

ANACONDA GOLD CORP.

(An exploration stage entity)

Consolidated Financial Statements

Years ended May 31, 2006 and 2005



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**AUDITORS' REPORT
To the Shareholders of
Anaconda Gold Corp.**

We have audited the consolidated balance sheets of Anaconda Gold Corp. as at May 31, 2006 and 2005 and the consolidated statements of operations and deficit, cash flows, and mineral properties and related deferred costs for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at May 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Smith, Nixon & Co. LLP

Chartered Accountants
Toronto, Ontario
August 18, 2006
(except for note 11, which is dated September 18, 2006)

ANACONDA GOLD CORP.
(An exploration stage entity)
CONSOLIDATED BALANCE SHEETS

As at May 31,	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,136,733	\$ 560,988
Marketable securities	3,969	118,500
Receivables	13,931	129,153
Deposit (Note 3)	96,324	-
	2,250,957	808,641
Mineral properties and related deferred costs (Note 3)	4,381,330	3,863,069
	\$ 6,632,287	\$ 4,671,710
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	\$ 111,296	\$ 257,895
SHAREHOLDERS' EQUITY		
Capital stock (Note 4(b))	8,861,965	6,809,554
Warrants (Note 4(g))	478,470	16,650
Contributed surplus (Note 4(h))	115,701	119,701
Deficit	(2,935,145)	(2,532,090)
	6,520,991	4,413,815
	\$ 6,632,287	\$ 4,671,710

See accompanying notes to financial statements

Approved by the Board of Directors

"Nick Tintor"
Director

"John Cook"
Director

ANACONDA GOLD CORP.
(An exploration stage entity)
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Years ended May 31,	2006	2005	Cumulative from date of inception of the exploration stage (November 30, 2003)
Income			
Investment Income	\$ 77,933	\$ 29,163	\$ 106,011
Sale of uranium data (Note 8)	156,000	-	156,000
	233,933	29,163	262,011
Expenses			
Foreign exchange (gain)/loss	4,169	(3,796)	691
Interest expense	14,989	10,369	26,603
Legal, audit and regulatory expenses	86,268	108,871	243,502
Management services	62,898	61,958	125,956
General exploration activities	17,578	9,113	32,576
Office administration and rent	115,350	96,345	180,336
Shareholder relations	105,686	35,522	157,606
Stock-based compensation (Note 5)	109,500	71,580	216,917
Travel	35,897	14,068	61,774
Unrealized loss on marketable securities	2,031	81,250	83,281
Write-down of mineral properties (Note 3)	82,622	40,775	197,153
	636,988	526,055	1,326,395
Loss before income taxes	(403,055)	(496,892)	(1,064,384)
Future income tax recovery (Note 6)	-	762,854	762,854
Net income (loss)	(403,055)	265,962	(301,530)
Deficit, beginning of year	(2,532,090)	(2,798,052)	(2,633,615)
Deficit, end of year	\$ (2,935,145)	\$ (2,532,090)	\$ (2,935,145)
Basic and diluted income (loss) per share	\$ (0.01)	\$ 0.01	
Weighted average number of shares outstanding	32,192,080	28,997,892	

See accompanying notes to financial statements

ANACONDA GOLD CORP.
(An exploration stage entity)
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended May 31,	2006	2005	Cumulative from date of inception of the exploration stage (November 30, 2003)
Cash Provided By (Used In)			
Operations			
Net income (loss)	\$ (403,055)	\$ 265,962	\$ (301,530)
Items not involving cash:			
Write-down of mineral properties	82,622	40,775	197,153
Stock-based compensation	109,500	71,580	216,917
Other	(17,855)	-	(93,255)
Gain on sale of marketable securities	(53,769)	-	(53,769)
Sale of uranium data	(156,000)	-	(156,000)
Unrealized loss on marketable securities	2,031	81,250	83,281
Future income tax recovery	-	(762,854)	(762,854)
	(436,526)	(303,287)	(870,057)
Changes in non-cash working capital			
Receivables	115,222	(32,699)	6,520
Deposit	(96,324)	-	(96,324)
Accounts payable and accrued liabilities	(128,744)	103,258	(99,757)
	(546,372)	(232,728)	(1,059,618)
Financing			
Proceeds on issuance of common shares	2,490,101	2,562,000	5,095,600
Cost of issue	(96,870)	(206,950)	(303,820)
	2,393,231	2,355,050	4,791,780
Investing			
Mineral property expenditures	(593,383)	(2,363,928)	(3,969,004)
Gold sales prior to commencement of commercial production	-	539,193	539,193
Loan receivable	-	-	50,000
Proceeds on sale of marketable securities	322,269	-	322,269
	(271,114)	(1,824,735)	(3,057,542)
Net change in cash and cash equivalents	1,575,745	297,587	674,620
Cash and cash equivalents, beginning of year	560,988	263,401	1,462,113
Cash and cash equivalents, end of year	\$ 2,136,733	\$ 560,988	\$ 2,136,733

See accompanying notes to financial statements

ANACONDA GOLD CORP.
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CONSOLIDATED STATEMENT OF MINERAL PROPERTIES AND RELATED DEFERRED COSTS
Years ended May 31, 2006 and 2005

	Horse Mountain	Lingman Lake	Borthwick Lake	Damoti Lake	Pine Cove	Dorset	Other
Balance at inception as exploration stage entity, November 30, 2003	\$ 257,596	\$ 300,000	\$ 451,823	\$ 62,186	\$ 45,559	\$ 15,000	\$ 58,856
Acquisition costs	(6,994)	-	-	50,500	91,500	-	15,000
Consulting	1,984	-	10,931	25,567	49,598	-	-
Management fees	-	-	2,962	3,868	30,497	-	-
Exploration expenses	31,311	25,517	58,567	81,283	136,833	-	(100)
Travel and entertainment	694	-	8,783	22,196	37,437	-	-
Drilling	-	-	-	230,858	117,803	-	-
Geosciences	-	-	97,705	-	-	-	-
General and office	-	-	-	-	5,125	-	-
Equipment rental	-	-	-	6,668	-	-	-
Write-off of expenditure	-	-	-	-	-	-	(73,756)
Balance, May 31, 2004	284,591	325,517	630,771	483,126	514,352	15,000	-
Acquisition costs	(201,969)	(81,000)	-	40,000	-	25,775	-
Consulting	-	-	5,150	35,875	63,941	-	-
Management fees	-	-	903	72,041	79,878	-	-
Exploration expenses	-	-	467	439,757	906,648	-	-
Travel and entertainment	-	-	751	55	21,873	-	-
Drilling	-	-	-	290,791	290,220	-	-
Geosciences	-	-	5,850	156,857	-	-	-
Assays, and analysis	-	-	-	-	1,745	-	-
General and office	-	-	-	-	25,612	-	-
Professional fees	-	-	-	-	6,372	-	-
Surveying and mapping	-	-	-	-	47,935	-	-
Rental expense	-	-	-	-	6,426	-	-
Government grant	-	-	-	-	(55,000)	-	-
Gold sales	-	-	-	-	(539,193)	-	-
Transportation	-	-	-	-	2,727	-	-
Write-off of expenditure	-	-	-	-	-	(40,775)	-
Balance, May 31, 2005	82,622	244,517	643,892	1,518,502	1,373,536	-	-
Acquisition costs	-	-	(20,000)	95,500	-	-	-
Consulting	-	-	950	500	58,067	-	-
Management fees	-	-	1,048	12,063	14,663	-	-
Exploration expenses	-	-	-	39,093	91,635	-	-
Travel and entertainment	-	-	1,567	14,233	13,323	-	-
Drilling	-	-	-	73,040	66,144	-	-
Geosciences	-	-	-	2,100	-	-	-
Assays, and analysis	-	-	-	4,130	1,141	-	-
General and office	-	-	-	-	-	-	-
Professional fees	-	-	-	-	10,000	-	-
Surveying and mapping	-	-	15,920	-	17,250	-	-
Rental expense	-	-	-	-	1,891	-	-
Claim maintenance	-	-	-	-	51,533	-	-
Bonding costs	-	-	-	25,000	-	-	-
Transportation	-	-	-	-	10,092	-	-
Written off during year	(82,622)	-	-	-	-	-	-
Balance, May 31, 2006	\$ -	\$ 244,517	\$ 643,377	\$ 1,784,161	\$ 1,709,275	\$ -	\$ -

See accompanying notes to financial statements

ANACONDA GOLD CORP.
(An exploration stage entity)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended May 31, 2006 and 2005

1. NATURE OF OPERATIONS AND GOING CONCERN

Anaconda Gold Corp. (the "Company" and "Anaconda") was incorporated under the laws of British Columbia. On July 22, 2002, the Company changed its name from Anaconda Uranium Corporation to Anaconda Gold Corp. Under Articles of Continuance dated July 22, 2002 the Company continued its governing jurisdiction from the Province of British Columbia to the Province of Ontario and changed its authorized share capital (Note 4). Effective November 30, 2003 the Company is engaged in the acquisition, exploration, evaluation and development of principally gold resource properties. As such, the cumulative from date of inception of the exploration stage information commences on November 30, 2003.

The Company has not yet established whether its mineral properties contain reserves that are economically recoverable. The recovery of amounts capitalized for mineral properties and related deferred costs in the consolidated balance sheet is dependant upon the existence of economically recoverable reserves, the ability of the Company to arrange appropriate financing to complete the development of the properties and upon future profitable production or proceeds from their disposition.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has suffered recurring losses from operations that raise substantial doubt as to its ability to continue as a going concern. These financial statements do not include adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries and have been prepared by management in accordance with Canadian generally accepted accounting principles. All significant intercompany transactions and balances have been eliminated upon consolidation.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the period. The most significant estimates and assumptions include those related to the ability of the Company to continue as a going concern (Note 1), the mineral properties and related deferred costs and stock-based payments. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, including cashable guaranteed investment certificates.

ANACONDA GOLD CORP.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended May 31, 2006 and 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Marketable Securities

Marketable securities are valued at the lower of cost or market.

Mineral Properties and Related Deferred Costs

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

The amounts shown for mineral properties and related deferred costs represent costs incurred to date, less write-offs and recoveries, and do not necessarily reflect present or future values of the particular properties. Proceeds from gold sales during the bulk sampling development stage and the net realizable value of gold concentrate in inventory are netted against deferred exploration and development costs.

Flow-through Shares

In the past, the Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to mineral properties and deferred exploration expenditures. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciations reduce share capital.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values, using the substantially enacted tax rates expected to apply when these temporary differences are expected to reverse. Future income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will be realized.

Foreign Currency Translation

The Company's foreign operations are integrated and are included in these consolidated financial statements on the basis that monetary assets and liabilities are translated at the period end rate of exchange, non-monetary assets and liabilities are translated at historical rates, and revenues and expenses are translated at the exchange rate in effect at the time the revenues are earned or the expenses are incurred. Exchange gains and losses arising on the translation of monetary items are included in income and loss from operations.

ANACONDA GOLD CORP.
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Years ended May 31, 2006 and 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss Per Share

Loss per share is calculated using the weighted average number of common shares outstanding during the year. The diluted loss per share gives effect to the exercise of any option or warrant for which the exercise price is lower than the average market price during the period. Diluted loss per share data is not presented as the exercise of options and warrants would have been anti-dilutive.

Stock-based Compensation

The Company applies the fair value-based method to all stock options granted on or after May 31, 2003. Accordingly, compensation cost is measured at fair value at the date of grant and is expensed on a straight-line basis over the vesting period, with the related credit included in contributed surplus.

The applicable contributed surplus is transferred to share capital, if and when stock options are exercised. Any consideration paid on the exercise of stock options is credited to capital stock. No compensation expense has been recorded for stock options granted prior to May 31, 2003 under the stock option plan.

Asset Retirement Obligations

The Company follows the CICA Handbook Section 3110 "Asset Retirement Obligations", which established standards for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is amortized over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement of fair value. As at May 31, 2006, the Company has not incurred or committed to any asset retirement obligations related to its resource properties.

Revenue Recognition

The Company does not record revenue until such time as commercial level of production is attained. Proceeds from gold sales during the bulk sampling development stage are deducted from deferred exploration and development costs. Revenue received from the sale of uranium data was recognized at the time the data was transferred.

ANACONDA GOLD CORP.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended May 31, 2006 and 2005

3. MINERAL PROPERTIES AND RELATED DEFERRED COSTS

	Balance May 31, 2005	Option Payments	Deferred Costs	Written off during Year	Balance May 31, 2006
Horse Mountain	\$ 82,622	\$ -	\$ -	\$ (82,622)	\$ -
Lingman Lake	244,517	-	-	-	244,517
Borthwick Lake	643,892	(20,000)	19,485	-	643,377
Damoti Lake	1,518,502	95,500	170,159	-	1,784,161
Pine Cove	1,373,536	-	335,739	-	1,709,275
	\$ 3,863,069	\$ 75,500	\$ 525,383	\$ (82,622)	\$ 4,381,330

	Balance May 31, 2004	Option Payments	Deferred Costs	Written off during Year	Balance May 31, 2005
Horse Mountain	\$ 284,591	\$ (193,750)	\$ (8,219)	\$ -	\$ 82,622
Lingman Lake	325,517	(81,000)	-	-	244,517
Borthwick Lake	630,771	-	13,121	-	643,892
Damoti Lake	483,126	40,000	995,376	-	1,518,502
Pine Cove	514,352	-	859,184	-	1,373,536
Dorset	15,000	25,500	275	(40,775)	-
	\$ 2,253,357	\$ (209,250)	\$ 1,859,737	\$ (40,775)	\$ 3,863,069

Horse Mountain

Horse Mountain refers to the Rock Horse and Horse Mountain properties.

Under an agreement dated September 12, 2003, with an effective date of July 5, 2002, the Company acquired an exclusive six-year option to purchase the Rock Horse property located in the Carlin Trend, Nevada, for cash of \$54,761 (US\$35,000). In addition, the Company was required to pay consideration of US\$90,000 cash and US\$235,000 (payable either in 100% cash or 50% cash and 50% worth of common shares of Anaconda, at the option of the optionor) to be paid by the sixth anniversary date. In order to earn the property interest, the Company was required to spend US\$1,225,000 on exploration over six years. At any time prior to the seventh anniversary date, Anaconda could purchase 100% of the interest by paying the vendor US\$3.5 million.

Under an agreement dated August 19, 2002, the Company acquired an exclusive five-year option to purchase the Horse Mountain property located in the Carlin Trend, Nevada for cash of \$24,367 (US\$15,000) and the issuance of 40,000 common shares of Anaconda. In addition, the Company was required to pay consideration of 50,000 common shares of the Company on or before October 31, 2003 and US\$150,000 (payable either in 100% cash or 50% cash and 50% worth of common shares of Anaconda, at the option of Anaconda) by the fifth anniversary date. At any time prior to the sixth anniversary date, Anaconda could purchase 100% of the interest held by paying the vendor US\$2 million.

ANACONDA GOLD CORP.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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3. Mineral Properties And Related Deferred Costs (continued)

Horse Mountain (continued)

On August 7, 2003 Anaconda optioned an interest in Horse Mountain to Hunter Dickinson Group Inc. (HDG). HDG later assigned their option to Quicksilver Ventures Inc. (now called Keegan Resources Inc.). Under the terms of the option agreement, the optionee could earn a 55% interest in the Horse Mountain property by making exploration expenditures of US\$1.5 million by August 31, 2010, making all underlying option payments and holding costs and issuing Anaconda 125,000 common shares. The optionee could also earn an additional 15% in the project by financing and completing a bankable feasibility study.

During 2005, Anaconda received the 125,000 common shares of Keegan Resources Inc. The transaction was measured at the fair value of the shares received at the date of the transfer. The fair value of the shares received was \$193,750 which reduced the amount of option costs on the project.

During 2006, management determined that this property did not merit further expenditure and abandoned the project. Accordingly, the claims were returned and the costs incurred to date of \$82,622 were written off.

Lingman Lake

Under an agreement dated March 22, 2002 the Company acquired a 100% interest in seven contiguous, unpatented, unsurveyed mining claims comprising twenty-four units totalling approximately 384 hectares, located in the Lingman Lake area, Red Lake Mining Division, Ontario, by the issue of 2,000,000 common shares of Anaconda to the vendor at a deemed consideration of \$300,000. These common shares were issued August 16, 2002. On August 20, 2004, Anaconda entered into an agreement to option its 100% interest in Lingman Lake. Under the terms of this agreement, Anaconda will receive \$500,000 cash, 400,000 common shares of the optionee and a 2% net smelter royalty. In August 2005 the option agreement with Osprey Gold Corp. was terminated for their failure to meet the option requirements. As of May 31, 2006, the Company has received \$75,000 (2005 - \$75,000) in cash and 100,000 (2005 - 100,000) common shares from Osprey Gold Corp. valued at \$6,000.

Borthwick Lake

Under an agreement dated March 22, 2002 the Company acquired a 100% interest in nine unpatented, unsurveyed mining claims comprising 106 units totalling approximately 1,696 hectares, located in the Favourable Lake - Setting Lake area, Red Lake Mining Division, Ontario, by the issue of 2,000,000 common shares of Anaconda to the vendor at a deemed consideration of \$300,000. These common shares were issued August 16, 2002.

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Years ended May 31, 2006 and 2005

3. Mineral Properties And Related Deferred Costs (continued)

Borthwick Lake (continued)

On October 1, 2005 (the "Effective Date"), the Company entered into an option agreement ("the Option") with Merc International Minerals Inc. ("MIMI"). Under the terms of the option, the Company has granted MIMI the right to acquire an undivided 60% interest in the claims known as the Borthwick Claims. To exercise the Option and thereby earn the Interest, MIMI shall incur expenditures in respect of the exploration and development of the Property aggregating \$1.0 million in accordance with the following schedule:

- a) \$100,000 between the Effective Date up to and including one day prior to the first anniversary of the Effective Date.
- b) \$100,000 between the first anniversary of the Effective Date up to and including one day prior to the second anniversary date of the Effective Date.
- c) \$250,000 between the second anniversary of the Effective Date up to and including one day prior to the third anniversary of the Effective date; and
- d) \$550,000 between the third anniversary of the Effective Date up to and including one day prior to the fourth anniversary of the Effective date.

In addition MIMI should make option payments to the Company of \$25,000 on or before the second anniversary of the Effective Date and \$55,000 on or before the third anniversary of the Effective Date. Finally, MIMI should issue to the Company 30,000 common shares of MIMI on or before the first anniversary of the Effective Date, 40,000 common shares on or before the second anniversary of the Effective Date and 55,000 common shares on or before the third anniversary of the effective date.

As of May 31, 2006, \$20,000 in option payments have been received.

Damoti Lake

On May 20, 2003, the Company entered into an agreement to earn a 55% interest in the Damoti Lake project for \$2.5 million to be paid over four years. The Company must spend a total of \$2.5 million over the four year option period. In addition, Anaconda must make option payments to the vendor totalling \$170,000 cash and 100,000 common shares of Anaconda over the four years of the agreement. On earning its interest, the Company and the vendor would then form a joint venture for the project. As at May 31, 2006, expenditures of \$1,560,161 (2005 - \$1,367,002) have been incurred and option payments of \$170,000 (2005 - \$105,000) have been made. In addition, 75,000 (2005 - 50,000) common shares of Anaconda at a deemed consideration of \$23,000 (2005 -\$15,500) have been issued as at May 31, 2006. Subsequent to May 31, 2006, 25,000 common shares of Anaconda were issued as required under the agreement.

Pine Cove

Under an agreement dated November 26, 2003, the Company acquired an exclusive option to earn up to an undivided 60% interest in the Pine Cove project in Newfoundland. To earn an initial 30% undivided interest in the Pine Cove project, the Company was required to pay \$30,000 to the optionor by December 26, 2003 and \$62,500 on signing and incur a minimum of \$500,000 of expenditures on or before December 31, 2004. As at May 31, 2006, the required cash payments of \$92,500 have been made. Expenditures of \$1,779,541 (2005 - \$1,443,802) have been made as of May 31, 2006. The Company is entitled to earn an additional 30% interest in the project by paying for the completion of a feasibility report, arranging for project financing and bringing the project into commercial production.

The Company has committed to purchase of equipment for a total cost of \$346,080 and had paid a deposit of \$96,324 as at May 31, 2006 towards this purchase.

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3. Mineral Properties And Related Deferred Costs (continued)

Dorset

On May 20, 2004, the Company entered into an exclusive option agreement to acquire an undivided 100% interest in the Dorset project in Newfoundland. The Company must spend a total of \$1.25 million over the four year option period. In addition, Anaconda must make option payments to the vendor totalling \$275,000 cash and common shares of Anaconda valuing \$350,000 over the four years of the agreement. The Company agreed to pay the vendor \$15,000 and 85,000 shares upon execution of the agreement. Anaconda had made the \$15,000 cash payment and 85,000 common shares of the Company were transferred at a deemed consideration of \$25,500. The agreement was terminated and the property was written off as at May 31, 2005.

4. CAPITAL STOCK

(a) Authorized

The authorized share capital consists of an unlimited number of common shares.

(b) Issued and outstanding

	Number of Shares	Consideration
Balance on inception as an exploration stage entity, November 30, 2003	20,655,276	\$ 5,067,008
Issued for property option payments (Note 4(c))	325,000	98,000
Exercise of warrants	145,000	43,500
Balance, May 31, 2004	21,125,276	5,208,508
Issued for property option payments (Note 4(c))	85,000	25,500
Issued for cash under private placements (Note 4(d))	1,500,000	450,000
Issued for cash under flow-through private placement (Note 4 (e))	6,600,000	2,112,000
Issued as consideration for share issue costs (Note 4(f))	50,000	15,000
Share issue costs	-	(221,950)
Warrants (Note 4(g))	-	(16,650)
Renunciation of flow-through expenditures (Note 6)	-	(762,854)
Balance, May 31, 2005	29,360,276	6,809,554
Issued for property option payments (Note 4(c))	25,000	7,500
Issued for cash under private placements (Note 4(d))	4,483,847	1,914,501
Issued as consideration for share issue costs (Note 4(f))	160,000	24,000
Share issue costs	-	(120,870)
Warrants (Note 4(g))	-	(520,000)
Issued on warrant exercise (Note 4(g))	889,000	270,600
Warrant exercise - valuation (Note 4(g))	-	58,180
Issued on stock option exercise (Note 5)	1,250,000	305,000
Stock option exercise - valuation (Note 4(h))	-	113,500
Balance, May 31, 2006	36,168,123	\$ 8,861,965

ANACONDA GOLD CORP.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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4. Capital Stock (continued)

(c) Issued for property option payments

On December 12, 2003, the Company issued 50,000 shares to fulfil one of its obligations to acquire the North Star property for deemed consideration of \$15,000.

On December 12, 2003, the Company issued 50,000 shares to fulfil one of its obligations to acquire the Horse Mountain property for deemed consideration of \$15,000.

On December 12, 2003, the Company issued 175,000 shares to fulfil one of its obligations to acquire the Rock Horse property for deemed consideration of \$52,500.

On January 20, 2004, the Company issued 25,000 shares to fulfil one of its obligations to acquire the Damoti Lake property for deemed consideration of \$7,500. On May 18, 2004, the Company issued a further 25,000 shares to fulfil another of its obligations to acquire the Damoti Lake property for deemed consideration of \$8,000.

On June 22, 2004, the Company issued 85,000 shares to fulfil one of its obligations to acquire the Dorset property for deemed consideration of \$25,500.

On June 20, 2005, the Company issued 25,000 shares to fulfil one of its obligations to acquire the Damoti Lake property for deemed consideration of \$7,500.

(d) Issued for cash under private placements

On June 16, 2004, the Company completed a private placement of 1,500,000 units at a price of \$0.30 per unit, raising gross proceeds of \$450,000. Each unit consists of one common share and one half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share at a price of \$0.40 per share on or before 48 months from date of closing.

On September 19, 2005, the Company completed a non-brokered private placement of 2,000,000 units of the Company at a price of \$0.15 per unit for proceeds of \$300,000. Each unit consisted of one common share of the Company and three-quarters of a common share purchase warrant. One whole warrant entitles the holder to purchase one common share at a price of \$0.23 per common share until September 23, 2007.

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4. Capital Stock (continued)

(d) Issued for cash under private placements (continued)

On February 2, 2006, Anaconda completed a \$1,614,501 private placement by issuing 2,483,847 units at a price of \$0.65 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$0.75 per common share until August 2, 2008. The cash finder's fee of 6% was \$96,870.

(e) Issued for cash under flow-through private placement

On June 16, 2004, the Company completed a private placement of 6,600,000 units at a price of \$0.32 per unit, raising gross proceeds of \$2,112,000. Each unit consists of one common share and one half of one common share purchase warrant. Each whole flow-through common share purchase warrant entitles the holder to purchase one common share at a price of \$0.40 per share on or before 12 months from date of closing.

(f) Issued as consideration for share issue costs

In 2005, Canaccord Capital Corporation (the "Agent") acted as agent for Anaconda. The Agent received a 7.5% cash commission, a cash administration fee, 50,000 Non-Flow- Through Units and Agent's warrants to purchase up to 735,000 non-flow-through shares at an exercise price of \$0.35, for a period of 18 months from the date of closing. In addition, a member of the Agent's selling group received 75,000 Agent's warrants.

In 2006, 160,000 common shares valued at \$24,000 were issued as consideration for a finder's fee on the September 19, 2005 private placement.

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4. Capital Stock (continued)

(g) Warrants

	Value	Number of Warrants	Weighted Average Exercise Price
Balance on inception as an exploration stage entity, November 30, 2003	\$ -	7,218,181	\$ 0.30
Warrants exercised	-	(145,000)	0.30
Balance, May 31, 2004	-	7,073,181	0.30
Warrants granted (*)	16,650	4,050,000	0.40
Broker warrants granted (**)	-	810,000	0.35
Warrants expired	-	(7,073,181)	0.30
Balance, May 31, 2005	16,650	4,860,000	0.39
Warrants granted (***)	520,000	2,741,923	0.47
Warrants exercised	(58,180)	(889,000)	0.30
Warrants expired	-	(4,110,000)	0.39
Balance, May 31, 2006	\$ 478,470	2,602,923	\$ 0.50

As at May 31, 2006 the following warrants are outstanding to purchase common shares:

Date of Grant	Warrants Outstanding	Value	Exercise Price	Expiry Date
September 19, 2005	1,000,000	\$ 100,600	\$ 0.23	September 23, 2007
June 16, 2004	361,000	8,870	0.40	June 16, 2008
August 2, 2005	1,241,923	369,000	\$ 0.75	August 2, 2008
	2,602,923	\$ 478,470		

(*) On June 16, 2004, the Company issued 3,300,000 common share purchase warrants with the shares issued under a flow-through private placement. These warrants entitle the holder to purchase one common share at a price of \$0.40 per share on or before June 16, 2005. For purposes of estimating the fair market value under the Black-Scholes pricing model, the warrants were valued at \$0. The following assumptions were used to estimate this figure: expected dividend yield - 0%; expected volatility - 15%; risk-free interest rate - 3.52%; and an expected average life of 12 months.

On June 16, 2004, the Company issued 750,000 common share purchase warrants with the shares issued under a non-flow through private placement. These warrants entitle the holder to purchase one common share at a price of \$0.40 per share on or before June 16, 2008. For purposes of estimating the fair market value under the Black-Scholes pricing model, the warrants were valued at \$16,650. The following assumptions were used to estimate this figure: expected dividend yield - 0%; expected volatility - 35%; risk-free interest rate - 3.52%; and an expected average life of 48 months.

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4. Capital Stock (continued)

(g) Warrants (continued)

(**) On June 16, 2004, the Company issued 810,000 broker warrants with the shares issued under a flow-through and non-flow-through private placement. These warrants entitle the holder to purchase one common share at a price of \$0.35 per share on or before December 16, 2005. For purposes of estimating the fair market value under the Black-Scholes pricing model, the warrants were valued at \$0. The following assumptions were used to estimate this figure: expected dividend yield - 0%; expected volatility - 15%; risk-free interest rate - 3.52%; and an expected average life of 18 months.

(***) On September 19, 2005, the Company issued 1,500,000 common share purchase warrants with the shares issued under a non-flow-through private placement. These warrants entitle the holder to purchase one common share at a price of \$0.23 per common share until September 23, 2007. For purposes of estimating the fair market value under the Black-Scholes pricing model, the warrants were valued at \$151,000. The following assumptions were used to estimate this figure: expected dividend yield - 0%; expected volatility - 85%; risk-free interest rate - 3.30%; and an expected life of 24 months.

On February 2, 2006, the Company issued 1,241,923 common share purchase warrants with the shares issued under a non-flow-through private placement. These warrants entitle the holder to purchase one common share at a price of \$0.75 per common share until August 2, 2008. For purposes of estimating the fair market value under the Black-Scholes pricing model, the warrants were valued at \$369,000. The following assumptions were used to estimate this figure: expected dividend yield - 0%; expected volatility - 85%; risk-free interest rate - 3.91%; and an expected life of 18 months.

(h) Contributed Surplus

A summary of changes to contributed surplus is as follows:

Balance on inception as an exploration stage entity, November 26, 2003 and May 31, 2004	\$ 48,119
Director stock-based compensation	71,582
Balance May 31, 2005	119,701
Director stock-based compensation	109,500
Black-Scholes value of stock options exercised during the year	(113,500)
Balance May 31, 2006	\$ 115,701

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5. STOCK-BASED COMPENSATION

The Company has a stock option plan (the "Plan") in place under which the board of directors may grant options to acquire up to 10% of outstanding common shares of the Company to qualified directors, officers, employees and other ongoing service providers.

Stock option transactions and the number of stock options outstanding are as follows:

	Number of Options	Weighted Average Exercise Price
Balance on inception as an exploration stage entity, November 30, 2003	1,590,000	\$ 0.30
Options granted	560,000	0.32
Balance, May 31, 2004 and May 31, 2005	2,150,000	0.31
Options granted (i)(ii)(iii)	1,250,000	0.32
Options exercised	(1,250,000)	0.24
Balance, May 31, 2006	2,150,000	\$ 0.35

- (i) On September 21, 2005, the Company granted 1,000,000 options to officers and directors of the Company. The options to acquire common shares of the Company were granted at a price of \$0.23 per common share, expiring on September 21, 2007. A value of \$86,000 was assigned to the options using the Black-Scholes option pricing model with the following assumptions; dividend yield - 0%, volatility - 85%, risk-free interest rate - 3.30% and an expected life of 2 years. As the options vest immediately, \$86,000 has been expensed to the statement of operations and deficit with the corresponding amount allocated to contributed surplus.
- (ii) On January 21, 2006, the Company granted 150,000 options to a consultant to acquire common shares of the Company at a price of \$0.79 per common share, expiring on January 21, 2009. A value of \$43,000 was assigned to the options using the Black-Scholes option pricing model with the following assumptions; dividend yield - 0%, volatility - 85%, risk-free interest rate - 3.83% and an expected life of 1.5 years. \$43,000 will be expensed to the statement of operations and deficit with the corresponding amount allocated to contributed surplus as the options vest over 6, 12 and 18 months.
- (iii) On March 23, 2006, the Company granted 100,000 options to a consultant of the Company. The options to acquire common shares of the Company were granted at a price of \$0.51 per common share, expiring on March 23, 2007. A value of \$23,500 was assigned to the options using the Black-Scholes option pricing model with the following assumptions; dividend yield - 0%, volatility - 103%, risk-free interest rate - 3.37% and an expected life of one year. As the options vest immediately, \$23,500 has been expensed to the statement of operations and deficit with the corresponding amount allocated to contributed surplus.

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5. STOCK-BASED COMPENSATION (continued)

As at May 31, 2006 the following stock options are outstanding to purchase common shares:

Date of Grant	Number	Exercise Price	Expiry Date
January 14, 2003	1,240,000	\$ 0.30	January 14, 2008
September 25, 2003	100,000	0.30	September 25, 2008
January 22, 2004	560,000	0.32	January 22, 2009
January 21, 2006	150,000	0.79	January 21, 2009
March 23, 2006	100,000	0.51	March 23, 2007
	2,150,000		

6. INCOME TAXES

(a) Provision for Income Taxes

The major factors that cause variations from the Company's combined federal and provincial statutory Canadian income tax rates of 36.12% (2005 - 36.12%) were the following:

	2006	2005
Loss before income taxes	\$ (403,055)	\$ (496,892)
Expected tax recovery of statutory rates	\$ (145,583)	\$ (179,477)
Increase (decrease) resulting from:		
Non-capital losses not recognized	130,932	146,283
Mineral exploration properties written off	29,843	43,984
Stock-based compensation	39,551	25,855
Share issue costs	(45,765)	(36,645)
Non-taxable gains	(8,978)	-
Total current income tax	\$ -	\$ -

The Company did not record a provision or benefit for income taxes for the years ended May 31, 2006 and 2005, due to the availability of net operating loss carryforwards and the uncertainty of their future realization.

(b) Future Tax Balances

The future income tax asset is comprised of the following temporary differences:

	2006	2005
Resource expenditure pools	\$ 857,431	\$ 500,842
Non-capital losses	497,785	440,698
Share issue costs	160,896	125,970
Valuation allowance	(1,516,112)	(1,067,510)
	\$ -	\$ -

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6. INCOME TAXES (continued)

(c) Future Income Tax Recovery

During the year, the Company renounced \$nil (2005 - \$2,112,500) of certain deductions for Canadian exploration purposes incurred on the Company's resource properties resulting in a future tax liability of \$nil (2005 - \$762,854). The future income tax liability has been offset against future income tax assets, resulting in a future income tax recovery of \$nil (2005 - \$762,854)

(d) Tax Balances Available For Carry-Forward

The Company has accumulated non-capital losses of approximately \$1,378,000, which may be deducted in the calculation of taxable income in future years. The losses expire between 2007 and 2016. Also, the Company has approximately \$2,007,000 of Canadian and foreign resource tax pools which may be deducted in the calculation of taxable income in future years. These pools can be carried forward indefinitely. The Company renounced \$nil (2005 - \$2,112,000) of expenditures during the year.

7. RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities is \$61,082 (2005 - \$205,840) due to a company controlled by a director of the Company.

During the year, the Company accrued or paid management fees, which are included in the mineral properties and related deferred costs, of \$24,005 (2005 - \$152,122) to a company controlled by an officer. These transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the year, the Company accrued or paid legal fees of \$37,895 (2005 - \$51,364) to a legal firm controlled by the secretary of the Company. These transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

8. SALE OF URANIUM DATA

During the year, the Company sold uranium data relating to mining assets written off in prior years in exchange for shares of an unrelated reporting issuer in Canada and recognized the income from this sale in the statement of operations and deficit. This non-monetary transaction is measured at the fair value of the shares received, \$156,000, as this is the most reliable basis of measurement. The Company subsequently sold the unrelated reporting issuer shares for \$152,560 for a recognized loss of \$3,440.

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9. FINANCIAL INSTRUMENTS

Fair Value

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgement and therefore can not be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for cash and cash equivalents, and accounts payable and accrued liabilities on the balance sheet approximate fair value because of the short term maturity of these instruments.

Commodity Price Risk

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

10. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

11. SUBSEQUENT EVENT

On September 18, 2006, the Company signed a letter of intent with Colorado Minerals Inc. ("Colorado") to acquire all of the issued and outstanding shares of Colorado or complete some other form of business combination as the parties may agree.

Under the terms of the letter of intent, Anaconda will acquire the shares of Colorado in exchange for issuing to shareholders of Colorado an aggregate number of post consolidated common shares of Anaconda equal to approximately 100% of the then issued and outstanding common shares of Anaconda.