

**NOTICE TO SHAREHOLDERS  
FOR THE THREE AND SIX MONTHS ENDED  
NOVEMBER 30, 2006**

**ANACONDA GOLD CORP.**

**(AN EXPLORATION STAGE ENTITY)**

Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements for Anaconda Gold Corp. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the May 31, 2006 audited consolidated financial statements. Only changes in accounting policies have been disclosed in these consolidated financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the consolidated financial statements, management is satisfied that these consolidated financial statements have been fairly presented.

Auditors' involvement

The auditors of Anaconda Gold Corp. have not performed a review of the unaudited consolidated financial statements for the three and six months ended November 30, 2006 and November 30, 2005.

**ANACONDA GOLD CORP.  
(AN EXPLORATION STAGE ENTITY)  
CONSOLIDATED BALANCE SHEETS  
(PREPARED BY MANAGEMENT - UNAUDITED)**

|  | November 30,<br>2006 | May 31,<br>2006     |
|--|----------------------|---------------------|
| <b>ASSETS</b>  |                      |                     |
| <b>Current assets</b>                                |                      |                     |
| Cash and cash equivalents                            | \$ 306,292           | \$ 2,136,733        |
| Marketable securities                                | 3,969                | 3,969               |
| Receivables  | 120,732              | 13,931              |
| Deposit  | -                    | 96,324              |
|  | <b>430,993</b>       | <b>2,250,957</b>    |
| <b>Mineral properties and related deferred costs</b> | <b>4,818,417</b>     | <b>4,381,330</b>    |
| <b>Property, plant and equipment</b> (Note 3)        | <b>1,325,488</b>     | -                   |
| <b>Deferred financing costs</b> (Note 9(e))          | <b>45,424</b>        | -                   |
| <b>Deferred transaction costs</b> (Note 9(d))        | <b>216,174</b>       | -                   |
|  | <b>\$ 6,836,496</b>  | <b>\$ 6,632,287</b> |
| <b>LIABILITIES</b>                                   |                      |                     |
| <b>Current liabilities</b>                           |                      |                     |
| Accounts payable and accrued liabilities             | \$ 362,161           | \$ 111,296          |
| <b>SHAREHOLDERS' EQUITY</b>                          |                      |                     |
| <b>Capital stock</b> (Note 2(b))                     | <b>9,032,270</b>     | <b>8,861,965</b>    |
| <b>Warrants</b> (Note 2(c))                          | <b>469,600</b>       | <b>478,470</b>      |
| <b>Contributed surplus</b> (Note 2(d))               | <b>143,508</b>       | <b>115,701</b>      |
| <b>Deficit</b>                                       | <b>(3,171,043)</b>   | <b>(2,935,145)</b>  |
|  | <b>6,474,335</b>     | <b>6,520,991</b>    |
|  | <b>\$ 6,836,496</b>  | <b>\$ 6,632,287</b> |

See accompanying notes to consolidated financial statements

Going concern (Note 1)

These consolidated financial statements have been approved by the Company's directors

**ANACONDA GOLD CORP.**  
**(AN EXPLORATION STAGE ENTITY)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**(PREPARED BY MANAGEMENT - UNAUDITED)**

|  | Three Months Ended<br>November 30, |                       | Six Months Ended<br>November 30, |                       | Cumulative<br>from date of<br>inception<br>of the<br>exploration<br>stage<br>(November<br>30, 2003) |
|--|------------------------------------|-----------------------|----------------------------------|-----------------------|---|
|  | 2006                               | 2005                  | 2006                             | 2005                  |   |
| <b>Income</b>  |                                    |                       |                                  |                       |   |
| Investment Income  | \$ 4,642                           | \$ 98,254             | \$ 17,269                        | \$ 99,344             | \$ 123,280  |
| Sale of uranium data                                     | -                                  | 65,000                | -                                | 65,000                | 156,000   |
|  | <b>4,642</b>                       | <b>163,254</b>        | <b>17,269</b>                    | <b>164,344</b>        | <b>279,280</b>  |
| <b>Expenses</b>  |                                    |                       |                                  |                       |   |
| Finance charges  | (45,424)                           | -                     | -                                | -                     | -   |
| Foreign exchange (income) loss                           | (68)                               | -                     | (59)                             | 3,998                 | 632   |
| Interest expense   | -                                  | -                     | -                                | -                     | 26,603  |
| Legal, audit and<br>regulatory expenses                  | 53,565                             | 23,172                | 54,243                           | 24,534                | 297,745   |
| Management services                                      | 15,046                             | 15,000                | 31,112                           | 31,078                | 157,068   |
| General exploration activities                           | 7,000                              | 2,400                 | 11,000                           | 3,088                 | 43,576  |
| Office administration and rent                           | 39,040                             | 32,979                | 50,176                           | 65,502                | 230,512   |
| Shareholder relations                                    | 16,223                             | 84,545                | 42,137                           | 86,914                | 199,743   |
| Stock-based<br>compensation (Note 5)                     | 12,274                             | 70,000                | 40,542                           | 76,301                | 257,459   |
| Travel   | 4,116                              | -                     | 24,016                           | -                     | 85,790  |
| Unrealized loss on<br>marketable securities              | -                                  | 531                   | -                                | 2,031                 | 83,281  |
| Write-down of mineral properties                         | -                                  | -                     | -                                | -                     | 197,153   |
|  | <b>101,772</b>                     | <b>228,627</b>        | <b>253,167</b>                   | <b>293,446</b>        | <b>1,579,562</b>  |
| Loss before income taxes                                 | (97,130)                           | (65,373)              | (235,898)                        | (129,102)             | (1,300,282)   |
| Future income tax recovery (Note 6)                      | -                                  | -                     | -                                | -                     | 762,854   |
| <b>Net loss</b>  | <b>(97,130)</b>                    | <b>(65,373)</b>       | <b>(235,898)</b>                 | <b>(129,102)</b>      | <b>(537,428)</b>  |
| <b>Deficit, beginning of period</b>                      | <b>(3,073,913)</b>                 | <b>(2,595,819)</b>    | <b>(2,935,145)</b>               | <b>(2,532,090)</b>    | <b>(2,633,615)</b>  |
| <b>Deficit, end of period</b>                            | <b>\$ (3,171,043)</b>              | <b>\$ (2,661,192)</b> | <b>\$ (3,171,043)</b>            | <b>\$ (2,661,192)</b> | <b>\$ (3,171,043)</b>   |
| <b>Basic and diluted loss per share</b>                  | <b>\$ 0.00</b>                     | <b>\$ 0.00</b>        | <b>\$ 0.01</b>                   | <b>\$ 0.00</b>        |   |
| <b>Weighted average number<br/>of shares outstanding</b> | <b>36,549,068</b>                  | <b>30,994,920</b>     | <b>36,360,616</b>                | <b>30,192,221</b>     |   |

See accompanying notes to consolidated financial statements

These consolidated financial statements have been approved by the Company's directors

**ANACONDA GOLD CORP.**  
**(AN EXPLORATION STAGE ENTITY)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(PREPARED BY MANAGEMENT - UNAUDITED)**

|   | Three Months Ended<br>November 30, |                   | Six Months Ended<br>November 30, |                   | Cumulative<br>from date of<br>inception<br>of the<br>exploration<br>stage<br>(November<br>30, 2003) |
|---|------------------------------------|-------------------|----------------------------------|-------------------|---|
|   | 2006                               | 2005              | 2006                             | 2005              |   |
| <b>Cash Provided By (Used In)</b>                         |                                    |                   |                                  |                   |   |
| <b>Operations</b>   |                                    |                   |                                  |                   |   |
| Net loss  | \$ (97,130)                        | \$ (65,373)       | \$ (235,898)                     | \$ (129,102)      | \$ (537,428)  |
| Items not involving cash:                                 |                                    |                   |                                  |                   |   |
| Write-down of mineral properties                          | -                                  | -                 | -                                | -                 | 197,153   |
| Stock-based compensation (Note 5)                         | 12,274                             | 70,000            | 40,542                           | 76,301            | 257,459   |
| Other   | -                                  | -                 | -                                | -                 | (93,255)  |
| Gain on sale of   |                                    |                   |                                  |                   |   |
| marketable securities                                     | -                                  | (95,630)          | -                                | (94,230)          | (53,769)  |
| Sale of uranium data                                      | -                                  | (65,000)          | -                                | (65,000)          | (156,000)   |
| Unrealized loss on  |                                    |                   |                                  |                   |   |
| marketable securities                                     | -                                  | 531               | -                                | 2,031             | 83,281  |
| Future income tax recovery                                | -                                  | -                 | -                                | -                 | (762,854)   |
|   | <b>(84,856)</b>                    | <b>(155,472)</b>  | <b>(195,356)</b>                 | <b>(210,000)</b>  | <b>(1,065,413)</b>  |
| Changes in non-cash working capital (Note 8)              | <b>206,721</b>                     | <b>43,730</b>     | <b>240,388</b>                   | <b>76,945</b>     | <b>50,827</b>   |
|   | <b>121,865</b>                     | <b>(111,742)</b>  | <b>45,032</b>                    | <b>(133,055)</b>  | <b>(1,014,586)</b>  |
| <b>Financing</b>  |                                    |                   |                                  |                   |   |
| Proceeds on issuance of common shares                     | 141,200                            | 300,000           | 141,200                          | 300,000           | 5,236,800   |
| Deferred transaction costs                                | (216,174)                          | -                 | (216,174)                        | -                 | (216,174)   |
| Deferred financing costs                                  | (45,424)                           | -                 | (45,424)                         | -                 | (45,424)  |
| Cost of issue   | -                                  | -                 | -                                | -                 | (303,820)   |
|   | <b>(120,398)</b>                   | <b>300,000</b>    | <b>(120,398)</b>                 | <b>300,000</b>    | <b>4,671,382</b>  |
| <b>Investing</b>  |                                    |                   |                                  |                   |   |
| Mineral property expenditures                             | (245,315)                          | (160,925)         | (429,587)                        | (209,676)         | (4,398,591)   |
| Gold sales prior to commencement of commercial production | -                                  | -                 | -                                | -                 | 539,193   |
| Loan receivable   | -                                  | -                 | -                                | -                 | 50,000  |
| Purchase of property, plant and equipment                 | (65,658)                           | -                 | (1,325,488)                      | -                 | (1,325,488)   |
| Proceeds on sale of marketable securities                 | -                                  | 207,430           | -                                | 223,580           | 322,269   |
|   | <b>(310,973)</b>                   | <b>46,505</b>     | <b>(1,755,075)</b>               | <b>13,904</b>     | <b>(4,812,617)</b>  |
| <b>Net change in cash and cash equivalents</b>            | <b>(309,506)</b>                   | <b>234,763</b>    | <b>(1,830,441)</b>               | <b>180,849</b>    | <b>(1,155,821)</b>  |
| <b>Cash and cash equivalents, beginning of period</b>     | <b>615,798</b>                     | <b>507,074</b>    | <b>2,136,733</b>                 | <b>560,988</b>    | <b>1,462,113</b>  |
| <b>Cash and cash equivalents, end of period</b>           | <b>\$ 306,292</b>                  | <b>\$ 741,837</b> | <b>\$ 306,292</b>                | <b>\$ 741,837</b> | <b>\$ 306,292</b>   |

See accompanying notes to consolidated financial statements

These consolidated financial statements have been approved by the Company's directors

**ANACONDA GOLD CORP.**  
**(AN EXPLORATION STAGE ENTITY)**  
**CONSOLIDATED STATEMENT OF MINERAL PROPERTIES AND RELATED DEFERRED COSTS**  
**(PREPARED BY MANAGEMENT - UNAUDITED)**

|   | Horse<br>Mountain | Lingman<br>Lake | Borthwick<br>Lake | Damoti<br>Lake | Pine<br>Cove | Dorset    | Other     |
|---|-------------------|-----------------|-------------------|----------------|--------------|-----------|-----------|
| Balance at inception as<br>exploration stage entity,<br>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        | -         | -         |
| 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 | \$ -      | \$ -      |

**ANACONDA GOLD CORP.**  
**(AN EXPLORATION STAGE ENTITY)**  
**CONSOLIDATED STATEMENT OF MINERAL PROPERTIES AND RELATED DEFERRED COSTS**  
**(PREPARED BY MANAGEMENT - UNAUDITED)**

|                               | Horse<br>Mountain | Lingman<br>Lake | Borthwick<br>Lake | Damoti<br>Lake | Pine<br>Cove | Dorset | Other |
|-------------------------------|-------------------|-----------------|-------------------|----------------|--------------|--------|-------|
| Balance, May 31, 2006         | \$ -              | \$ 244,517      | \$ 643,377        | \$ 1,784,161   | \$ 1,709,275 | \$ -   | \$ -  |
| Acquisition costs             | -                 | -               | -                 | 7,500          | -            | -      | -     |
| Consulting                    | -                 | -               | -                 | 132,381        | 48,670       | -      | -     |
| Management fees               | -                 | -               | -                 | 3,500          | 12,500       | -      | -     |
| Exploration expenses          | -                 | -               | -                 | 991            | 54,187       | -      | -     |
| Travel and entertainment      | -                 | -               | 1,500             | 33,914         | 4,549        | -      | -     |
| Government fees               | -                 | -               | -                 | -              | 20,765       | -      | -     |
| Rental expense                | -                 | -               | -                 | 36,754         | -            | -      | -     |
| Bonding costs                 | -                 | -               | -                 | 73,000         | -            | -      | -     |
| Transportation                | -                 | -               | 6,876             | -              | -            | -      | -     |
| Balance,<br>November 30, 2006 | \$ -              | \$ 244,517      | \$ 651,753        | \$ 2,072,201   | \$ 1,849,946 | \$ -   | \$ -  |

**Comparative Period:**  
**Six Months Ended November 30, 2005**

|                               |           |            |            |              |              |      |      |
|-------------------------------|-----------|------------|------------|--------------|--------------|------|------|
| Balance, May 31, 2005         | \$ 82,622 | \$ 244,517 | \$ 643,892 | \$ 1,518,502 | \$ 1,373,536 | \$ - | \$ - |
| Acquisition costs             | -         | -          | -          | 7,500        | -            | -    | -    |
| Consulting                    | -         | -          | -          | (1,400)      | (2,497)      | -    | -    |
| Management fees               | -         | -          | -          | 6,090        | 2,656        | -    | -    |
| Exploration expenses          | -         | -          | -          | 42,511       | 8,731        | -    | -    |
| Travel and entertainment      | -         | -          | -          | -            | 6,450        | -    | -    |
| Drilling                      | -         | -          | -          | 19,386       | -            | -    | -    |
| Professional fees             | -         | -          | -          | -            | 10,000       | -    | -    |
| Bonding costs                 | -         | -          | -          | 25,000       | -            | -    | -    |
| Balance,<br>November 30, 2005 | \$ 82,622 | \$ 244,517 | \$ 643,892 | \$ 1,617,589 | \$ 1,398,876 | \$ - | \$ - |

*For a description of these properties, refer to Note 3 of the audited consolidated financial statements as at May 31, 2006  
These consolidated financial statements have been approved by the Company's directors*

**ANACONDA GOLD CORP.  
(AN EXPLORATION STAGE ENTITY)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(PREPARED BY MANAGEMENT - UNAUDITED)**

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**Three and Six Months Ended November 30, 2006**

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**1. NATURE OF OPERATIONS, ACCOUNTING POLICIES 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 2). 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 consolidated 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 consolidated 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.

The unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes to the consolidated financial statements required by Canadian generally accepted accounting principles for annual consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended November 30, 2006 may not necessarily be indicative of the results that may be expected for the year ending May 31, 2007.

The balance sheet at May 31, 2006 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by Canadian generally accepted accounting principles for complete consolidated financial statements. The interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual consolidated financial statements for the year ended May 31, 2006. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual consolidated financial statements for the year ended May 31, 2006.

**New Accounting Pronouncements**

In January 2005, the Canadian Institute of Chartered Accountants issued four new accounting standards: Handbook Section 1530, Comprehensive Income, Handbook Section 3251, Equity, Handbook Section 3855, Financial Instruments – Recognition and Measurement and Handbook Section 3865, Hedges. These standards are effective for interim and annual consolidated financial statements for the Company's fiscal years beginning June 1, 2007.

**ANACONDA GOLD CORP.**  
**(AN EXPLORATION STAGE ENTITY)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(PREPARED BY MANAGEMENT - UNAUDITED)**

**Three and Six Months Ended November 30, 2006**

**2. CAPITAL STOCK**

**(a) Authorized**

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

**(b) Issued and outstanding**

|  | <b>Number of<br/>Shares</b> | <b>Consideration</b> |
|--|-----------------------------|----------------------|
| Balance on inception as an exploration stage entity, November 30, 2003 | 20,655,276                  | \$ 5,067,008         |
| Issued for property option payments                                    | 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                                    | 85,000                      | 25,500               |
| Issued for cash under private placements                               | 1,500,000                   | 450,000              |
| Issued for cash under flow-through private placement                   | 6,600,000                   | 2,112,000            |
| Issued as consideration for share issue costs                          | 50,000                      | 15,000               |
| Share issue costs  | -                           | (221,950)            |
| Warrants   | -                           | (16,650)             |
| Renunciation of flow-through expenditures                              | -                           | (762,854)            |
| Balance, May 31, 2005  | 29,360,276                  | 6,809,554            |
| Issued for property option payments                                    | 25,000                      | 7,500                |
| Issued for cash under private placements                               | 4,483,847                   | 1,914,501            |
| Issued as consideration for share issue costs                          | 160,000                     | 24,000               |
| Share issue costs  | -                           | (120,870)            |
| Warrants   | -                           | (520,000)            |
| Issued on warrant exercise   | 889,000                     | 270,600              |
| Warrant exercise - valuation   | -                           | 58,180               |
| Issued on stock option exercise  | 1,250,000                   | 305,000              |
| Stock option exercise - valuation                                      | -                           | 113,500              |
| Balance, May 31, 2006  | 36,168,123                  | 8,861,965            |
| Issued for property option payments (1)                                | 25,000                      | 7,500                |
| Issued on stock option exercise  | 460,000                     | 141,200              |
| Stock option exercise - valuation                                      | -                           | 21,605               |
| Balance, November 30, 2006   | 36,653,123                  | \$ 9,032,270         |

(1) Issued for property options payments

On August 16, 2006, the Company issued 25,000 shares to fulfil one of its obligations to acquire the Damoti Lake property for deemed consideration of \$7,500.

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**(AN EXPLORATION STAGE ENTITY)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(PREPARED BY MANAGEMENT - UNAUDITED)**

**Three and Six Months Ended November 30, 2006**

**2. CAPITAL STOCK (continued)**

**(c) Warrants**

|                            | Value      | Number of Warrants | Weighted Average Exercise Price |
|----------------------------|------------|--------------------|---------------------------------|
| Balance, May 31, 2006      | \$ 478,470 | 2,102,923          | \$ 0.57                         |
| Warrants granted           | -          | -                  | -                               |
| Warrants exercised         | -          | -                  | -                               |
| Warrants expired           | (8,870)    | (361,000)          | (0.40)                          |
| Balance, November 30, 2006 | \$ 469,600 | 1,741,923          | \$ 0.60                         |

As at November 30, 2006, the following warrants were outstanding to purchase common shares:

| Date of Grant      | Warrants Outstanding | Value      | Exercise Price | Expiry Date        |
|--------------------|----------------------|------------|----------------|--------------------|
| September 19, 2005 | 500,000              | \$ 100,600 | \$ 0.23        | September 23, 2007 |
| February 2, 2006   | 1,241,923            | 369,000    | 0.75           | August 2, 2007     |
|                    | 1,741,923            | \$ 469,600 |                |                    |

**(d) Contributed Surplus**

A summary of changes to contributed surplus are as follows:

|   |            |
|---|------------|
| Balance, May 31, 2006   | \$ 115,701 |
| Stock-based compensation  | 40,542     |
| Transfer to capital stock - exercise of stock options                                   | (21,605)   |
| Transfer from warrants to contributed surplus - Black-Scholes value of expired warrants | 8,870      |
| Balance, November 30, 2006  | \$ 143,508 |

**3. PROPERTY, PLANT AND EQUIPMENT**

|                                       | November 30,<br>2006 |                          |              | May 31,<br>2006 |                          |      |
|---------------------------------------|----------------------|--------------------------|--------------|-----------------|--------------------------|------|
|                                       | Cost                 | Accumulated Amortization | Net          | Cost            | Accumulated Amortization | Net  |
| Mining equipment and mill development | \$ 1,325,488         | \$ -                     | \$ 1,325,488 | \$ -            | \$ -                     | \$ - |

**ANACONDA GOLD CORP.**  
**(AN EXPLORATION STAGE ENTITY)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(PREPARED BY MANAGEMENT - UNAUDITED)**

**Three and Six Months Ended November 30, 2006**

**4. BASIC AND DILUTED LOSS PER SHARE**

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants. The effect of potential issuances of shares under options and warrants would be anti-dilutive, and accordingly basic and diluted loss are the same.

**5. STOCK-BASED COMPENSATION**

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

|                            | Number of<br>Options | Weighted<br>Average<br>Exercise<br>Price |
|----------------------------|----------------------|--|
| Balance, May 31, 2006      | 2,650,000            | \$ 0.33                                  |
| Options granted            | -                    | -  |
| Options exercised          | (460,000)            | (0.31)                                   |
| Options cancelled          | -                    | -  |
| Balance, November 30, 2006 | 2,190,000            | \$ 0.33                                  |

As at November 30, 2006, the following stock options are outstanding to purchase common shares:

| Date of Grant      | Number      | Exercise<br>Price | Expiry Date        |
|--------------------|-------------|-------------------|--------------------|
| January 14, 2003   | 940,000 (1) | \$ 0.30           | January 14, 2008   |
| September 25, 2003 | 100,000 (2) | 0.30              | September 25, 2008 |
| January 22, 2004   | 400,000 (3) | 0.32              | January 22, 2009   |
| January 21, 2006   | 150,000 (4) | 0.79              | January 21, 2009   |
| March 23, 2006     | 100,000 (5) | 0.51              | March 23, 2007     |
| September 21, 2005 | 500,000 (6) | 0.23              | September 21, 2007 |
|                    | 2,190,000   |                   |                    |

(1) Black-Scholes value assigned - \$nil.

(2) Black-Scholes value assigned - \$10,601.

(3) Black-Scholes value assigned - \$54,012.

(4) Black-Scholes value assigned - \$34,241.

(5) Black-Scholes value assigned - \$23,500.

(6) Black-Scholes value assigned - \$nil.

**ANACONDA GOLD CORP.  
(AN EXPLORATION STAGE ENTITY)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(PREPARED BY MANAGEMENT - UNAUDITED)**

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**Three and Six Months Ended November 30, 2006**

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**5. STOCK-BASED COMPENSATION (continued)**

**Details of vesting terms for previously issued stock options**

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. As of November 30, 2006, \$34,241 was expensed to the statement of operations and deficit with the corresponding amount allocated to contributed surplus. The remaining portion of \$8,759 will be expensed in future periods.

\$6,301 was expensed in the current period from stock options issued in a prior year.

**6. INCOME TAXES**

Estimated taxable income for the period is \$nil. Based upon the level of historical taxable income it cannot be reasonably estimated at this time if it is more likely than not that the Company will realize the benefits from future income tax assets or the amounts owing from future income tax liabilities.

Consequently, the future recovery or loss arising from differences in tax values and accounting values have been reduced by an equivalent estimated taxable temporary difference valuation allowance.

The estimated taxable temporary difference valuation allowance will be adjusted in the period that it is determined that it is more likely than not that some portion or all of the future tax assets or future tax liabilities will be realized.

**7. RELATED PARTY TRANSACTIONS**

Included in accounts payable and accrued liabilities is \$35,306 (2005 - \$47,629) due to a company controlled by a director of the Company.

During the period, the Company accrued or paid management fees, which are included in the mineral properties and related deferred costs, of \$16,000 (2005 - \$15,849) and expensed \$11,000 (2005 - \$nil) 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.

**ANACONDA GOLD CORP.**  
**(AN EXPLORATION STAGE ENTITY)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(PREPARED BY MANAGEMENT - UNAUDITED)**

**Three and Six Months Ended November 30, 2006**

**8. CHANGES IN NON-CASH WORKING CAPITAL**

|   | Three Months Ended<br>November 30, |           | Six Months Ended<br>November 30, |            | Cumulative<br>from date of<br>inception<br>of the<br>exploration<br>stage<br>(November<br>30, 2003) |
|---|------------------------------------|-----------|----------------------------------|------------|---|
|   | 2006                               | 2005      | 2006                             | 2005       |   |
| Receivables and deposit                     | \$ (7,714)                         | \$ 2,560  | \$ (10,477)                      | \$ 120,019 | \$ (100,281)  |
| Accounts payable and<br>accrued liabilities | 214,435                            | 41,170    | 250,865                          | (43,074)   | 151,108   |
|   | \$ 206,721                         | \$ 43,730 | \$ 240,388                       | \$ 76,945  | \$ 50,827   |

**9. SUBSEQUENT EVENTS**

(a) On December 1, 2006, Anaconda announced that it has entered into an agreement with Doublestar Resources Inc ("Doublestar") to buy Doublestar's interest in the Damoti Lake gold project located about 200 kilometers north of Yellowknife, Northwest Territories.

Subject to final documentation and TSX Venture Exchange approval, Doublestar has agreed to sell a 100% interest in mining lease DAM 3 which hosts the Horseshoe Zone deposit and an 80% interest in the balance of the Damoti Lake mining leases to Anaconda for cash of \$100,000 (paid), short-term notes (60 – 150 days) valued at \$1.2 million and 400,000 Anaconda shares.

(b) On December 1, 2006, 300,000 stock options that expire on January 14, 2008 and 140,000 stock options that expire on January 22, 2009 were exercised for proceeds of \$134,800.

(c) On December 4, 2006, 500,000 stock options that expire on September 21, 2007 were exercised for proceeds of \$115,000.

(d) On January 8, 2007, the shareholders of Anaconda approved the acquisition (the "Acquisition") of Colorado Minerals Inc. Anaconda shareholders also approved: (i) the consolidation of the common shares of the Company on a 1 for 2 basis (the "Consolidation"); and (ii) the name change of the Company to "Anaconda Mining Inc." (the "Name Change").

Transaction costs related to the Acquisition amounted to \$216,174 as of November 30, 2006.

It is intended that the Consolidation and the Name Change will be made effective immediately prior to the closing of the Acquisition.

**ANACONDA GOLD CORP.  
(AN EXPLORATION STAGE ENTITY)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(PREPARED BY MANAGEMENT - UNAUDITED)**

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**Three and Six Months Ended November 30, 2006**

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**9. SUBSEQUENT EVENTS**

(e) On January 9, 2007, Anaconda announced that it has entered into a term sheet with Auramet Trading, LLC of Fort Lee, New Jersey ("Auramet"), pursuant to which Auramet will, subject to satisfaction of certain conditions precedent, lend the sum of US\$2 million as a project facility (the "Loan"). The Loan, which is expected to close by January 31, 2007 or earlier, will be made available for the completion of the Pine Cove gold mine, located near BaieVerte, Newfoundland.

According to the terms of the Loan, US\$1.5 million will be available in three equal tranches of US\$500,000 immediately upon satisfaction by Anaconda of all of conditions precedent as provided in the term sheet. The final US\$500,000 will be available upon the achievement of Project Milestones to be established prior to closing between the Company and Auramet. The maturity date of the Loan will be 12 months after closing. The Loan will bear interest at the fixed rate of 12% per annum until the achievement of Project Milestones at which time the rate will be reduced to 10% per annum. In addition to the terms and conditions mentioned above, Anaconda will also enter into a gold price protection program with Auramet.

The Loan will be secured by a first priority security interest over all personal property assets of the Company, specific pledge agreements, specific assignment agreement related to all material Pine Cove agreements and assignment over the hedge program.

In connection with the Loan and as part of the underwriting fee, subject to the TSX Venture Exchange's approval, Anaconda will issue 150,000 pre-consolidation common shares to Auramet that will be delivered at the closing.

In addition, subject to the approval of the TSX Venture Exchange, Auramet will have an option to convert the Loan into common shares of Anaconda until March 31, 2008 at a price of C\$0.65 per share.