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Anaconda Mining Inc. - TSX:ANX

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Q1 Production Ahead of Estimates on Better Grades

Impact: Positive

Gold production of 4,293 ounces at Point Rouse ahead of our estimate for 3,439 ounces.

- **Production beats our estimates on better than expected grades**
- **Operational execution, should help fund development and exploration activities**
- **Strong quarter has Anaconda positioned to beat 2018 guidance**

Anaconda continues to trade at discount to peers (0.40x NAV, peers 0.64x); ongoing exploration success should close the gap.

Anaconda Mining Inc. (TSX:ANX) has announced Q1 2018 production results from Point Rouse for the three months ended March 31, 2018.

Anaconda has exceeded our Q1 2018 production estimates. With the grade delivered to the mill coming in at 1.4 g/t Au, versus our expectation of 1.1 g/t Au, Anaconda beat our production estimate by 25%. It appears that the reason for the better than expected grades was the final ore from Pine Cove being processed versus our expectation that some ore would come from stockpiles. As well, the company delivered its first ore from Stog'er Tight (5,033 tonnes) which should bode well for Q2 results. We currently model 1.1 g/t Au, as we expect the transition to Stog'er Tight to result in a portion of production coming from lower grade stockpiles, as mining ramps up at Stog'er Tight.

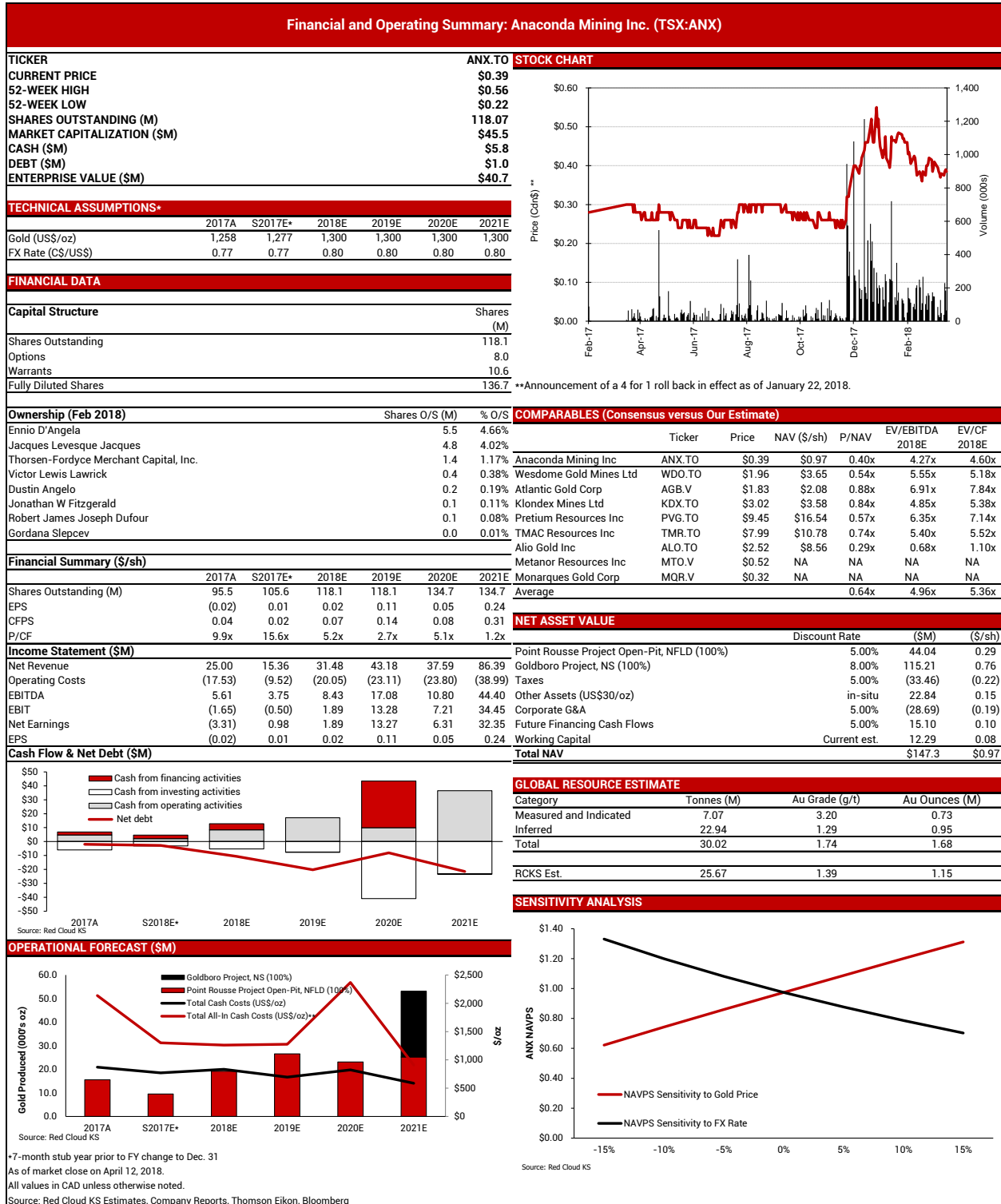
Operational execution, should help fund development and exploration activities. With grades coming in better than expected, we now model costs for the quarter coming in lower (now US\$775/oz, was US\$1,017/oz), resulting in operating cash flow increasing to C\$0.02/sh (was C\$0.004/sh) adding an additional C\$1.75 million to the balance sheet that we hadn't previously modelled. We expect this increased cash to fund ongoing development activities at Goldboro and exploration at both Goldboro and Point Rouse.

Strong quarter has Anaconda positioned to beat 2018 guidance. Based on the better than expected production in Q1, we now model Anaconda producing 19.2k oz in 2018 (was 18.1k oz) from Point Rouse. As well, the grades coming in higher than expected, our full-year cost estimated has decreased to US\$835/oz (was US\$884/oz). We do not expect Anaconda to alter its guidance to produce 18.1k oz at ~US\$884/oz for 2018 after one quarter, but this strong Q1 does have the company well positioned for the balance of the year.

Anaconda continues to trade at discount to peers; ongoing exploration success should close the gap. Better than expected results from operations at Point Rouse has slightly increased our NAVPS for Anaconda to C\$0.97 (was C\$0.95). Based on our estimates, Anaconda still trades at discount to peers (0.40x NAV, peers 0.64x). In our view, upcoming catalysts include ongoing exploration at Goldboro and Argyle, improved cash flow in H2 2018 and ongoing development work at Goldboro which all should help close the valuation gap to peers. As well, we note that while the company has just announced its formal offer to acquire Maritime Resources and we believe continued operational execution by Anaconda could provide Maritime shareholders additional comfort potentially increasing the odds of a transaction being completed. We plan to incorporate Maritime into our estimates in a subsequent note.

Priced as of prior trading day's market close, EDT (unless otherwise noted).
 All values in USD unless otherwise noted.

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Company Name	Ticker Symbol	Disclosures
Anaconda Mining Inc.	TSX:ANX	1,2,3,4

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