winter weather effects and conveyor belts were vulcanized. As a result of these repairs and managements' focus on certain operating procedures, the mill achieved new levels of production with October and November achieving 98% and 95% availability respectively, resulting in both months having throughput levels in excess of 32,000 tonnes



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per month compared to the second quarter of fiscal 2014 average of 25,371 tonnes per month. Recovery for the two months was 86% and 87% respectively.

### Mining operations

The pit operated for 63 days in the second quarter of fiscal 2015 and produced 77,489 tonnes of ore and 457,387 tonnes of waste. Mining production remained at elevated levels in the second quarter of fiscal 2015, as planned, to complete stacking of waste material for the tailings dam expansion project, which is near completion. Management continues to focus on improving grade by updating ore solids and the block model for the Pine Cove deposit and using pit mapping tools to provide more accurate mine planning and ore identification. In addition, the Company has finished a series of blast movement monitoring tests and is currently evaluating the efficacy of incorporating this tool into its operating plans. Lastly, Anaconda has just begun a research project in partnership with the Industrial Research Assistance Program to install GPS on its primary excavator to improve accuracy of digging within ore limits and decreasing dilution.

### 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 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 now 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



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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 Alberta 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 (of which \$25,000 has been paid) and 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 (of which \$25,000 has been paid) and 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.

### **Exploration**

The Company developed a strategy to leverage the existing infrastructure at Pine Cove by exploring and developing its mineral and mining leases in search of two general mineralization styles: Pine Cove like, quartz-carbonate-pyrite hosted (2+ gpt) mineralization and higher grade (5+ gpt) quartz vein  $\pm$  carbonate  $\pm$  pyrite mineralization. The strategy involves delineating more Pine Cove like ore through the expansion of the current Pine Cove resource, delineation and expansion of the Stog'er Tight deposit and the discovery of similar deposits, while also delineating higher-grade deposits such as Deer Cove and Romeo and Juliet and discovery of similar style deposits to incrementally increase the feed grade for the mill.

Consistent with this strategy, in the six months ended November 30, 2014, the Company has made the following advances in exploration:

- Conducted a diamond drill program at the Deer Cove and Stog'er Tight deposits.
- Initiated a drill program at the Pine Cove deposit.
- Trenching and soil sampling at various locations around the Ming's Bight Peninsula including the Goldenville trend and the Ming's West area.

#### **Deer Cove**

Exploration activities for the six months ended November 30, 2014 included the continuation of a diamond drill program on the Deer Cove deposit, assemblage of historical data, geological mapping, core cutting and analysis, and initial work on the resource model. These activities were coordinated to achieve the goal of preparing an internal resource estimate to be used in assessing the next stage of exploration and/or development.

#### **Stog'er Tight**

Exploration activities for the six months ended November 30, 2014 included the completion of a diamond drill program on the Stog'er Tight deposit. The Stog'er Tight drill program consisted of 2,265 metres of diamond drilling in 31 holes, designed to infill known shallow mineralization, intersect down dip mineralization in areas where gold is anticipated, but not previously intersected (holes BN14-198, 200 to 203, and 205) and to verify historical drilling programs by twinning existing drill holes in anticipation of publishing an NI 43-101 compliant resource (holes BN14-208 to 216). As part of this design, holes were distributed over approximately 500 metres



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of strike length. All drill holes tested mineralization at depths less than 125 metres. In addition, the program built on historic data and led to a better understanding of the geological setting and distribution of gold within the deposit.

Consistent with the Company's goals the drill program began the process of outlining a deposit that has at least a five-year mine life at the current Pine Cove mill throughput rate of approximately 1,000 tonnes per day. If Stog'er Tight has a five-year mine life, then the Company would nearly double the life of the Pine Cove Project to almost 10 years. Drilling was supplemented by detailed geochemical analysis and structural mapping of the deposit to determine geological controls on mineralization and to develop grade-control techniques for use in mining.

### **Pine Cove**

Exploration activities for the six months ended November 30, 2014 included the initiation of a diamond drill program on the Pine Cove deposit. The program consists of approximately 2,000 metres of diamond drilling in 10 holes. The fiscal 2015 program has two primary goals. The first goal is to increase near surface mineral resources at the Pine Cove mine proximal to the current ultimate pit design. The focus will be on the Western Extension area discovered in 2013 (See press release dated February 28, 2013) and the Pine Cove Pond area on the southern side of the pit (where mining initiated in 2007), which hosts known mineralization not included in the initial mineral reserves. Secondly, the Company is looking to identify the limits of the northern and down dip extension of the deposit. In the down dip area, Anaconda would like to determine if there is the potential for future expansion of the mine and if the surface ground immediately north of the Pine Cove pit can be utilized as waste rock storage, providing a shorter haul and lower mining costs than the present waste rock storage location.

This drilling program is consistent with the Company's strategy to grow the Pine Cove Project by developing resources to extend the project and continue feeding the base-load production of the mill.

### **Trenching and soil sampling**

Exploration activities for the six months ended November 30, 2014 included trenching of soil anomalies in an area immediately north of the Stog'er Tight deposit and an area west of the community of Ming's Bight as well as a soil sampling program along the Goldenville trend was conducted to identify exploration targets. The results of this program were reported in a press release dated January 8, 2015.

## **Results of operations**

### **For the three months ended November 30, 2014**

#### **Revenue**

For the three months ended November 30, 2014, the Company generated \$4,798,179 in revenue at an average sales price of \$1,398 per ounce. Revenue and gold ounces sold decreased by 9% and 11% respectively from the same period in fiscal 2014, largely due to a change in ore grade from 1.80 gpt for the three months ended November 30, 2013 to 1.60 gpt for the three months ended November 30, 2014.

#### **Cost of sales and gross margin**

For the three months ended November 30, 2014, cost of sales was \$5,137,634 yielding a gross deficit of \$339,455 compared to the same period in fiscal 2014, which generated a cost of sales of \$4,714,294, yielding a gross margin of \$585,152. The difference in cost of sales between the three months ended November 30, 2014 and the same period in fiscal 2014 is attributed to an increase in mining costs of \$177,124, mill costs of \$82,373 and depletion and depreciation of \$172,353. Mining costs increased due to inventory adjustments drawing down stockpile ore to meet higher demand from the mill. Higher milling costs are a result of increased



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maintenance and labour expenses. Depletion and depreciation increased due to a change in reserve base and capital asset additions during the three months ended November 30, 2014.

### **Administrative expenses**

Corporate administration expenses consist of consulting/professional fees, corporate salaries/benefits, office and general expenses, travel and regulatory related costs. For the three months ended November 30, 2014, administrative expenses totaled \$472,330 compared to \$515,599 for the same period in fiscal 2014 and was lower primarily due to lower rent expense.

### **Other revenues and expenses**

Other expenses for the three months ended November 30, 2014 were \$25,480 to record accounting and legal costs associated with the Company's Chilean iron ore properties. Revenues of \$3,289,040 in the same period in fiscal 2014 consisted of a milestone payment of US\$1 million, US\$2 million milestone payment receivable (which has been written down in FY Q2 2015) and the Company's first royalty payment of US\$121,705.

### **Net loss**

Net loss for the three months ended November 30, 2014 was \$3,170,174 compared with net income of \$2,646,938 for the three months ended November 30, 2013. Net income decreased primarily as a result of a write down of Chilean assets of \$2,260,158, lower gold sales of \$501,267 and higher mining costs of \$177,125, milling costs of \$82,373 and increased depletion and depreciation of \$172,353.

### **Exploration and evaluation assets**

For three months ended November 30, 2014, the Company spent approximately \$679,000 at the Pine Cove Project on exploration activities.

## **For the six months ended November 30, 2014**

### **Revenue**

For the six months ended November 30, 2014, the Company generated \$10,309,791 in revenue at an average sales price of \$1,400 per ounce. Revenue and gold ounces sold both decreased by 7% from the same period in fiscal 2014, largely due to a change in ore grade from 1.86 gpt for the six months ended November 30, 2013 to 1.70 gpt for the six months ended November 30, 2014.

### **Cost of sales and gross margin**

For the six months ended November 30, 2014, cost of sales was \$10,665,663 yielding a gross deficit of \$355,872 compared to the same period in fiscal 2014, which generated a cost of sales of \$8,983,561, yielding a gross margin of \$2,047,668. The difference in cost of sales between the six months ended November 30, 2014 and the same period in fiscal 2014 is attributed to an increase in mining costs of \$939,040, milling costs of \$352,712 and depletion and depreciation of \$437,801. Mining costs increased approximately \$325,000 due to increased drilling and blasting costs and longer hauling distances and \$593,000 from inventory adjustments. Higher milling costs are a result of increased crusher operation, maintenance and labour expenses of \$300,000 and reagent costs of \$70,000 offset by lower expenses for other consumables. Depletion and depreciation increased due to a change in reserve base and capital asset additions during the six months ended November 30, 2014.

### **Administrative expenses**

Corporate administration expenses consist of consulting/professional fees, corporate salaries/benefits, office and general expenses, travel and regulatory related costs. For the six months ended November 30, 2014, administrative expenses totaled \$976,826 compared to \$1,006,948 for the same period in fiscal 2014 and was lower primarily due to rent expense.



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### Other revenues and expenses

Other revenues from the Company's Chilean iron ore properties for the six months ended November 30, 2014 were \$279,972, consisting of royalty revenue of \$260,952, accretion income and other expenses. Revenues of \$3,289,040 in the same period in fiscal 2014 consisted of a received milestone payment of US\$1 million, US\$2 million milestone payment receivable (which has been written down in FY Q2 2015) and the Company's first royalty payment of US\$121,705.

As at November 30, 2014, the Company recorded an impairment charge of \$2,260,158 upon completion of its assessment of the carrying value of the milestone and royalty payment receivable and investment in Compania Portuaria Tal Tal S.A.

### Net loss

Net loss for the six months ended November 30, 2014 was \$3,345,984 compared with net income of \$3,243,234 for the six months ended November 30, 2013. Net income decreased primarily as a result of a write down of Chilean assets of \$2,260,158, lower gold sales of \$721,438 and an increase in mining costs of \$939,040, milling costs of \$352,712 and depletion and depreciation of \$437,801

### Exploration and evaluation assets

For three months ended November 30, 2014, the Company spent approximately \$1,101,000 at the Pine Cove Project on exploration activities.

### Summary of quarterly results

	November 30 2014 \$	August 31 2014 \$	May 31 2014 \$	February 28 2014 \$
Total assets	27,306,850	29,856,648	30,398,299	29,503,316
Long-term liabilities	1,334,900	1,324,655	1,285,506	1,652,498
Shareholders' equity	22,786,279	25,905,375	26,033,066	24,674,221
Total revenues	4,798,179	5,511,612	5,278,887	3,865,210
Net income (loss)	(3,170,174)	(175,810)	1,330,258	(281,136)
Net income (loss) per share - basic <sup>1</sup>	(0.018)	(0.001)	0.007	(0.002)
Net income (loss) per share - fully-diluted <sup>1</sup>	(0.018)	(0.001)	0.007	(0.002)

	November 30 2013 \$	August 31 2013 \$	May 31 2013 \$	February 28 2013 \$
Total assets	29,330,570	25,932,341	25,570,895	21,916,679
Long-term liabilities	1,644,300	1,302,310	1,288,151	1,313,219
Shareholders' equity	24,923,252	22,245,411	21,540,127	16,675,547
Total revenues	5,299,446	5,731,783	6,780,307	5,137,269
Net income	2,646,938	596,296	4,670,911	604,827
Net income per share - basic	0.015	0.003	0.026	0.003
Net income per share - fully-diuted	0.015	0.003	0.026	0.003

<sup>1</sup> In periods of loss, net loss per share basic and fully-diluted are the same, as inclusion of options and/or warrants would be anti-dilutive.



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### **Liquidity, working capital and capital resources**

As at November 30, 2014, the Company had cash and cash equivalents of \$1,368,936 (May 31, 2014 - \$2,754,225) and net working capital of \$1,195,115 (May 31, 2014 - \$5,066,477), an accumulated deficit of \$14,616,192 (May 31, 2014 - \$11,270,208) and positive cash flow from operations for the six months ended November 30, 2014 of \$1,282,338 (six months ended November 30, 2013 - \$3,568,785).

The Company's sources of cash during the periods were sales of gold production from its Pine Cove Project and milestone and royalty revenue from Chile. The Company's primary uses of cash include cash costs of gold production, capital expenditures and exploration costs. Anaconda's ability to continue to grow its business is dependent on its ability to continue to generate cash from its primary sources in excess of its primary uses.

#### **Operating activities**

During the six months ended November 30, 2014, the Company generated cash flow from operations of \$1,282,338. Trade and other receivables decreased by \$11,017, HST receivable decreased by \$170,095, prepaid expenses and deposits increased by \$11,428, inventory balances decreased by \$207,713 as a result of decreases in stockpile ore and raw materials, and trade and other payables increased by \$173,008.

#### **Investing activities**

Changes to investing activities during the six months ended November 30, 2014 were:

- Additions to property, mill and equipment of \$1,168,931, including tailings dam expansion, dry stacking, waste dump development, blast monitoring, and survey equipment;
- Additions to exploration and evaluation assets of \$1,101,048 related to exploration programs;
- Additions to production stripping assets of \$353,988; and
- A reduction of restricted cash of \$2,726.

#### **Financing activities**

The Company received proceeds for a capital lease in the amount of \$38,000, of which \$4,131 was repaid during the six months ended November 30, 2014. The Company repaid bank loans in the amount of \$3,863 and government loans in the amount of \$76,392 during the six months ended November 30, 2014.

As at November 30, 2014, the capital structure of the Company consisted primarily of all the components of shareholders' equity, a capital lease and government and bank issued loans. To adjust or maintain its capital structure, the Company may adjust the amount of any of its debt through repayment, or may enter into new credit facilities or issue new common shares.

The Company has payment requirements against outstanding accounts payable and accrued liabilities of \$3,155,904 as at November 30, 2014. In addition, the Company has a bank loan and \$33,869 in a capital lease with monthly payments of \$1,242 until October 1, 2017. There is also \$12,714 due for a government loan that was fully repaid on December 1, 2014.



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### Remuneration of key management and transactions with related parties

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 six months ended November 30, 2014	2014	2013
	\$	\$
Salaries and short term benefits <sup>1</sup>	319,549	306,735
Share based payments <sup>2</sup>	67,736	123,120
	<b>387,285</b>	<b>429,855</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 six months ended November 30, 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 (\$22,500, and \$105,000 respectively for the six months ended November 30, 2013). Raven Hill is beneficially owned by Lewis Lawrick and Dustin Angelo, directors of the Company.

As at November 30, 2014, included in trade and other payables is \$41,500 (November 30, 2013 - \$38,500) of amounts due for directors' fees.

### Capital management and off statement of financial position transactions

The Company's capital structure is adjusted based on management and the Board of Directors' decision to fund expenditures, outside of operating cash flow, 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.

The Company would supplement its Pine Cove Project cash flow and raise funds externally as and when required to finance obligations or complete projects. There is no assurance that the Company will be able to raise additional funds on reasonable terms. The sources of future funds available to Anaconda are cash flow from operations, the exercise of outstanding stock options, 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 six months ended November 30, 2014. The Company is not subject to externally-imposed capital restrictions.



# **ANACONDA MINING INC.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **Critical accounting policies and estimates**

#### **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 impacting 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.

#### **Estimated recoverable reserves and resources**

The information relating to the geological data on the size, depth and shape of the ore body requires complex geological judgments to interpret the data. Cost estimates are based on feasibility study estimates or operating history. Estimates are prepared by appropriately qualified persons, but will be affected by forecasted commodity prices, inflation rates, exchange rates, capital and production costs and recoveries amongst other factors. Changes in reserve and resource estimates may impact the carrying value of property, plant and equipment, goodwill, reclamation and remediation obligations, recognition of deferred tax amounts and depreciation, depletion and amortization.

#### **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 at the 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.

## **ANACONDA MINING INC. MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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.

### **Impairment of long-lived assets**

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

### **Depletion and amortization**

Property and mill are recorded at cost and amortized using the "units-of-production" basis and the calculated amounts will be charged to the income statement over the useful life of the mine.

Production stripping costs are recorded at cost when mining activities yield a strip ratio above the life of mine strip ratio and are amortized on a "units-of-mine-production" when mining activities yield a strip ratio below the life of mine strip ratio.

Office furniture, fixtures and equipment and leasehold improvements are recorded at cost and are amortized on a declining-balance basis at a rate of 20% per year.

### **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.

### **Fair value**

The Company has designated its cash and cash equivalents as fair value through profit and loss, which are measured at fair value. The Company's other financial assets have been classified for accounting purposes as available-for-sale, which are measured at fair value. Trade and other receivables, due from related parties and prepaid expenses and deposits are classified for accounting purposes as loans and receivables, which are measured at amortized cost which equals fair value. Trade and other payables, and due to related parties are



## **ANACONDA MINING INC. MANAGEMENT'S DISCUSSION AND ANALYSIS**

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classified for accounting purposes as other financial liabilities, which are measured at amortized cost, which also equals fair value. Fair values of trade and other receivables, prepaid expenses and deposits, due to and from related parties and trade and other payables are determined from transaction values, which were derived from observable market inputs. Fair values of other financial assets are based on Level 1 measurements and the remaining financial instruments are based on Level 2 measurements.

As at November 30, 2014, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent due to the relatively short periods to maturity of these investments.

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

### **Dividends**

The Company has neither declared nor paid any dividends on its common shares. The Company intends to retain its earnings, if any, to finance growth and expand its operation and does not anticipate paying any dividends on its common shares in the foreseeable future.

### **Risks and uncertainties**

Readers should consider carefully the following risks and other information included in the Company's historical consolidated financial statements and related notes. The risks below are not the only ones facing the Company. Additional risk factors may be found in the Company's other public filings on *SEDAR* at [www.sedar.com](http://www.sedar.com). As well, risks not currently known to the Company, or that the Company currently deems immaterial, may also impair the Company's operations. If any of the following risks actually occur, the Company's business, financial condition and operating results could be adversely affected. As a result, the trading price of the Company's outstanding shares could decline and investors could lose part or all of their investment.

#### **Financial risks**

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The credit risk is primarily attributable to cash, trade and other receivables, HST receivable, and prepaid expenses and deposits. Cash is held with a tier-1 Canadian chartered bank and as such management believes the risk of loss to be minimal.

Trade and accounts receivable may also consist 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 trade and accounts receivable is minimal.

Financial instruments included in due from related parties include reimbursement of office costs and rent. The credit risk associated with these financial instruments is limited to the carrying value of \$9,603 at November 30, 2014.

#### **Liquidity risk**

As at November 30, 2014, the Company had a net working capital of \$1,195,115. The Company maintains operations from the cash flow generated from the Pine Cove Project's operations. If necessary, the Company may seek 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. MANAGEMENT'S DISCUSSION AND ANALYSIS**

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At November 30, 2014, the carrying value and fair value amounts of the Company's financial instruments are approximately equal.

### **Market risk**

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

### **Interest rate risk**

The Company has no interest-bearing assets and only fixed-interest debts. Anaconda invests excess cash, when available, in a cashable money market account. Anaconda periodically monitors the investments it makes and is satisfied with the creditworthiness of its cash investments.

### **Foreign currency risk**

The Company's functional currency is the Canadian dollar. The Company sells its gold production and transacts business using the Canadian dollar.

There are some operational and other expenses incurred by the Company which are received/paid in US dollars. The assets and liabilities of the Company are recorded in Canadian dollars. As a result, fluctuations in the US dollar against the Canadian dollar could result in material fluctuations in the financial results of the Company.

### **Price risk**

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices as it relates to minerals (and specifically, gold) to determine the appropriate course of action to be taken by the Company. The Company is further exposed to price risk as it enters into non-hedged forward sales contracts, from time to time.

### **Derivatives – mineral properties**

The Company retains and/or has obligations related to certain carried interest rights and net smelter royalties, 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 a value.

### **Capital requirements**

The Company may not have a source of funds to continue current operations or to engage in additional exploration and development which may be necessary to develop its properties, other than the exercise of stock options and further financings. No assurance can be given that the Company will be successful in obtaining the required financing on acceptable terms, if at all.

### **Requirement of additional financing**

The exploration and development of the Company's properties, including continuing exploration and development projects, the construction of mining facilities, the commencement of new mining operations and the continuation of ongoing mining operations may require substantial additional financing. Failure to obtain sufficient financing will result in a delay or indefinite postponement of exploration, development or production on any or all of the Company's properties or even the loss of a property interest. Sources of funds now available to the Company are limited.

Additional financing may not be available when needed or, even if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to existing shareholders or sale or other



## **ANACONDA MINING INC. MANAGEMENT'S DISCUSSION AND ANALYSIS**

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dispositions of an interest in any of the Company's assets or properties. Failure to raise capital when needed would have a material adverse effect on the Company's business, financial condition and results of operations.

### **Risks factors of the business**

The Company's operations will be subject to all of the hazards and risks normally incidental to exploring, developing and exploiting natural resources. Some of these risks include:

- Environmental hazards;
- Industrial accidents;
- Labour disputes;
- Unusual or unexpected geologic formations or other geological or grade problems;
- Unanticipated changes in metallurgical characteristics and recovery;
- Unanticipated ground or water conditions, cave-ins, pit wall failures, flooding or rock bursts;
- Periodic interruptions due to bad or hazardous weather conditions and other acts of God; and
- Unfavourable operating conditions.

Any of these risks and hazards could adversely affect the Company's exploration or mining activities, resulting in:

- An increase in the cost of exploration, development or production to a point where it is no longer economically feasible to continue;
- A project being unfeasible to continue;
- The Company writing down the carrying value of one or more properties or mines;
- Delays or a stoppage in the exploration, development or production of its projects;
- Damage to, or destruction of, mineral properties or processing facilities; and/or
- Personal injury, death and/or legal liability.

Any of these results may have a material adverse effect on the Company's financial condition, results of operations and future cash flows.

### **Mining industry risks**

The exploration for, and development of, mineral deposits involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. Substantial expenses may be required to locate and establish ore reserves, develop metallurgical processes and construct mining and processing facilities at a particular site. It is impossible to ensure that the exploration programs planned by the Company or its joint venture partners will result in a profitable commercial mining operation. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices, which are inherently cyclical and cannot be predicted with certainty, and; government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. As a result, it is possible that actual costs and economic returns will differ significantly from those currently estimated for these projects.

In addition, it is also not unusual in mining operations to experience unexpected problems both during the start-up and during ongoing operations. To the extent that unexpected problems occur affecting the production in the future, the Company's revenues may be reduced, costs may increase and the Company's profitability and ability to continue its mining operation may be adversely affected.

### **Environmental risks and hazards**

All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of



## **ANACONDA MINING INC. MANAGEMENT'S DISCUSSION AND ANALYSIS**

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proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that existing or future environmental regulation will not materially adversely affect the Company's business, financial condition and results of operations. Environmental hazards may exist on the properties on which the Company holds interests which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties. Government approvals and permits are currently, or may in the future be, required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from proceeding with planned exploration, development or production of mineral properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations, including the Company, may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs, reduction in levels of production at producing properties, or abandonment or delays in development of new mining properties.

### **Governmental regulation of the mining industry**

The mining and mineral exploration activities of the Company are subject to various laws governing prospecting, development, production, taxes, labour standards, employment and occupational health, mine safety, use of water, toxic substances and waste disposal, environmental and other matters. These activities are also subject to various laws and regulations relating to protection of the environment. Although the Company believes that its mining and mineral exploration activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail production or development. Amendments to current laws and regulations governing the operations and activities of the Company or more stringent implementation thereof could have a material adverse effect on the business, financial condition and results of operations of the Company.

### **Title matters**

The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral concessions may be disputed. Although the Company believes it has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to any of its properties will not be challenged or impaired. Third parties may have valid claims underlying portions of the Company's interests.

### **Licenses and permits**

The operations of the Company may require licenses and permits from various governmental authorities. Obtaining necessary permits and licenses can be a complex, time consuming process and the Company cannot be certain that it will be able to obtain necessary permits on acceptable terms in a timely manner or at all. The costs and delays associated with obtaining necessary permits and complying with these permits and applicable laws and regulations could stop, delay or restrict the Company from proceeding with the development of an exploration project or the development and operation of a mine. Any failure to comply with applicable laws and regulations or permits could result in interruption or closure of exploration, development or mining operations, or fines, penalties or other liabilities. The Company could also lose its mining concessions under the terms of its existing agreements.



## **ANACONDA MINING INC. MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **Fluctuations in the market price of mineral commodities**

The profitability of the Company's operations will be dependent upon the market price of mineral commodities. Mineral prices fluctuate widely and are affected by numerous factors beyond the control of the Company. The level of interest rates, the rate of inflation, the world supply of mineral commodities and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The price of mineral commodities has fluctuated widely in recent years, and future price declines could cause commercial production to be impracticable, thereby having a material adverse effect on the Company's business, financial condition and results of operations.

Furthermore, reserve calculations and life-of-mine plans using significantly lower metal prices could result in material write-downs of the Company's investment in mining properties and increased amortization, reclamation and closure charges.

In addition to adversely affecting the Company's reserve estimates and its financial condition, declining commodity prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

### **Infrastructure**

Exploration, development and operating activities depend on adequate infrastructure, including reliable roads, power sources and water supply. The Company's inability to secure adequate water and power resources, as well as other events outside of its control such as unusual weather, sabotage, government or other interference in the maintenance or provision of such infrastructure, could adversely affect the Company's operations and financial condition.

### **Increase in production costs**

Changes in the Company's production costs could have a major impact on its profitability. Its main production expenses are contractor costs, materials, personnel costs and energy. Changes in costs of the Company's mining and processing operations could occur as a result of unforeseen events, including international and local economic and political events, a change in commodity prices, increased costs (including oil, steel and diesel) and scarcity of labour, and could result in changes in profitability or reserve estimates. Many of these factors may be beyond the Company's control.

The Company relies on third party suppliers for a number of raw materials. Any material increase in the cost of raw materials, or the inability by the Company to source third party suppliers for the supply of its raw materials, could have a material adverse effect on the Company's results of operations or financial condition.

### **Uncertainty in the estimation of mineral reserves and mineral resources**

To extend the lives of its mines and projects, ensure the continued operation of the business and realize its growth strategy, it is essential that the Company continues to realize its existing identified reserves, convert resources into reserves, develop its resource base through the realization of identified mineralized potential, and/or undertake successful exploration or acquire new resources.

The figures for mineral reserves and mineral resources contained in NI 43-101 technical reports and other filings of the Company made on SEDAR at [www.sedar.com](http://www.sedar.com) are estimates only and no assurance can be given that the anticipated tonnages and grades will be achieved, that the indicated level of recovery will be realized or that mineral reserves could be mined or processed profitably. Actual reserves may not conform to geological, metallurgical or other expectations, and the volume and grade of ore recovered may be below the estimated



## **ANACONDA MINING INC. MANAGEMENT'S DISCUSSION AND ANALYSIS**

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levels. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any reserve or resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Short-term operating factors relating to the mineral reserves, such as the need for orderly development of the ore bodies or the processing of new or different ore grades, may cause the mining operation to be unprofitable in any particular accounting period. In addition, there can be no assurance that gold recoveries in small-scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production. Lower market prices, increased production costs, reduced recovery rates and other factors may result in a revision of its reserve estimates from time to time or may render the Company's reserves uneconomic to exploit. Reserve data is not indicative of future results of operations. If the Company's actual mineral reserves and resources are less than current estimates or if the Company fails to develop its resource base through the realization of identified mineralized potential, its results of operations or financial condition may be materially and adversely affected. Evaluation of reserves and resources occurs from time to time and they may change depending on further geological interpretation, drilling results and metal prices. The category of inferred resource is often the least reliable resource category and is subject to the most variability. The Company regularly evaluates its resources and it often determines the merits of increasing the reliability of its overall resources.

### **Uncertainty relating to inferred mineral resources**

Inferred mineral resources that are not mineral reserves do not have demonstrated economic viability. Due to the uncertainty, which may attach to inferred mineral resources, there is no assurance that inferred mineral resources will be upgraded to proven and probable mineral reserves as a result of continued exploration.

### **Need for additional reserves**

Given that mines have limited lives based on proven and probable reserves, the Company must continually replace and expand its reserves at its gold mines. The life-of-mine estimates included contained in NI 43-101 technical reports and other filings of the Company made on SEDAR at [www.sedar.com](http://www.sedar.com) may not be correct. The Company's ability to maintain or increase its annual production of gold will be dependent in significant part on its ability to bring new mines into production and to expand reserves at existing mines.

### **History of profitability**

The Company has a history of profitability in the past three years and has a shareholder deficit of \$14,616,192 as at November 30, 2014. Cash flows generated from the operations of the Pine Cove Project are currently sufficient to fund all of the Company's ongoing working capital requirements, corporate and administrative expenses, debt service, capital expenditure requirements and other contractual obligations. There can be no assurance that the operations of the Company will be profitable in the future. The Company has limited financial resources and may require additional financing to further explore, develop, operate, acquire and retain its property interests and if financing is not available for any reason, the Company may become unable to acquire and retain its mineral concessions and carry out its business.

### **Uninsured risks**

The Company does not carry insurance to protect against certain risks. Risks not insured include environmental pollution, earthquake damage, mine flooding or other hazards against which the Company cannot insure or against which the Company may elect not to insure because of high premium costs or other reasons. Failure to have insurance coverage for any one or more of such risks or hazards could have a material adverse effect on the Company's business, financial condition and results of operations.

### **Competition**

The mining industry is intensely competitive in all of its phases and the Company will compete with many companies possessing greater financial and technical resources than itself. Competition in the base and precious metals mining industry is primarily for: mineral rich properties which can be developed and produced



## **ANACONDA MINING INC. MANAGEMENT'S DISCUSSION AND ANALYSIS**

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economically; the technical expertise to find, develop, and operate such properties; the labour to operate the properties, and; the capital for the purpose of funding such properties. Many competitors not only explore for and mine precious metals, but also conduct refining and marketing operations on a worldwide basis. Such competition may result in the Company being unable to acquire desired properties (due to the auction process involved in property acquisition), to recruit or retain qualified employees or to obtain the capital necessary to fund its operations and develop its properties. Existing or future competition in the mining industry could materially adversely affect the Company's prospects for mineral exploration and success in the future. An inability to obtain the capital necessary to fund its operations and develop its properties may cause the Company to not satisfy the requirements under the option agreements pursuant to which it holds its interest in the properties. Further, increased competition can result in increased costs and lower prices for metal and minerals produced and reduced profitability. Consequently, the revenues of the Company, its operations and financial condition could be materially adversely affected.

### **Instability of political and economic environments**

The mining interests of the Company may be affected in varying degrees by political or economic stability. Associated risks include, but are not limited to: terrorism, military repression, extreme fluctuations in currency exchange rates and high rates of inflation. Any change in regulations or shifts in political attitudes are beyond the control of the Company and may materially adversely affect its business, financial condition and results of operations. Operations may also be affected in varying degrees by such factors as government regulations (or changes thereto) with respect to the restrictions on production, export controls, income taxes, expropriation of property, repatriation of profits, land use, environmental legislation, water use, land claims of local people, and mine safety. The effect of these factors cannot be accurately predicted.

The Company has material contingent assets located in Chile and, as such, a substantial portion of the Company's business is exposed to various degrees of political, economic and other risks and uncertainties. Although Chile has a mature and stable political system and enjoys one of the best country risk ratings of the region, there is always the potential for changes in mining policies or shifts in political attitude towards foreign investment in natural resources. Changes, even if minor in nature, may adversely affect the Company's operations.

### **Repatriation of earnings**

There is no assurance that Chile or any other foreign country in which the Company or its subsidiaries may operate in the future will not impose restrictions on the repatriation of earnings to foreign entities.

### **Dependence upon key management personnel and executives**

The Company will be dependent upon the continued support and involvement of a number of key management personnel. The loss of the services of one or more of such personnel could have a material adverse effect on the Company. The Company's ability to manage its exploration, development and operating activities and, hence, its success, will depend in large part on the efforts of these individuals. The Company faces intense competition for qualified personnel and there can be no assurance that the Company will be able to attract and retain such personnel.

### **Possible conflicts of interest of directors and officers of the Company**

Certain directors and officers of the Company also serve as directors, officers and/or advisors of and to other companies involved in natural resource exploration and development. Consequently, there exists the possibility for such directors and officers to be in a position of conflict. The Company expects that any decision made by any of such directors and officers involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company and its shareholders, but there can be no assurance in this regard. In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest or which are governed by the procedures set forth in the *Business Company's Act* (Ontario) and any other applicable law.



# ANACONDA MINING INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Absence of dividends

The Company has never paid a dividend on its shares, and does not expect to do so in the foreseeable future. Any future determination to pay dividends will be at the discretion of the Board of Directors of the Company and will depend upon the capital requirements of the Company, results of operations and such other factors as the Board of Directors considers relevant. Accordingly, it is likely that investors will not receive any return on their investment in the shares other than possible capital gains.

### Risk of dilution

Under applicable Canadian law, shareholder approval is not required for the Company to issue shares in a number of circumstances. Moreover, the Company has commitments that could require the issuance of a substantial number of additional shares, in particular options to acquire shares under the stock option plan of the Company. The future business of the Company will require substantial additional financing which will likely involve the sale of equity capital. The Company can also be expected to issue additional options, warrants and other financial instruments, which may include debt. Future issuances of equity capital may have a substantial dilutive effect on existing shareholders. The Company is not able at this time to predict the future amount of such issuances or dilution.

### Disclosure of outstanding share information

The following table sets forth information concerning the outstanding securities of the Company as at January 8, 2015:

<b>Common shares of no par value</b>	<b>Number</b>
Shares	179,878,963
Options	16,800,000
Fully diluted shares outstanding	196,678,963

### Disclosure controls and procedures and internal controls over financial reporting

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") on a timely basis so that appropriate decisions can be made regarding public disclosure. As at November 30, 2014, the Company's management, with the participation of the CEO and CFO, has evaluated the effectiveness of the Company's disclosure controls and procedures as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings of the Canadian Securities Administrators and has concluded that such controls and procedures are effective.

### Internal control over financial reporting

Management is responsible for certifying the design of the Company's Internal Control of Financial Reporting ("ICFR") as required by *National Instrument 52-109 – Certification of Disclosure in Issuers Annual and Interim Filings*. The Company's ICFR is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable IFRS. ICFR should include those policies and procedures that establish the following:

- Maintenance of records, in reasonable detail, that accurately and fairly reflect the transactions and dispositions of the Company's assets;
- Reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable IFRS;



## **ANACONDA MINING INC. MANAGEMENT'S DISCUSSION AND ANALYSIS**

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- Receipts and expenditures are only being made in accordance with authorizations of management and the Board; and
- Reasonable assurance regarding prevention or timely detection of unauthorized collection, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, ICFR may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management, including the CEO and CFO, carried out an assessment of the design of the Company's ICFR using the *COSO Internal Control – Integrated Framework* and concluded, subject to the inherent limitation noted below, that the Company has sufficient controls to meet the requirements as stated above and that two weaknesses existed as at November 30, 2014, as disclosed below.

### **Segregation of duties**

Segregation of duties is a basic, key internal control and one of the most difficult to achieve in a small company. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. Due to the Company's small size and limited resources, a complete segregation of duties within the Company's accounting group cannot be fully achieved and a material weakness exists. The result is that the Company is highly reliant on the performance of mitigating procedures during the process of closing its financial statements in order to ensure the financial statements are presented fairly in all material respects. Management will identify and hire additional accounting resources where cost effective and when required. Where it is not cost effective to obtain additional accounting resources, management will review existing mitigating controls and, if appropriate, implement changes to its internal control processes whereby more effective mitigating controls will be adopted.

The CEO and the CFO have concluded however, that no material misstatements exist in the Company's financial reporting as at November 30, 2014.

There have been no changes in the Company's internal control over financial reporting during the three months ended November 30, 2014.

### **Reconciliation of Non-GAAP financial measures**

The Company has included certain non-GAAP financial measures in this document. These measures are not defined under IFRS and should not be considered in isolation. The Company believes that these measures, together with measures determined in accordance with IFRS, provide investors with an improved ability to evaluate the underlying performance of the Company. The inclusion of these measures is meant to provide additional information and should not be used as a substitute for performance measures prepared in accordance with IFRS. These measures are not necessarily standard and therefore may not be comparable to other issuers.

Adjusted net earnings measures the performance of the Company, excluding certain impacts which the Company believes are not reflective of the Company's underlying performance for the reporting period, such as the impact of foreign exchange gains and losses, impairment charges, and non-hedge derivative gains and losses. Although some of the items are recurring, the Company believes that they are not reflective of the underlying operating performance of its current business and are not necessarily indicative of future operating results.

## ANACONDA MINING INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table provides a reconciliation of adjusted net earnings for the three and six months ended November 30, 2014 and 2013:

	For the three months ended		For the six months ended	
	November 30 2014	November 30 2013	November 30 2014	November 30 2013
	\$	\$	\$	\$
Net income (loss)	(3,170,174)	2,646,938	(3,345,984)	3,243,234
Adjusting items:				
Foreign exchange loss (gain)	(281)	3,182	(10,165)	3,552
Unrealized loss (gain) on forward sales contract derivative	67,819	(25,714)	52,597	36,525
Write down of Chilean assets	2,260,158	-	2,260,158	-
Reclamation expense	14,358	13,729	28,716	27,458
Total adjustments	2,342,054	(8,803)	2,331,306	67,535
<b>Adjusted net earnings (loss)</b>	<b>(828,120)</b>	<b>2,638,135</b>	<b>(1,014,678)</b>	<b>3,310,769</b>

Cash cost per ounce sold is cost of sales before depreciation divided by gold ounces sold. All-in sustaining cash cost per ounce sold is cash cost, corporate administration, purchase of property, mill and equipment and purchase of exploration and evaluation assets divided by gold ounces sold.

The following table provides a reconciliation of cash cost per ounce sold and all-in sustaining cash cost per ounce sold for the three and six months ended November 30, 2014 and 2013:

	For the three months ended		For the six months ended	
	November 30 2014	November 30 2013	November 30 2014	November 30 2013
Cost of sales	5,137,634	4,714,294	10,665,663	8,983,561
Less: Depletion and depreciation	(952,923)	(780,570)	(2,033,556)	(1,595,755)
Cash operating cost	4,184,711	3,933,724	8,632,107	7,387,806
Corporate administration	472,330	515,599	976,826	1,006,948
Purchase of property, mill and equipment	813,512	345,409	1,168,931	748,469
Purchase of exploration and evaluation assets	679,017	120,968	1,101,048	599,611
All-in cash cost	6,149,570	4,915,700	11,878,912	9,742,834
Gold ounces sold	3,431	3,852	7,364	7,948
<b>Cash cost per ounce sold</b>	<b>1,220</b>	<b>1,021</b>	<b>1,172</b>	<b>930</b>
<b>All-in sustaining cash cost per ounce sold</b>	<b>1,792</b>	<b>1,276</b>	<b>1,613</b>	<b>1,226</b>

EBITDA is earnings before finance expense, foreign exchange loss (gain), unrealized gain on forward sales contract derivative, share based payments, income tax recovery and depreciation and depletion.

Pine Cove Project EBITDA is EBITDA before corporate administration, other revenues and expenses and write down of Chilean assets.



## ANACONDA MINING INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table provides a reconciliation of EBITDA for the three and six months ended November 30, 2014 and 2013:

	For the three months ended		For the six months ended	
	November 30 2014	November 30 2013	November 30 2014	November 30 2013
	\$	\$	\$	\$
Net income (loss)	<b>(3,170,174)</b>	2,646,938	<b>(3,345,984)</b>	3,243,234
Add back:				
Finance expense	-	287,691	<b>336</b>	287,883
Foreign exchange loss (gain)	<b>(281)</b>	3,182	<b>(10,165)</b>	3,552
Unrealized loss (gain) on forward sales contract derivative	<b>67,819</b>	(25,714)	<b>52,597</b>	36,525
Share-based payments	<b>51,078</b>	71,821	<b>99,197</b>	139,891
Income tax expense (recovery)	<b>(45,865)</b>	374,675	<b>(108,865)</b>	618,675
Depletion and depreciation	<b>952,923</b>	780,570	<b>2,033,556</b>	1,595,755
<b>EBITDA</b>	<b>(2,144,500)</b>	4,139,163	<b>(1,279,328)</b>	5,925,515
Corporate administration	<b>472,330</b>	515,599	<b>976,826</b>	1,006,948
Other revenues and expenses	<b>25,480</b>	(3,289,040)	<b>(279,972)</b>	(3,289,040)
Write down of Chilean assets	<b>2,260,158</b>	-	<b>2,260,158</b>	-
<b>Pine Cove Project EBITDA</b>	<b>613,468</b>	1,365,722	<b>1,677,684</b>	3,643,423

### Cautionary note regarding forward-looking information

This document contains or refers to forward-looking information. Such forward-looking information includes, among other things, statements regarding targets, estimates and/or assumptions in respect of future production, mine development costs, unit costs, capital costs, timing of commencement of operations and future economic, market and other conditions, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to: the grade and recovery of ore which is mined varying from estimates; capital and operating costs varying significantly from estimates; inflation; changes in exchange rates; fluctuations in commodity prices; delays in the development of the any project caused by unavailability of equipment, labour or supplies, climatic conditions or otherwise; termination or revision of any debt financing; failure to raise additional funds required to finance the completion of a project; and other factors. Forward-looking statements are subject to significant risks and uncertainties and other factors that could cause actual results to differ materially from expected results. Readers should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and the Company assumes no responsibility to update them or revise them to reflect new events or circumstances, except as required by law.

### Additional information and continuous disclosure

This MD&A has been prepared as at January 8, 2015. Additional information on the Company is available through regular filings of press releases, financial statements, and the Company's AIF, on SEDAR ([www.sedar.com](http://www.sedar.com)) and on the Company's web site ([www.anacondamining.com](http://www.anacondamining.com)).



# ANACONDA MINING INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

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## Management's responsibility

Management is responsible for all information contained in this MD&A. The Financial Statements have been prepared in accordance with International Financial Reporting Standards and include amounts based on management's informed judgments and estimates. The financial and operating information included in this MD&A is consistent with that contained in the Financial Statements in all material aspects.

Management maintains internal controls to provide reasonable assurance that financial information is reliable and accurate and assets are safeguarded.

The Company's Board of Directors has reviewed with management and approved the Financial Statements and this MD&A.

"Dustin Angelo"

Dustin Angelo  
President and Chief Executive Officer

"Errol Farr"

Errol Farr  
Chief Financial Officer