Annual Report 2006

YAMANA GOLD

Fueled by Production

Driven by Vision

In only four years, Yamana Gold has transformed itself from a junior company created to develop gold and copper/gold properties in Brazil to a leading intermediate gold producer with excellent prospects for continued growth.

Contents

YAMANA GOLD

A cautionary note regarding forward-looking statements follows the Management's Discussion and Analysis of Operations and Financial Condition.

All figures are in US dollars unless otherwise indicated.

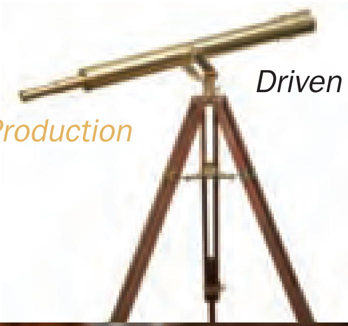
Overview

- Intermediate gold producer with mines and exploration concessions in Brazil, Honduras, Nicaragua and Argentina.
- Six operating mines and three advanced-stage feasibility projects.
- Internally financed organic growth.
- Gold production of attributable 314,000 ounces in 2006 projected to increase to an annual run rate of 1 million ounces by late 2008.
- Significant exploration holdings including close to 1 million hectares of exploration concessions in Brazil.
- A strong commitment to exploration with $32 million budgeted for 2007.
- A leading industry consolidator committed to pursuing accretive acquisitions in the Americas.

Fueled by Production
Driven by Vision

Our 2006 Achievements
Continuing to Deliver Results

- **Cash balance of $69.7 million** as at December 31, 2006 and cash flow from operations of $40.2 million (before changes in non-cash working capital items) for the year.
- **Total gold production of 314,000 ounces for the year** with 283,000 ounces as commercial production.
- **Achieved average cash costs of $326 per ounce** of commercial production from São Francisco, Jacobina, San Andrés, Fazenda Nova and Fazenda Brasileiro.
- **Commenced commercial production** at São Francisco and began production at Chapada.
- **Completed an equity financing** for the issue of 17.4 million common shares for gross proceeds of C$200.1 million.
- **Repaid outstanding senior secured note facility** together with accrued interest thereby eliminating outstanding debt, four years earlier than maturity.
- **Entered into $200 million revolving line of credit** with two major global lenders.
- **Declared first dividend to shareholders**, effective September 29, 2006, of $.01 per share.



Driven by Vision

Fueled by Production

- **Moved stock listing in the United States** from the American Stock Exchange to the New York Stock Exchange, improving visibility and stimulating U.S. demand for stock.
- **Finalized smelter off-take agreements** for the sale of copper concentrate from the Chapada mine which achieved commercial production status in February 2007.
- **Completed the acquisition of RNC Gold Inc.** for $53 million, then divested La Libertad Mine and Cerro Querra, achieving a net cost of $28 million for the San Andrés operating mine in Honduras.
- **Acquired Desert Sun Mining Corp.** for $632 million which added the Jacobina operating mine in addition to 155 kilometres of exploration concessions along the strike length of the Bahia Gold Belt.
- **Developed expansion plan for the Jacobina Mine** which facilitates increasing production levels from under 100,000 ounces per year in 2006 to approximately 200,000 ounces by 2009.
- **Acquired Viceroy Exploration Ltd.** for $549 million adding Gualcamayo as an advanced-stage feasibility project and expanding Yamana's operations into Argentina.
- **Share appreciation of 99%** from C$7.69 at close on December 30, 2005 to C$15.31 at close on December 29, 2006, maintaining Yamana's position as the leading share price performer among its peers on the TSX.

Why Invest in Yamana?
Growth, Value and Vision

- *Track Record: the leading industry consolidator, growing rapidly through successful acquisitions and strong organic growth.*
- *Upside: continued significant operational and valuation upside.*
- *Production Profile: rapidly increasing to more than 1 million ounces annually.*
- *Balance Sheet: strong, debt-free, good cash position, ready access to capital through equity markets and approved credit lines with major global lenders.*
- *Experience: proven management and operations teams, enhanced during 2006 with additional talent via acquisitions.*
- *Assets: six producing gold mines, one project under construction, and two feasibility-stage projects, all advancing on schedule and budget.*
- *Positioning: unhedged and leveraged to gold; hedged 50 and 90 million lbs. of copper production in 2007 and 2008 respectively.*
- *Potential: a large exploration portfolio in Brazil, Central America and Argentina with an aggressive budget to uncover value.*
- *Commodity Markets: exceptionally high for gold and historically high copper.*

Message to Shareholders
Our Vision Continues

Dear Shareholders

Our unwavering commitment to creating a substantial gold producer continued last year. We completed construction of two of our major mines, undertook three corporate acquisitions, acquired a fourth major greenstone belt, bringing our current exploration concessions to more than one million hectares, and established ourselves as a leading intermediate gold producer with properties in three major areas: Brazil, Argentina and Central America.

We began the year with an ambitious strategic plan of developing into one of the larger intermediate gold producers, targeting to reach a production level of over one million ounces of gold by 2008. We are now pleased to indicate to our shareholders that we are on track to achieve that million ounce run rate target by late 2008.

Today, we are embarking on an equally ambitious strategic plan. With production projected to exceed 600,000 ounces of gold in 2007, we are undertaking two major construction programs and an expansion plan at one of our producing mines. In total, this will drive us to our million ounce target level by late 2008.

That is not enough. Our ambitions have always suggested that we would become the leading intermediate gold company in Latin America. We have accomplished this goal. Now, we intend to embark on a path that would extend our reach beyond Latin America. Initially, we will focus on the Americas including North America although in time, as we expand our size and scope, we will expand our vision to include other parts of the world. In all cases, we will look for value enhancing opportunities in prospective and mining-accommodating areas of the world.

I take comfort that we have developed into a high growth company in three ways: through development of advanced-stage properties, through acquisition and through exploration. We have grown and will continue to grow through organic means and through accretive, strategic acquisitions. We will not rely on any one approach for growth and value enhancement.

With the development of Chapada and São Francisco, we have demonstrated our ability to grow through technical and engineering strength. With our purchase of San Andrés, Gualcamayo and Jacobina, we have demonstrated our ability to grow through corporate and acquisition strength. With our exploration efforts at C1 Santa Luz, we begin to demonstrate the third strength of this Company which is exploration.

Today, we will be merging these strengths in many respects. We will be evolving our exploration efforts at C1 Santa Luz into engineering efforts as we advance that property's feasibility study. We have been applying our exploration strength to expand the size and scope of Gualcamayo which we acquired through a corporate purchase last year. We will now advance the feasibility study for Gualcamayo and apply the engineering and construction expertise we developed to construct São Francisco and Chapada toward the construction of Gualcamayo. We have, in short, developed into a sustainable integrated mining company enabled to continue our growth and value enhancing efforts.

This year, with our two major mines now completed, and with efforts underway to develop Gualcamayo, São Vicente and C1 Santa Luz, along with the expansion of Jacobina, our focus on exploration will intensify. This will be a major effort toward future growth for us. With our development efforts, extensive exploration plan and continuing acquisition strategy, we intend to remain a high growth company and leading consolidator in the gold mining industry.

In addition to the technical and corporate strength referred to above, I feel it is important to highlight the financial maturity that our Company has achieved in a very short time. Yamana is a company now listed on the New York Stock Exchange as well as the Toronto Stock Exchange. We have no debt, an un-drawn $200 million credit facility and significant cash flows to fund growth, dividends and return to shareholders. The declaration of commercial production at Chapada has made a significant contribution to this financial maturity and will help to make 2007 a truly transforming year for Yamana into an earnings and cash flow company.

I was recently asked what our objective is now. In simple terms, it is to occupy that space in the gold mining industry in which we distinguish ourselves as the premier intermediate gold company, dominant in the industry while below the size and scale of the senior companies. We intend our Company to stand alone without comparison.

Sincerely,

Peter Marrone
President and Chief Executive Officer

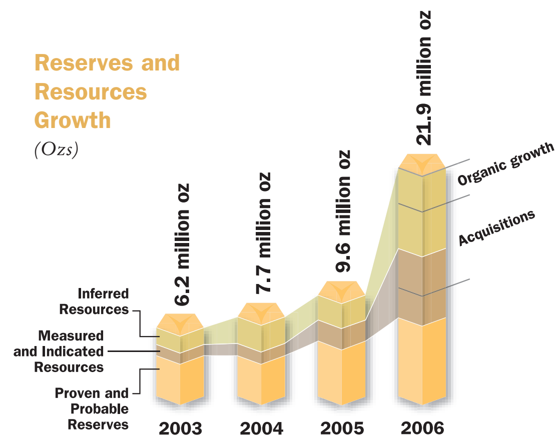
March 23, 2007

Peter Marrone
President and
Chief Executive Officer

Near-term Goals

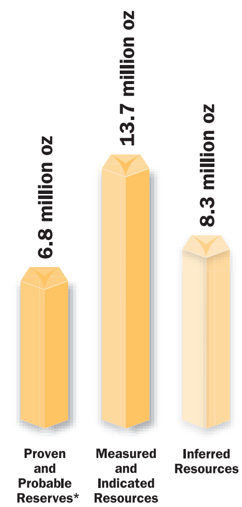
- **Achieve target production from organic growth** of at least 600,000 ounces of gold in 2007, increasing to a 1 million ounce per year run rate by late 2008.
- **Pursue acquisition targets that will increase production targets** to more than 1 million ounces of gold annually.
- **Continue to advance development properties** with a strong emphasis on Gualcamayo in the short-term.
- **Advance highest priority exploration properties** to development.
- **Increase mine life** primarily at Fazenda Brasileiro, São Francisco and San Andrés.
- **Continue aggressive exploration** of extensive exploration portfolio; and
- **Expand focus** to growth opportunities outside of Latin America.

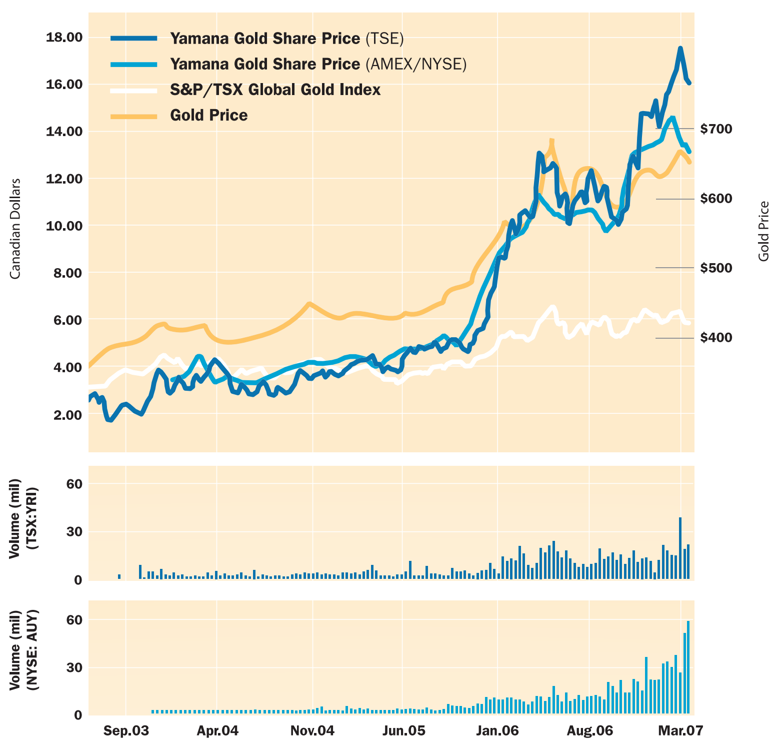
Reserves and Resources Growth
(Ozs)



Gold Reserves and Resources
(Ozs)

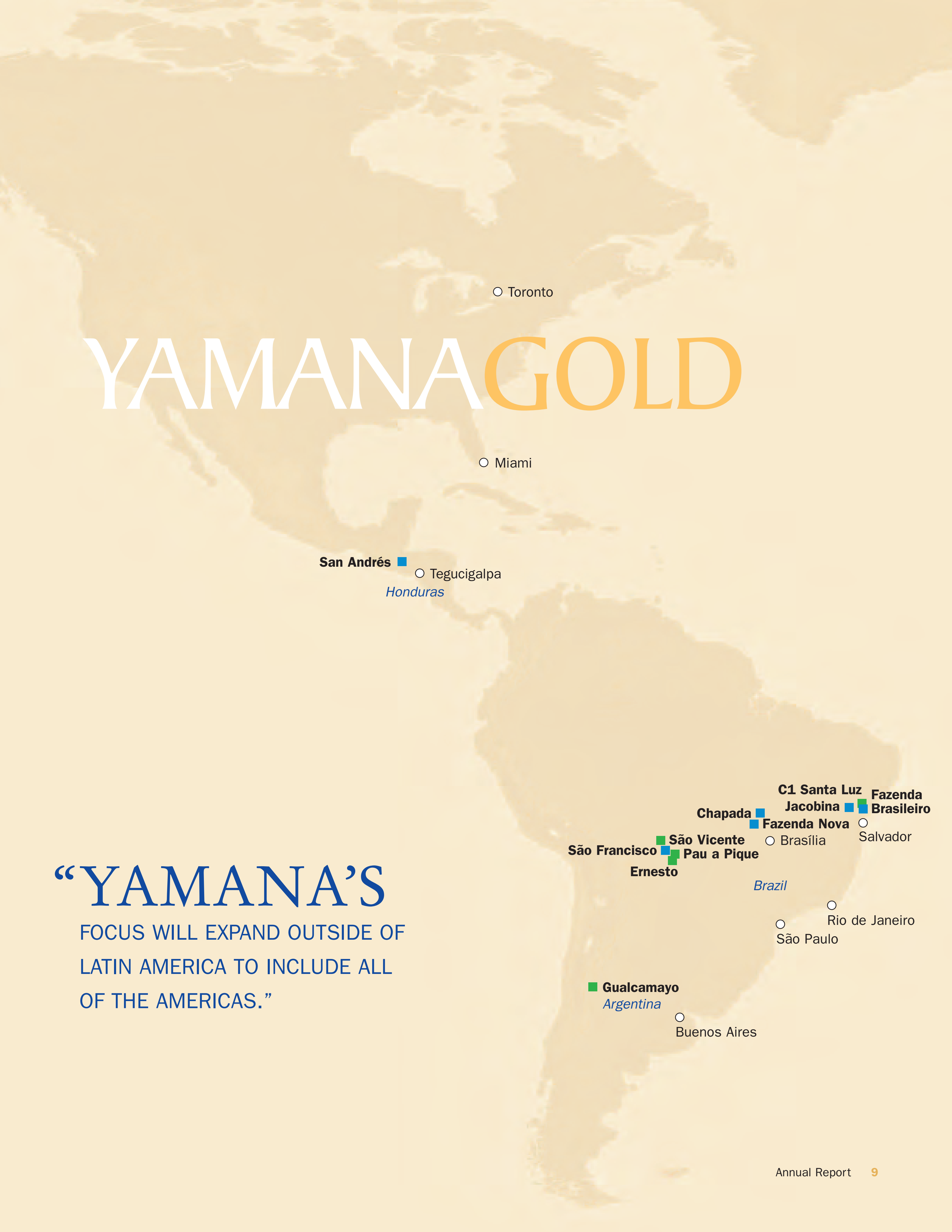
** Proven and probable reserves included in total measured and indicated reserves*





Fiscal Year End Market Capitalization
($ millions)

YAMANAGOLD



"YAMANA'S FOCUS WILL EXPAND OUTSIDE OF LATIN AMERICA TO INCLUDE ALL OF THE AMERICAS."

Four Years of Value Growth

An Initial Focus on Brazil

2003 - Yamana Gold was created through the vend in of several privately held Brazilian development projects into a public company to capitalize on Brazil's geological potential, which is abundant yet relatively under-explored. With one of the world's ten largest economies and a major industrial base, Brazil's infrastructure is well-developed, including abundant hydroelectric power and efficient transportation networks. Before the year was over, Yamana had raised C$83 million in two equity financings and had acquired the Fazenda Brasileiro mine thereby firmly establishing itself as a junior gold producer.

Cutting our Teeth on Construction

2004 - Yamana continued on its mission to turn undervalued Brazilian properties into profitable mining operations. Fazenda Nova was constructed in about six months and began producing in the fourth quarter. Fazenda Brasileiro achieved annual gold production of more than 95,000 ounces and still had resources to support a further four-to-six-year mine life. Positive feasibility studies were completed for both São Francisco and Chapada and construction began at both projects. Production for the year totalled 101,000 ounces. In addition to all of this, the Company raised a further $91 million in equity and was well-positioned to further advance its growth strategy.

Value and Growth Strategy Solidified

2005 - At the beginning of 2005, Yamana confirmed an ambitious plan targeting 2007 production of more than 400,000 ounces of gold and 100 million pounds of copper. With cash flow generated from Fazenda Brasileiro and Fazenda Nova, and construction well underway at São Francisco and Chapada, the Company was well positioned to reach this goal. Further, three new exploration projects were advanced to the point where they had the potential to become a mine. These included São Vicente, C1 Santa Luz and Ernesto. Gross proceeds of C$180 million were raised through an equity issue and the early exercise of warrants and at the end of the year cash balances stood at $152 million. A $100 million debt financing was closed to help fund Chapada, and the acquisition of RNC Gold was announced. Production for the year was 115,000 ounces. Cash costs for commercial gold production were $289 per ounce.

Acquisitions Vault Yamana Into Intermediate Status

2006 - As internal growth continued, Yamana further fueled its growth in 2006 through acquisitions. An increased target production level of 750,000 ounces per year by the end of 2008 was set early in the year, but then increased to a target of one million ounces. The acquisitions of RNC Gold, Desert Sun Mining and Viceroy Exploration resulted in Yamana becoming the dominant gold mining company in Brazil with additional production in Honduras, and positioned the Company in Argentina with a large-scale development project. Commercial production was declared at São Francisco and production began at Chapada, ahead of schedule. Total calendar year gold production from all mines amounted to 359,272 ounces. Commercial, post acquisition gold production was 283,460 ounces at a cash cost of $326 per ounce.

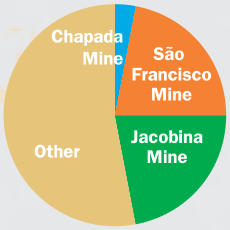

2006
Our Assets

2006 Total Mine Production[1]

359,272 oz

[1] Calendar year mine production including pre-commercial production and production prior to Yamana ownership.

2006 Total Gold Production

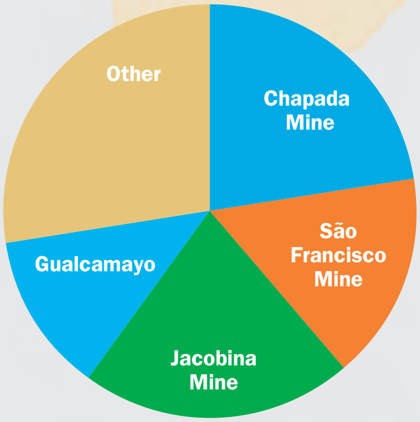


2007 Target Gold Production - 600,000 oz Au

Guidance by Mine

2008 Target Gold Production - 800,000 oz Au

Guidance by Mine



Yamana - An Overview

(as of February 28, 2007)	**2006 Highlights**	**2006 Production**	**2006 Cash Costs[3]**
Chapada Mine *(Brazil)* COPPER, GOLD *Producing open pit operation*	• construction completed • production in fourth quarter 2006 with initial 5 year high-grade starter pit • less than 2 year pay-back	7,881 oz Au 5.6 million lbs Cu	– –
São Francisco Mine *(Brazil)* GOLD *Producing open pit, gravity/heap leach operation*	• began commercial operation in August 2006 • production upside from conversion of resources to reserves and grade upside due to coarse gold effect	80,117 oz (including pre-commercial production	$295 /oz
Jacobina Mine *(Brazil)* GOLD *Producing underground operation*	• Acquired from Desert Sun Mining • Potential for large scale conversion resources to reserves • expansion plan finalized	81,508 oz 62,534 oz *post acquisition*	$327 /oz
Gualcamayo Project *(Argentina)* GOLD *Development Project*	• QDD Feasibility Study Q2/2007 • 3 substantial zones gold mineralization identified • drilling and mine development ongoing	–	–
San Andrés Mine *(Honduras)* GOLD *Producing underground operation*	• exploration potential to extend 5-year mine plan	70,779 oz 56,792 oz post acquisition	$342 /oz
Fazenda Brasileiro Mine *(Brazil)* GOLD *Producing underground operation*	• more than 14 years of operating experience • E-Deep definition drilling and mine development ongoing	76,413 oz	$350 /oz
São Vicente *(Brazil)* GOLD *Advanced open pit, gravity/heap leach project*	• announced production decision November 2006 • bulk samples suggest grades may exceed drill indicated grades and reserve grades	–	–
C1 Santa Luz *(Brazil)* GOLD *Development project*	• located on the Rio Itapicuru Greenstone Belt north of Fazenda Brasileiro Mine • potential for stand-alone open pit and u/g mine • Feasibility Study Q2/2007	–	–
Fazenda Nova Mine *(Brazil)* GOLD *Shallow, open pit, heap leach operation*	• 2007 planned last year of production • exploration in 2007 to determine if mine life could be extended	29,843 oz	$294 /oz
Ernesto and Pau a Pique *(Brazil)* GOLD *Advanced exploration projects*	• located on the Santa Elina Gold Belt south of São Francisco • potential for stand-alone mine or combined project	–	–

[1] Average cash costs for 2006 - $326 per ounce including mines acquired from RNC Gold Inc., Desert Sun Mining Corp.

Estimated 2007 Production	Proven & Probable Reserves[(2)(3)(4)] *Contained gold oz/copper lbs*	Measured & Indicated Resources *Contained gold oz/copper lbs*	2007 Objectives	Beyond 2007
180-205,000 oz Au 130-145 million lbs Cu	2.5 M oz 2.3 B lbs	Measured and Indicated 3.0 M oz Measured and Indicated 2.8 B lbs	• commence commercial production • optimize throughput and other initiatives	• 19 year mine life • total production of 2 B lbs of copper and 1.3 M oz of gold • most gold production in first five years
120-130,000 oz Au	Main ore: 1.2 M oz ROM[(3)]: 0.2 M oz 1.4 M oz	1.9 M oz	• convert resources to reserves • determine coarse gold effect	• production for more than 10 years • potential for underground and production upside from coarse gold
120-130,000 oz Au[(5)]	1.2 M oz	2.9 M oz	• expand mill to 6,500 tpd and develop Canaveiras and Morro do Vento Extension	• expand mill to 8,500 tpd by late 2008
–	–	2.3 M oz	• feasibility study completion Q2 2007 • start construction	• over 10 year mine life at production rate of 200,000 ounces per year • underground potential QDD Lower West
70-80,000 oz Au	0.5 M oz	1.3M oz	• lower costs • exploration upside	• potential reserve increase by mining and processing out of pit resource by dump leach
80-85,000 oz Au	255,000 oz	435,000 oz	• add resources and convert existing resources into reserves • increase mine life	• current resources support 4-6 year mine life at average 80,000 oz per year • mining from higher grades from C-Quartz and E-Deep areas
–	342,000 oz	605,000 oz	• engineering and construction	• produce 45-57,000 oz over 5 year mine life
–	556,000 oz	1,041,000 oz	• feasibility study expected Q2 2007	• construction (assuming a positive feasibility study) • potential for 10 year mine life at 100,000 oz per year
15-20,000 oz Au	24,000 oz	42,000 oz	• last year of mine life • exploration to extend mine life	• closure and reclamation
–	–	179,000 oz	• continued exploration	• feasibility study and construction (assuming positive feasibility study)

(2) Gold price assumption $450/oz
Copper price assumption $1.10/lb
(3) ROM - Run-of-mine

(4) Subset of Measured and Indicated Resources

(5) Annual production likely affected due to assessment of safety requirements at João Belo following certain sill pillar failures in historical workings. The production rate at the end of 2007 is expected to be 150,000 oz/yr.

Chapada

The Chapada property is located in northern Goiás State, Brazil, approximately 320 kilometres north of the state capital of Goiânia and 270 kilometres northwest of the national capital of Brasília. The project encompasses a series of mining and exploration licences totalling 8,389 hectares.

Pre-Production for the 2006 calendar year was 7,881 ounces of gold and 5.6 million pounds of copper.

Chapada is an open-pit copper and gold mine with milling facilities that produce a copper/gold concentrate. Mining is currently occurring at a rate of 16 million tonnes per year and 2007 concentrate production is projected at around 180,000 to 200,000 tonnes. Concentrate is shipped to third party smelters for processing into copper and gold metal.

Project History

When Yamana acquired Chapada in July 2003, the project had an outlined zone of continuous copper-gold mineralization approximately 3,500 metres long by 900 metres wide, with a depth of up to 220 metres. In February 2004, Yamana completed an updated technical report for Chapada and one of the significant changes in projections was an increase in the planned throughput from 12 million to 16 million tonnes per year. A final feasibility study was completed in June 2004 and a construction decision was announced at that time. The project was completed by October 2006 and commercial production was declared in February 2007.

Operating Plan

The Chapada mine is now producing and selling concentrate on a consistent basis. The mine plan predicts average annual production of approximately 134 million pounds of payable copper and approximately 135,000 ounces of payable gold per year in concentrate for each of the first five years of operation. A mine life of 19 years is estimated for total production of about 2.0 billion pounds of recoverable copper and about 1.4 million ounces of recoverable gold.

Chapada RESERVES AND RESOURCES	Contained *GOLD	Contained **COPPER
Proven and Probable [1]	2.5	2.3
Measured and Indicated	3.0	2.8
Inferred	1.2	1.4

(1) subset of Measured and Indicated
* million ounces gold
** billion pounds copper

Gold production at Chapada is expected to be in the range of 180,000 to 205,000 ounces in 2007 and in the range of 170,000 to 190,000 ounces in 2008. Copper production at Chapada is expected to be 130 million to 145 million pounds in 2007 and 165 million to 175 million pounds in 2008.

Mill circuit supervision and assay lab at Chapada.

Value Enhancing Initiatives

Now that commercial production at Chapada has been achieved, the Company plans to increase gold and copper production at Chapada in part by optimizing the grinding circuit to further improve throughput and by studying the feasibility of processing 1.8 million tonnes of stockpile oxide grading 0.52 gram/tonne gold material which can be processed through conventional heap leaching. The Company is also assessing the feasibility of producing a pyrite concentrate to make sulfuric acid for sale to third parties.

São Francisco

The São Francisco project is located in the extreme western portion of Mato Grosso State in western Brazil, very close to the Bolivian frontier some 560 kilometres west of the provincial capital city of Cuiaba. São Francisco consists of four contiguous exploration permits totalling 35,446 hectares.

Commercial production for the 2006 calendar year was 57,878 ounces at a cash cost of $295 per ounce.

São Francisco is an open-pit, gravity heap leach gold project. It involves three different streams of processing: crushing, gravity then heap leach; crushing then heap leach; and run-of-mine heap leach.

Project History

Gold was first discovered at São Francisco in the 1700s and the district reportedly produced and shipped to Portugal some 60 to 70 tonnes of gold between 1720 and 1830. When Yamana acquired the project in July 2003 there was a significant amount of metallurgical work available for the project and an estimated gold resource base of approximately 1.8 million ounces. In November 2004, Yamana completed an updated feasibility study on São Francisco and made a construction decision. The mine was built by early 2006 and commercial production was declared in August 2006.

Operating Plan

Yamana declared commercial production at São Francisco effective August 1, 2006. Heap leaching of ore commenced in March 2006. A total of 80,117 ounces of gold were produced to the end of 2006 including pre-commercial production from the pilot plant. Grades and volumes are expected to increase as the operation ramps up.

Mining is currently taking place in saprolite material. The mining of higher grade material and the anticipated positive coarse gold effect is expected to materialize in mid to late 2007 when mining extends to higher concentrations of quartz veins in harder rock.

São Francisco RESERVES AND RESOURCES	*Contained Ounces MAIN ORE	ROM ORE	TOTAL
Proven and Probable [1]	1.2	0.2	1.4
Measured and Indicated	1.5	0.4	1.9
Inferred	0.9	0.6	1.5

(1) subset of Measured and Indicated
* million ounces gold

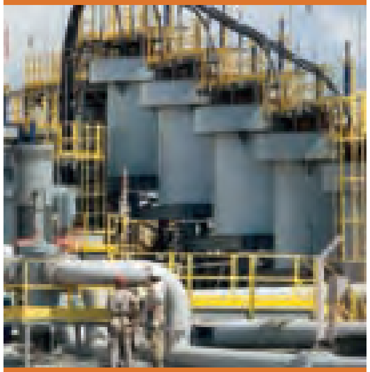
Without incorporating any possible benefits from the coarse gold effect, production at São Francisco is estimated to be in the range of 120,000 to 130,000 ounces in 2007 and in the range of 125,000 to 135,000 ounces in 2008. Yamana expects that São Francisco will be mining at these rates or better for in excess of 10 years.

Value Enhancing Initiatives

The coarse gold effect at São Francisco continues to be evaluated and reconciliation data through the end of January 2007 suggests that there is at least a 30% positive grade reconciliation on average for ore processed through gravity and heap leaching. The reconciliation is much higher for the ore processed through the gravity circuit which suggests results will become even more attractive once mining reaches the higher grade, deeper areas of the pit.

There is a substantial inferred resource base of 1.5 million ounces at São Francisco and Yamana will continue working in 2007 towards upgrading resources to reserves, particularly along strike of the pit.

In addition, Yamana will be studying the potential of mining the deeper sections of the deposit by underground mining methods.



Pit operations and processing at São Francisco.

Jacobina

The Jacobina property is located in the state of Bahia in northeastern Brazil approximately 340 kilometres northwest of the city of Salvador. The property is comprised of 5,996 hectares of mining concessions, 129,572 hectares of granted exploration concessions and 6,012 hectares of filed exploration claims. The property encompasses upwards of 155 kilometres of exploration concessions along historical gold occurrences in the Bahia Gold Belt.

Production for the 2006 calendar year was 62,534 ounces at a cash cost of $327 per ounce.

Yamana is developing a number of underground mines on the Jacobina property to supplement ore feed currently coming from the João Belo Mine to feed a centralized mill. Morro do Vento, Morro do Vento Extension and Canavieiras will come on stream as production capacity increases from current levels of approximately 5,000 tonnes per day to target levels of 8,500 tonnes per day by late 2008.

Project History

The Serra do Jacobina mountains have been mined for gold since the late 17th century. Numerous old workings from artisanal miners can be seen along the ridges of the mountain chain and garimpeiro activity, on a small scale, has taken place sporadically up to present day. Yamana acquired Jacobina when it completed the acquisition of Desert Sun Mining in April 2006. When Yamana acquired the project, the plant was operating near its design capacity of 4,200 tonnes per day and an expansion plan was being formulated to increase annual production from less than 100,000 ounces per year to more than 200,000 ounces per year.

Operating Plan

As part of a two phase expansion, Yamana plans to complete an expansion of the Jacobina processing plant to a capacity of 8,500 tonnes per day by late 2008. The final throughput rate will be dependent to a significant extent on converting the large inferred and indicated resource at Canavieiras to reserves and determining the full potential at Canavieiras. The Company continues to evaluate the impact on production as a result of the collapse of certain sill pillars at historical mine workings at João Belo. Production shortfalls in Jacobina are expected as the Company conducts health and safety checks

Jacobina RESERVES AND RESOURCES	*Contained Ounces
Proven and Probable [1]	1.2
Measured and Indicated	2.9
Inferred	4.2

(1) subset of Measured and Indicated
* million ounces gold

of other areas and improves air blast and ventilation procedures for the health and safety of its mine workers. Development work continues unaffected by this and it is expected that Jacobina will be producing at the expected annualized level of 150,000 ounces per year by the end of 2007. Production guidance for 2008 and thereafter remains unchanged at the present time although the evaluation of health and safety requirements may result in increasing the size of future ore pillars which may diminish the amount of material available as ore from João Belo. Any production shortfall in 2007 is expected to be offset by additional production at the Company's other mines.

Value Enhancing Initiatives

One of the most promising opportunities to enhance value at Jacobina is to continue delineating resources at the higher grade Canavieiras project and to convert these resources to reserves. Canavieiras is only 4 kilometres from the Jacobina mill and its grades are upwards of 1.5 to 2.0 times the grade currently being mined and processed from João Belo.

Significant value and economies of scale will also be created as the Company continues with the expansion plan to ultimately double production from the Jacobina property.

Drilling and blasting at Jacobina.

Gualcamayo

The Gualcamayo Property is located in northern San Juan Province, Argentina, approximately 279 kilometres north of the provincial capital of San Juan. The main Gualcamayo block consists of one Cateo (exploration concession) and 57 Minas (mining property interests), covering 7,128 hectares of ground.

Gualcamayo is an advanced-stage feasibility project with a first phase open pit heap leach feasibility study expected by mid-year 2007. Based on recent drilling results, Yamana is of the view that the project will ultimately also include an underground mining operation. Yamana is targeting production from Gualcamayo in Q3 2008 at a sustainable rate of 200,000 ounces of gold production annually.

Project History

The general area of the Gualcamayo gold project has been sporadically prospected by local miners for at least the last 60 years. Viceroy acquired the project in 2003 and in January 2005, they completed a Preliminary Economic Assessment of the Quebrada del Diablo (QDD) deposit. The study concluded that the QDD project had the potential to be economically viable and should proceed to the next phases of feasibility study. Yamana acquired Gualcamayo through the acquisition of Viceroy Exploration which closed in early 2007 and a final feasibility for the open pit project at QDD is targeted for mid year 2007.

The project is located within a three hour drive of the provincial capital of San Juan province and is situated within 10 kilometres of paved highways. The mine has a readily available source of water and the elevation of approximately 2,000 metres should pose no difficulties for personnel or equipment. San Juan provincial authorities are very supportive of the project.

Gualcamayo	Contained Ounces		(thousand)
	QDD	AMELIA INÉS and MAGDALENA	TOTAL
Proven and Probable [1]	–	–	–
Measured and Indicated	2,093	192	2,285
Inferred	523	175	698

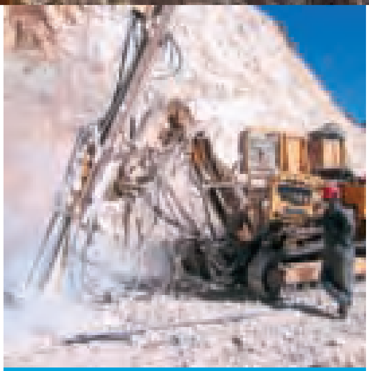
[1] subset of Measured and Indicated

Operating Plan

The preliminary economic assessment that was completed for Viceroy Exploration assumed an average production rate of approximately 150,000 to 160,000 ounces of gold per year. Since then, a significant amount of drilling has occurred and resources have increased significantly. An October 2006 resource estimate by GeoSim Services Inc. on QDD calculated a measured and indicated resource of 2.1 million ounces of gold with an additional 0.5 million ounces of inferred at a cut-off grade of 0.3 grams per tonne gold. Yamana now expects that a larger scale project may be feasible, incorporating a future underground mining operation in addition to the open pit.

Subject to a final feasibility, Yamana is targeting production from Gualcamayo to be in the range of 180,000 to 200,000 ounces per year and is targeting an ultimate mine life well in excess of 10 years.

To further support sustainable long life gold production, Yamana plans to complete a feasibility study at Amelia Ines/Magdalena by the third quarter of 2007 and to complete a Preliminary Economic Assessment of the QDD Lower West underground resource by the end of 2007 and a feasibility study on this area early in 2008.



Pre-stripping in the QDD pit and core logging at Gualcamayo.

San Andrés, Fazenda Brasileiro, Fazenda Nova, São Vicente, C1 Santa Luz, Ernesto and Pau a Pique

Other Operations

The San Andrés Mine in Honduras and the Fazenda Brasileiro and Fazenda Nova Mines in Brazil although smaller are still important contributors to Yamana's overall production profile. The location of San Andrés and Fazenda Brasileiro in very prospective environments give the potential for further expansion of the reserve and resource base. The São Vicente Project, Ernesto and Pau a Pique property offer the potential to share infrastructure with the nearby São Francisco Mine. The C1 Santa Luz property in the Itapicuru Gold Belt and its proximity to Fazenda Brasileiro promises to be one of the next projects to be developed by Yamana assuming a positive feasibility study expected in the second quarter of 2007.

Other Operations

San Andrés

The San Andrés open pit heap leach operation is located in the Department of Copán in the interior highlands of western Honduras approximately 150 kilometres from San Pedro Sula. It is within the Municipality of La Union and approximately 18 kilometres due west of the town of Santa Rosa de Copán, the capital of the Department of Copán. The property lies in the Trifmio District, a 7,500 square kilometre area that straddles the borders between Honduras, El Salvador and Guatemala known for its gold, silver, antimony, copper, lead, zinc and iron resources.

Other Operations and Projects **Contained Ounces Gold*

	San Andrés	Fazenda Brasileiro	São Vicente	C1 Santa Luz	Ernesto	Fazenda Nova (oz)
Proven and Probable Reserves [1]	0.5	0.3	0.3	0.6	–	24,000
Measured and Indicated Resources	1.3	0.4	0.6	1.0	0.2	41,500
Inferred Resources	–	0.1	0.1	0.4	0.2	4,000

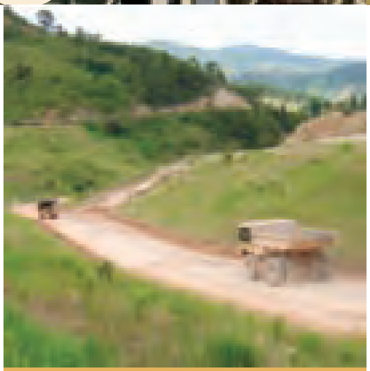
(1) subset of Measured and Indicated
* million ounces gold

and Projects

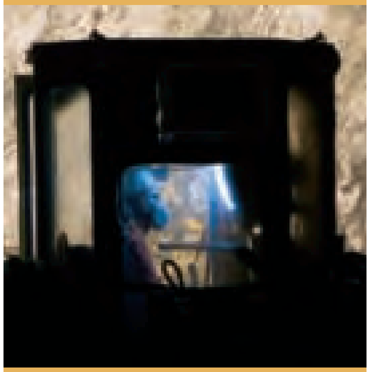
The San Andrés area is reported to be the first Spanish gold discovery in Honduras, with initial production in the early 1500s. The mine has been in production since 1983 and has well developed infrastructure. Total annual production is approximately 70,000 ounces.

Yamana has initiated an aggressive exploration program including drilling, sampling and mapping to better define the pit boundaries, test areas between the pits and assess potential mineralization in other areas of the mining lease. There is significant reserve upside as drilling indicates that the high sulphidation epithermal gold mineralization system is much more extensive than previously recognized.

In addition to proven and probable reserves of 499,000 ounces (Oct. 31, 2006), there is a large measured and indicated resource of 790,000 ounces outside of the current planned pit boundary. Yamana plans to conduct testwork and study the feasibility of dump leaching which may make this large resource economic.



At San Andrés.



At Brasileiro.

At Fazenda Brasileiro.

Fazenda Brasileiro

The Fazenda Brasileiro property includes a producing underground and small open pit gold mine and approximately 197,000 hectares of adjacent exploration properties. It is located in northeast Brazil in the eastern portion of Bahia state, 180 kilometres NNW of the state capital city of Salvador.

The Fazenda Brasileiro mine began production in 1984 as an open pit, heap leach operation, however, in 1988, production began from underground operations with processing in the newly constructed CIP plant and has been in continuous operation since such time. Total production for 2006 was 76,413 ounces. CIP mill recoveries have averaged 92.1% and have been very consistent on a year-by-year basis.

The property lies in the Rio Itapicuru Greenstone Belt (RIGB), an area in which Yamana is actively exploring. Since August 2003, Yamana has conducted an exploration and infill drilling program at the Fazenda Brasileiro Mine designed to upgrade the current probable mineral reserves to proven mineral reserves, replace mined mineral reserves and a deeper drilling program designed to extend the mine's underground mineral resources at depth and to the east. Drilling has been focused on orebodies adjacent to the mine, underground orebodies at or near the level of existing mine workings and orebodies beneath the existing mine workings. Definition drilling is currently underway at the E-Deep target.

Fazenda Nova

The Fazenda Nova open pit heap leach operation is located in the centre of the State of Goiás in central Brazil, some 15 kilometres west of the town of Fazenda Nova, or approximately 225 kilometres west of the city of Goiânia, the capital city of Goiás.

Production began in late 2004 and gold production for 2007 is expected to be 15,000 to 20,000 ounces. There is approximately one year of reserve life remaining at Fazenda Nova, although Yamana intends to commence a drilling program to determine whether or not the mine life can be extended.

Other Projects

São Vicente

The São Vicente property is located in the extreme western portion of Mato Grosso State in West Central Brazil, very close to the Bolivian frontier and some 560 kilometres west-northwest of the capital city of Cuiaba. It is approximately 58 kilometres north of São Francisco. São Vicente consists of three contiguous mining permits totalling 28,980 hectares in area.

A production decision was approved in the fourth quarter of 2006, based on a favourable feasibility study, with targeted production in 2008. The operation will be an open pit, heap leach and gravity concentration project with annual production estimated to be 45,000 to 55,000 ounces in 2008. The current mine plan estimates an initial mine life of 5.3 years at an average annual production of 57,000 ounces.

Gold mineralization at São Vicente occurs for more than 1,000 metres in two parallel northwest trending zones. There is potential for further upside through continued mine exploration down dip.

C1 Santa Luz

Located near Maria Preta which was a series of open pit heap leach operations before the Company acquired the area and began exploration, C1 Santa Luz is one of eight and the most advanced of the priority targets on the Company's 180,000 hectares of mineral claims on the RIGB approximately 60 kilometres north of the Fazenda Brasileiro Mine.

In December 2005, the Company announced the results of a Phase 1 scoping study, which included an open pit probable reserve containing 556,000 ounces of gold. The purpose of the study was to provide an initial economic assessment of the project and assess the merits of undertaking a formal feasibility study. The results were positive and the Company is continuing to assess the development of the project as a stand alone mine.

Yamana plans to complete a feasibility study for C1 Santa Luz in the second quarter of 2007. Assuming the feasibility study meets the Yamana criteria of a minimum ten year mine life and a minimum production rate of 100,000 ounces of gold per year, Yamana will start construction in 2007 for commencement of production in late 2008.

The Company is continuing to drill on the project and believes that it can add to the current resource base, assisting in improved project economics.

Ernesto

Ernesto is located half way between Pau a Pique and the São Francisco mine, 10 kilometres south of the Pontes e Lacerda city on the Guapore Gold Belt. Gold mineralization is associated with a major structure that hosts several gold mineralized targets in the area. The targets, including Ernesto, are structurally related to two synclines that host three mineralized gold traps: the Lower, Middle and Upper Traps.

Historical drilling focused on the Lower Trap, considered to be the most promising area for gold mineralization.

A 2006 resource estimate was undertaken after 31,600 metres of drilling in 193 holes. The estimate includes indicated resources of 1.52 million tonnes grading 3.66 grams per tonne gold totalling 178,900 contained ounces of gold, and an additional 2.14 million tonnes of inferred resources at a grade of 2.61 grams per tonne gold totalling 179,600 ounces of gold located in the Lower and Middle Trap.

Exploration work at the Bahia Gold Belt.

Pau a Pique

The Pau a Pique target is located 35 kilometres directly south of Ernesto and covers an area of 875 hectares on the Guapore Gold Belt. Yamana began exploration of the area in 2005 with detailed surface geological mapping and sampling. The target is related to a second order shear zone.

The first exploratory drilling campaign began in 2006 and consisted of 8,100 metres in 25 holes covering a strike of 700 metres. Drill holes cut high grade intercepts of gold mineralization mainly at the north and south edges of the shear zone, close to the crosscutting regional faults.

There is a possibility to develop Ernesto and Pau a Pique as a combined project.

"THIS IS THE INITIATION OF YAMANA'S EFFORTS AT DELIVERING MINES FROM EXPLORATION TO FEASIBILITY TO CONSTRUCTION AND FINALLY TO OPERATIONS."

Bahia Gold Belt, Guapore Gold Belt, Rio Itapicuru Greenstone Belt and Gualcamayo

Exploration

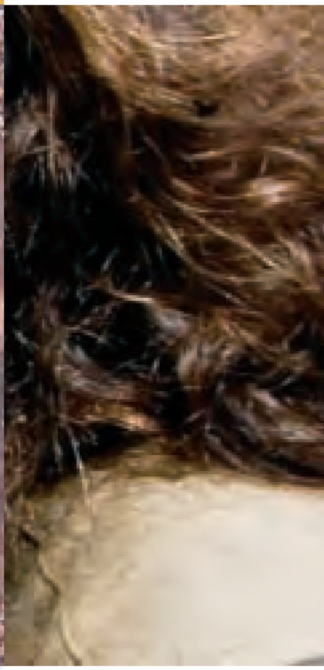
Yamana has allocated US$32 million for exploration in 2007 which will include over 100,000 metres of drilling, focusing primarily at and around Gualcamayo in Argentina, in the Jacobina Mine Complex area and Bahia Gold Belt, on the RIGB, on the Guapore Gold Belt especially in areas between São Francisco and São Vicente and in Central America.

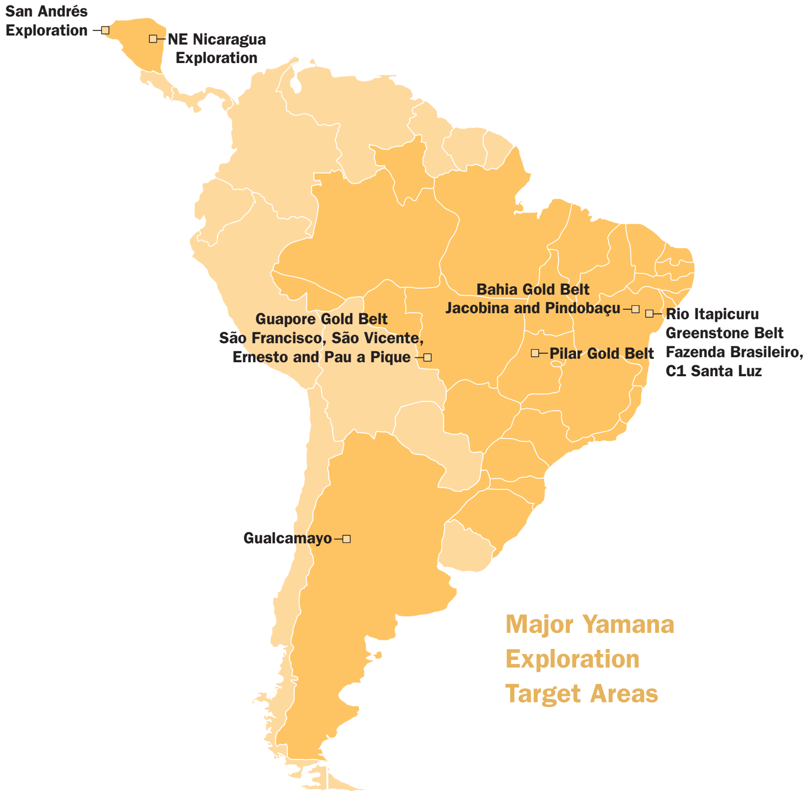
Bahia Gold Belt

The Bahia Gold Belt extends for approximately 155 kilometres on Yamana's 141,580 hectare property and overlays most of the Jacobina range, where quartzites, metaconglomerates and schists of the Paleoproterozoic Jacobina Group form a series of north-south, elongated, mountain ranges. Conglomerate-hosted gold deposits – encompassing the pyritic, gold-bearing, quartz-pebble conglomerates and quartzites of the Serra do Córrego Formation, that host the gold deposits of the Jacobina gold district, extend for approximately 40 kilometres in the southern part of the belt with many targets identified for followup: Canavieiras, Serra do Córrego, Morro do Vento and João Belo, which hosts the existing underground mine. In the northern part, work by Yamana has identified significant gold mineralization related to extensive strongly hydrothermally altered zones, which occur along the Pindobaçu fault system especially in the Pindobaçu area about 50 kilometres north of the town of Jacobina.

2007 Exploration Budget *(100%)*

LOCATION	
Gualcamayo	45%
Jacobina	14%
Guapore	13%
RIGB	8%
Pilar	8%
Nicaragua	5%
Other	7%



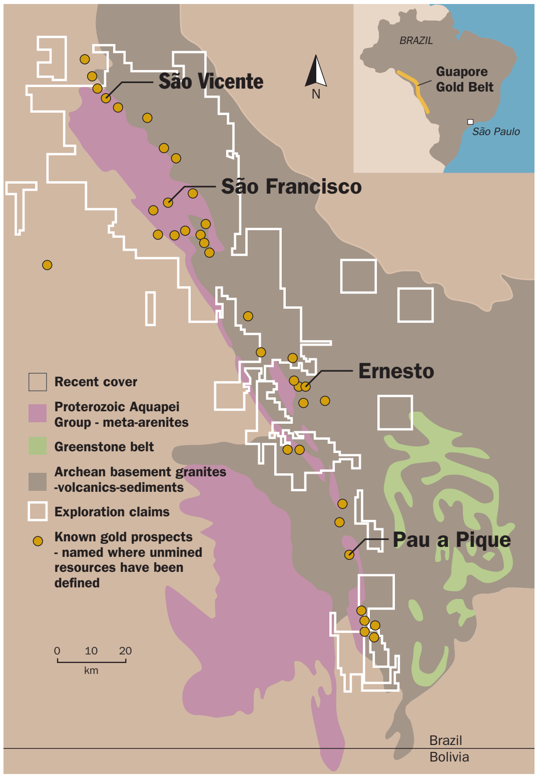


Major Yamana Exploration Target Areas

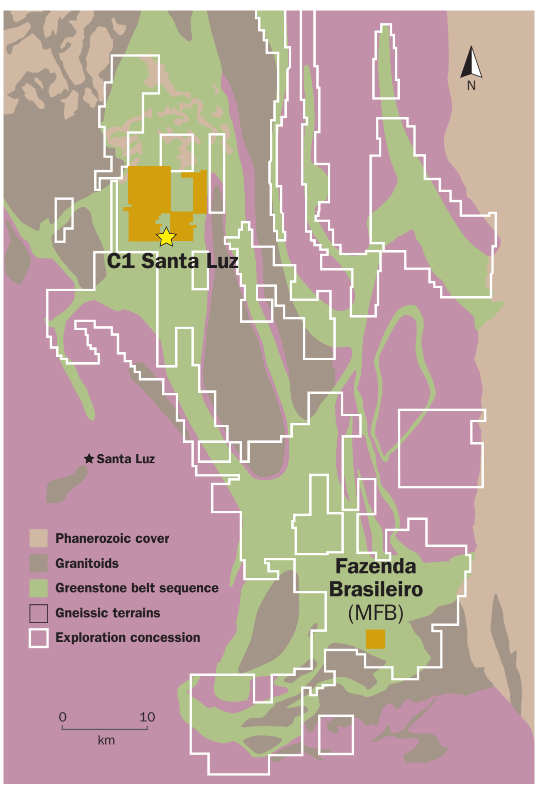
Drilling operations.

Examination of drill core at the Pilar Gold Belt.

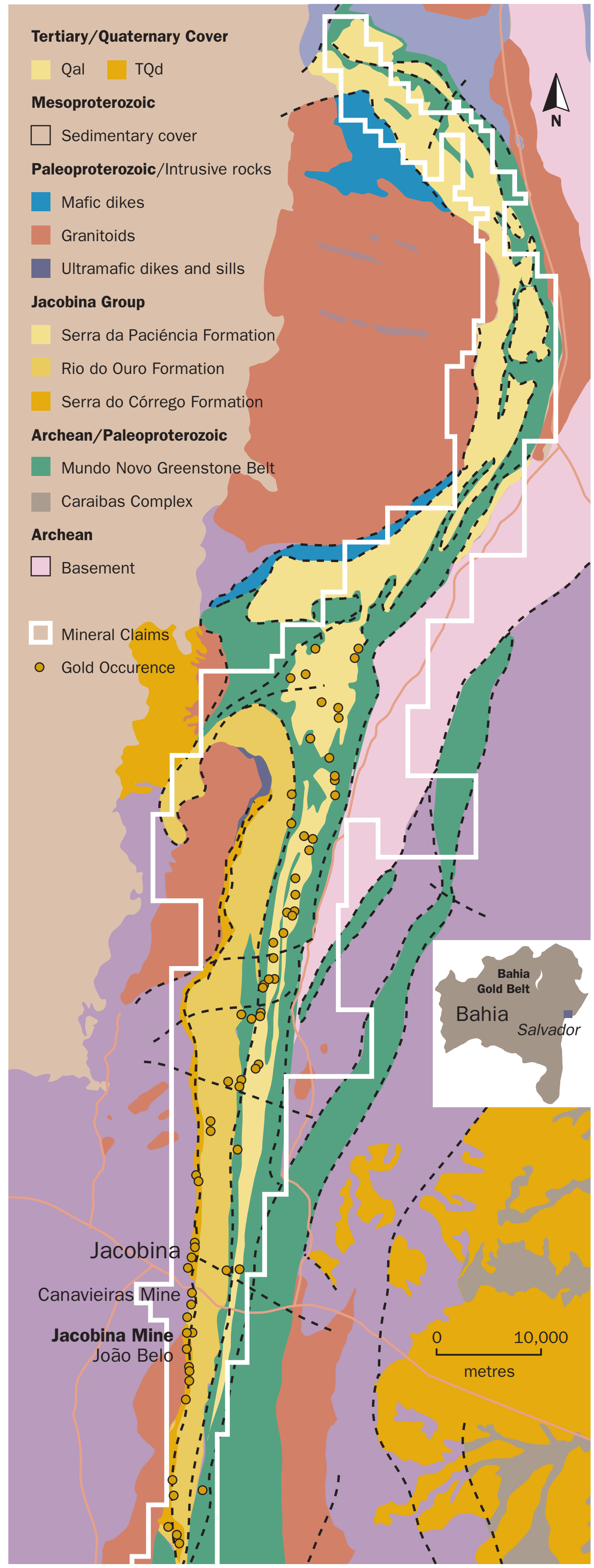
Guapore Gold Belt



RIGB, Fazenda Brasileiro (MFB) and C1 Santa Luz Locations



Bahia Gold Belt



At work on the Guapore Gold Belt - São Vicente Mine.

In 2006, 19,900 metres were drilled in Canavieiras, Serra do Corrego, Morro do Vento, João Belo and Pindobaçu, aiming at expanding the mineral resource base. This strategy has been successful, resulting in the discovery of the Canavieiras' southern extension, which extended the mineralization for 2 kilometres to the south.

Guapore Gold Belt

Exploration work on the Guapore Gold Belt (Santa Elina Gold Belt contained within) property that covers 450,000 hectares was expanded in 2006 to examine the regional potential of the belt which has a large number of gold deposits and occurrences along its almost 200 kilometres strike length. The Guapore basin formed in a major Proterozoic rift zone extending over 600 kilometres that was filled by sediments (conglomerates, sandstones and shales) which were then deformed and thrusted. Historic gold production in the belt to the 1800's was 2.25 million ounces. Gold mineralization in the northern part of the belt is dominated by quartz veins in tight anticlines below relatively impermeable conglomerates (São Francisco and São Vicente). In the south part of the belt gold mineralization is dominated by disseminated gold in thick shear zones in tight synclines at or near the sediment/basement contact (Pau a Pique, Ernesto). In the central area there are a number of gold occurrences within the basement volcano-sedimentary rocks that have had little previous exploration beyond garimpeiro (free miner) activity.

"HISTORIC GOLD PRODUCTION IN THE GUAPORE GOLD BELT TO THE 1800's WAS 2.25 MILLION OUNCES."


Studying old mine workings.

In 2006, a 20,000 metre drill program was executed in São Francisco, Ernesto and Pau a Pique, resulting in the expansion of the resources at São Francisco and Ernesto and revealing the significant potential of Pau a Pique as a high grade underground mine target.

RIGB Gold Belt

The RIGB ("Rio Itapicuru Greenstone Belt") Gold belt property includes the Fazenda Brasileiro gold mine and approximately 197,000 hectares of adjacent exploration properties in northeast Brazil in the eastern portion of Bahia state. The property, all of which is within the RIGB, can be roughly divided into two parts. One part covers the east-west trending Weber Belt, which hosts the Fazenda Brasileiro mine, operating open pits and areas of immediate exploration potential. The other part covers large portions of the north-south trending portion of the RIGB and several exploration

EXPLORATION
Dividends

permits southwest of the mining area. Exploration by Yamana has identified a number of promising targets, the most advanced of which is C1 Santa Luz, Mansinha, Vereda Grande and Riacho do Miguel, where a 36,000 metre drill program took place in 2006. Drilling was executed at C1 Santa Luz and satellite targets aiming at increasing both open pit and underground reserves and resources.

Gualcamayo

The Gualcamayo and Salamanca properties cover 40,000 hectares along the eastern margin of the Precordillera of west central Argentina that is underlain by a thick sequence of Paleozoic carbonates overlain by marine clastics. The entire stratigraphic section exceeds 1,000 metres in thickness. The immediate project area is intruded by a dioritic-dacitic porphyry complex. Gold mineralization occurs within sediment-hosted disseminated (Quebrada del Diablo ("QDD")) and skarn-hosted (Magdalena and Amelia Inés) deposits. In addition, there are porphyry-style molybdenum occurrences. The main zones lie with a five to ten kilometres wide northwest trending structural corridor which can be traced for at least 25 kilometres. Regional exploration has outlined three key target areas outside of the QDD area: Quebrada Perdida which appears to be a diatreme system that has disrupted the sediment; Pirrotina which is a skarn-type system and Salamanca which is north of QDD.

The 37,000 metres drilling program executed in 2006 at QDD was successful in confirming the continuity and expanding the extent of the mineralization both along strike and down dip, revealing a significant high grade zone at QDD West, to be followed up in 2007.

Exploration camp at Gualcamayo, Argentina.

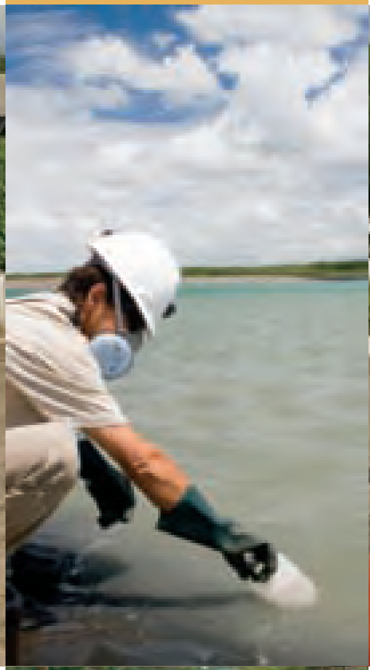
Responsible Mining

Yamana is a responsible mining and exploration company with sustainability plans for all our properties and nearby communities. We believe it is important to share the benefits we derive from our mineral operations with our shareholders, employees, communities, and the countries where we do business.

Part of this commitment is an ongoing and substantial investment in health and safety, environmental protection, and the self-sustainability of local communities after mining operations close.

Safety

The health and safety of our employees and contractors is our highest priority. Our goal is to eliminate safety incidents in the workplace by identifying, assessing, and where practical, eliminating or otherwise controlling hazards. We do this by implementing work procedures, safety systems, engineering standards, training, and risk assessment to ensure the right safety decisions are made. Throughout our operations and for every task, workers must think about the task, study the danger, analyze the risk, take corrective action and work safely.



ning

Safety reminder at Jacobina.

Employee Development

We believe in helping our employees develop to their full potential. We provide opportunities to develop skills on the job and in classrooms, including extensive training in the use of heavy equipment and office administration training and in the use of systems such as our integrated accounting system. We compensate our employees fairly and give them performance feedback. We also involve our people in issues affecting the workplace to ensure our sites continually become safer and more efficient.

Community Development

Yamana is committed to helping the communities near our operations become self sustaining, both economically and socially. Mostly, we hire locally and buy locally, and regionally when we can. We also invest in community infrastructure investment, improved education, and health services.

Explaining the mining process and benefits to students at a Gualcamayo area school.

In 2006, Yamana built a new medical clinic in Alto Horizonte to service the health care needs of our Chapada mine employees and local residents. At São Francisco, we are funding the local museum so that local residents can preserve local heritage and history.

Local stakeholder consultation is also our responsibility. It is important to maintain an ongoing dialogue with local communities, governments and other stakeholders to help prioritize community development efforts, monitor performance, and adjust the focus of initiatives as required.

For example at Gualcamayo, we regularly give safety talks at the local schools such as wearing reflective material while riding a bicycle at night. Yamana was pleased to be awarded the Most Socially Responsible and Best Environmental managed mining exploration company in San Juan Province, Argentina for our work on Gualcamayo.

Environment

Yamana is committed to protect, reclaim and enhance the sites where we operate. At every stage of the mining process, from exploration to closure, we want to minimize environmental impact. Reclamation of disturbed areas begins as soon as those areas have been de-commissioned.

Yamana has received environmental performance awards. Our operations at Mineracao Fazenda Brasileiro ("MFB") are registered under ISO 14001, the international best-practice program for environmental compliance. We are working toward certification at all our mine sites.

Examples of some of our local programs include: solid waste management program, surface and groundwater monitoring program, air monitoring program, reclamation program, revegetation tests, wildlife rescue, fish monitoring, archeological rescue, native seedling productions and environmental education program. At San Andrés, we planted over 57,000 seedlings in the general mine area during 2006 as part of our ongoing reclamation activities.

MFB received the Brazilian Mining Industry Excellence Award for Environment in 2006 due to the implementation of Environmental Management System and Certification in 14 months.

Reforestation activities in Honduras.

Our Near-term Goals and Objectives

- **Safety** - reduce by 50% per year the severity and frequency rate of accidents
- **Safety** - increase EHS training hours from 3% in 2007 to 4% by 2009 of total hours worked
- **Safety** - increase safety interactions and safety training
- **Safety** - obtain OSHAS 18000 certification
- **Water** - reduce by 10% by 2010 the water used per tonne of ore processed
- **Power Consumption** - reduce by 10% by 2010 the amount of power used per tonne of ore processed
- **Diesel** - reduce by 10% by 2010 the amount of diesel used
- **Waste generation** - reduce by 10% by 2010
- **Obtain ISO 14001** certification by Yamana Gold
- **Update mine closure plans** at a minimum of every 3 years
- **Reduce** by 25% per year the employees exposed to noise levels above 85dBA
- **Establish** one volunteer unit at each mine
- **Establish** and further develop Yamana community partnership programs at each of the Yamana sites
- **Establish** and further develop Yamana employee health program and Yamana quality of life program at each of the sites

Mining in Brazil, Argentina and Honduras

Host Countries

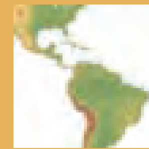
Yamana uses several key criteria before we invest in opportunities in various countries. We look at geological potential, political stability, infrastructure, personnel skill/education levels and reasonable mining regulations. We are a guest in our host country and while we operate there, we strive to make things better than when we first arrived. Operating in the two largest countries in South America and with our base in Honduras in Central America we are well positioned to exploit future regional opportunities.

Brazil

Brazil's geological potential is abundant yet relatively under-explored. It has one of the world's ten largest economies and a large industrial base. Infrastructure is well developed, including abundant hydroelectric power and efficient transportation networks. Quality mining equipment is made locally. The government permitting process is efficient and expedient.

Mining is culturally embedded in Brazil. Workers are skilled and willing to be trained, labour costs are reasonable, and management potential is high. Of the more than 1,500 employees who will eventually work at Yamana's new Chapada mine, all but two will be local, including the mine's most senior managers.

Yamana was chosen as Mining Company of the Year for the second year in a row in the mid-size category by Brasil Mineral magazine, an achievement recognizing our commitment to Brazil's mining industry and local communities.

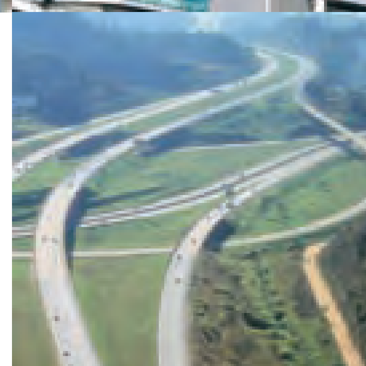


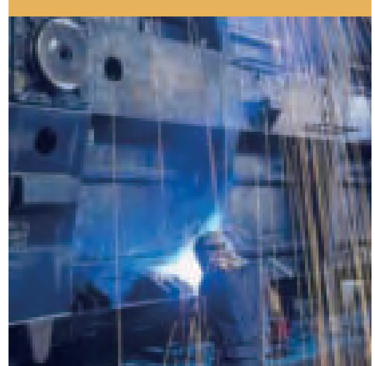
Argentina

Argentina, the second largest country in South America after Brazil, is a country rich in natural resources. It is becoming a leading gold producing country in Latin America. The San Juan Province is a highly prospective exploration area where mining is becoming more prevalent. Yamana plans to continue to look for further business opportunities in the country.

Honduras

Honduras is a geologically diverse country with significant exploration potential and a solid mining history, making the region an attractive opportunity in Central America. Proposed changes to the current mining law should provide headway for Honduras to compete favourably with other Latin American mining countries. This growing country of 7.3 million people and the second largest in Central America has the potential for excellent foreign investment opportunities within the mining and exploration sectors. Yamana is well situated to take advantage of these opportunities both within Honduras and throughout Central America utilizing its producing San Andrés mine as a logistical and economic base.





Brazil, a modern nation.

Reserves and Resources

December 31, 2006

Mineral Reserves (Proven and Probable)

	Proven Reserves			Probable Reserves			Total - Proven and Probable		
	Tonnes (000's)	Grade (g/t)	Contained oz (000's)	Tonnes (000's)	Grade (g/t)	Contained oz (000's)	Tonnes (000's)	Grade (g/t)	Contained oz (000's)
Gold									
Fazenda Brasileiro	2,193	3.34	235.4	254	2.39	19.5	2,447	3.24	254.9
C1 Santa Luz	–	–	–	9,200	1.88	556.0	9,200	1.88	556.0
Fazenda Nova	786	0.75	18.9	257	0.62	5.1	1,043	0.72	24.1
Jacobina	1,869	2.50	150.0	15,313	2.10	1,035.0	17,181	2.14	1,185.0
São Francisco - Main Ore	*15,674*	*1.25*	*630.4*	*14,909*	*1.17*	*562.3*	*30,583*	*1.21*	*1,192.7*
São Francisco - ROM Ore	*13,940*	*0.25*	*110.7*	*14,771*	*0.24*	*112.6*	*28,711*	*0.24*	*223.3*
Total São Francisco	29,614	0.78	741.1	29,680	0.71	674.8	59,294	0.74	1,416.0
São Vicente - Main Ore	*6,580*	*1.06*	*224.8*	*2,854*	*0.90*	*82.2*	*9,434*	*1.01*	*307.0*
São Vicente - ROM Ore	*1,694*	*0.27*	*14.5*	*1,932*	*0.33*	*20.4*	*3,626*	*0.30*	*34.9*
Total São Vicente	8,274	0.90	239.3	4,786	0.67	102.6	13,060	0.81	341.9
Chapada	20,002	0.34	218.6	282,992	0.25	2,290.6	302,994	0.26	2,509.2
San Andrés[1]	5,939	0.77	147.8	15,806	0.69	351.6	21,745	0.71	499.4
Total Gold Reserves	**68,677**	**0.79**	**1,751**	**358,288**	**0.44**	**5,035**	**426,964**	**0.49**	**6,786**
	Tonnes (000's)	Grade (%)	Contained lbs (mm)	Tonnes (000's)	Grade (%)	Contained lbs (mm)	Tonnes (000's)	Grade (%)	Contained lbs (mm)
Copper									
Chapada	**20,002**	**0.42%**	**184.6**	**282,992**	**0.34%**	**2,126.3**	**302,994**	**0.35%**	**2,310.9**

Mineral Resources (Measured, Indicated and Inferred) (Measured and Indicated include Reserves as outlined above)

	Measured Resources			Indicated Resources			Total - Measured and Indicated		
	Tonnes (000's)	Grade (g/t)	Contained oz (000's)	Tonnes (000's)	Grade (g/t)	Contained oz (000's)	Tonnes (000's)	Grade (g/t)	Contained oz (000's)
Gold									
Fazenda Brasileiro	3,352	3.26	351.7	900	2.87	83.2	4,252	3.18	434.9
C1 Santa Luz	–	–	–	19,608	1.65	1,040.8	19,608	1.65	1,040.8
Fazenda Nova	1,046	0.99	33.4	214	1.17	8.1	1,261	1.02	41.5
Jacobina	9,038	2.15	624.0	31,198	2.29	2,300.3	40,236	2.26	2,924.3
São Francisco - Main Ore	18,861	1.19	720.5	23,422	1.06	798.3	42,284	1.12	1,518.9
São Francisco - ROM Ore	17,762	0.24	139.0	28,083	0.23	208.9	45,845	0.24	347.9
Total São Francisco	36,623	0.73	859.5	51,505	0.61	1,007.2	88,128	0.66	1,866.8
São Vicente	14,490	0.77	357.3	10,992	0.70	247.7	25,482	0.74	605.1
Ernesto	–	–	–	1,520	3.66	178.9	1,520	3.66	178.9
Chapada	25,058	0.30	241.7	395,463	0.22	2,790.4	420,521	0.22	3,032.1
San Andrés[1]	14,748	0.70	326.0	47,550	0.64	964.0	62,298	0.66	1,290.0
Gualcamayo	6,923	1.15	255.9	69,161	0.91	2,028.5	76,084	0.93	2,284.4
Total Gold Resources	**111,279**	**0.85**	**3,050**	**628,111**	**0.53**	**10,649**	**739,389**	**0.58**	**13,699**
	Tonnes (000's)	Grade (%)	Contained lbs (mm)	Tonnes (000's)	Grade (%)	Contained lbs (mm)	Tonnes (000's)	Grade (%)	Contained lbs (mm)
Copper									
Chapada	**25,058**	**0.34%**	**187.7**	**395,463**	**0.30%**	**2,613.3**	**420,521**	**0.30%**	**2,801.0**

	Mineral Reserves	Mineral Resources	Date	Report
Fazenda Brasileiro	Geoexplore Consultoria e Serviços Ltd.	Geoexplore Consultoria e Serviços Ltd.	Jan-07	Mineral Reserves and Resources Update, Fazenda Brasileiro Mine
C1 Santa Luz	NCL Brasil Ltda.	GRDMinproc Ltd.	Nov-05	"Preliminary Assessment Study, C1 Gold Project", NCL Brasil
			Feb-07	"Resource Estimate Summary at 2 February 2007", GRDMinproc
Fazenda Nova	Yamana Technical Services	Moreno&Associados	Feb-06	Reserve Estimate Update
Jacobina	NCL Brasil Ltda.	Micon International Ltd.	Feb-07	"An Updated Mineral Resource and Mineral Reserve Estimate and Results of 2006 Exploration Program for the João Belo mine, Jacobina Mine Project, Bahia State, Brazil"
		NCL Brasil Ltda.	Mar-07	"Mineral Resource and Reserve estimate update for Canavieiras, Serra do Corrego, Morro do Vento and João Belo, Jacobina Mine, as December 31st, 2006"
		Moreno&Associados Ltda.	Feb-07	Mineral Resource Estimate for Pindobaçu, Bahia Gold Belt
Sáo Francisco	Yamana Technical Services	NCL Brasil Ltda.	Feb-07	"Mineral Reserve Update"
			Mar-07	Mineral Resource Model Update for Sáo Francisco mine, Mato Grosso, Brazil, as December 31st, 2006
Sáo Vicente	NCL Brasil Ltda.	Geosystems International	Nov-06	"São Vicente Technical Report for an Open Pit, Gravity Concentration and Heap Leach Project in Brazil", Rezende Engenharia
Ernesto	–	NCL Brasil Ltda.	Feb-07	Technical Report on Mineral Resource Estimate Update
Chapada	Independent Mining Consultants Inc.	Independent Mining Consultants	Feb-07	Chapada Reserve Update
			Feb-04	Feasibility Study (mineral resource)
San Andrés	Scott Wilson RPA	Scott Wilson RPA	Jan-07	Technical Report on the San Andrés Gold Project, Honduras
Gualcamayo	–	GeoSim Services Inc.	Sep-06	Mineral Resource Update Gualcamayo Gold Project
			Jan-05	Preliminary Assesment and Economic Evaluation of QDD Deposit, Gualcamayo Project, Amec Americas Ltd.

Mineral Reserves and Resources

Chapada's inferred resources were taken from a Micon International Limited NI 43-101 compliant technical report dated July 2003. Independent Mining Consultants estimated Chapada's inferred resources in their report dated February 2004 at 68 million tonnes grading 0.14 g/t gold and 0.2% copper. C1 Santa Luz's resources were updated in February 2007 by GRD Minproc (Perth, Australia) including 2006 drilling, and reserve was taken from a NCL Brasil 43-101 compliant report dated November 2005 which does not include 2006 drilling results. Mineral reserve and resource estimates presented were prepared by or under the supervision of external consultants or by internal qualified persons as indicated in the table below in accordance with NI 43-101. In estimating the mineral reserves and mineral resources, such persons made assumptions, and used parameters and methods appropriate for each property, and verified the data disclosed, including sampling, analytical and test data underlying such estimates. These reports have been reviewed by Evandro Cintra, Vice-President Exploration as "qualified person", as that term is defined in NI 43-101.

These figures are estimates, however, and no assurance can be given that the indicated amounts of quantities of gold will be produced. Gold price fluctuations may render mineral reserves containing relatively lower grades of gold mineralization uneconomic. Moreover, short-term operating factors relating to the mineral reserves could affect the Company's profitability in any particular accounting period. The corporation is not aware of any environmental, permitting, legal, title, taxation, socio-political, marketing or other relevant issues which may materially affect the Corporation's mineral reserve and resource estimates, other than factors discussed above and in "Risks and Uncertainties" in the Management's Discussion and Analysis section of the annual report.

Inferred Resources		
Tonnes (000's)	*Grade (g/t)*	*Contained oz (000's)*
686	4.30	94.9
8,586	1.46	402.1
118	1.05	4.0
45,657	2.84	4,164.4
33,686	0.81	875.2
76,995	0.23	561.1
110,682	0.40	1,436.3
3,623	0.87	101.2
2,144	2.61	179.6
250,693	0.15	1,223.5
1,339	0.53	22.0
16,765	1.29	698.0
440,291	**0.59**	**8,326**
Tonnes (000's)	*Grade (%)*	*Contained lbs (mm)*
250,693	**0.25%**	**1,392.3**

Mine	**Mineral Reserve Cut-off Grade** *(g/t gold; % copper)*	**Gold Price**	**Copper Price**	**Mineral Resources Cut-off Grade** *(g/t gold; % copper)*
Fazenda Brasileiro	1.50	US$450	n/a	1.50
C1 Santa Luz	0.50	US$425	n/a	0.50
Fazenda Nova	0.40	US$450	n/a	0.40
Jacobina	1.60	US$450	n/a	1.30
São Francisco	0.36 and 0.15	US$450	n/a	0.36 and 0.15
São Vicente	0.35 and 0.22	US$427.5	n/a	0.20
Ernesto	–	US$450	n/a	1.5 and 1.0 (1)
Chapada	$2.53 (2)	US$450	US$1.10	0.15% (3)
San Andrés	0.4 and 0.66 (4)	US$450	n/a	0.4 and 0.66
Gualcamayo	–	US$400	n/a	0.3 and 0.5 (5)

(1) As of October 31, 2006
(2) 1.5 cutoff for underground, 1.0 for open pit
(3) Internal NSR cutoff vs grade cutoff used.
(4) copper equivalent = [copper (%) + 0.56 x gold (g/t)]
(5) 0.4 cutoff for oxide zone, and 0.66 cutoff for mixed zone
(5) 0.3 cutoff for Quebrada Del Diablo, and 0.5 cutoff for Amelia and Magdalena resources

2006 MD&A

Table of Contents

A cautionary note regarding forward-looking statements follows this Management's Discussion and Analysis of Operations and Financial Condition.

(US dollars, in accordance with Canadian GAAP)

Management's Discussion and Analysis of Operations and Financial Condition

(US Dollars unless otherwise specified, in accordance with Canadian GAAP)

A cautionary note regarding forward-looking statements follows this Management's Discussion and Analysis of Operations and Financial Condition.

1. CORE BUSINESS

Yamana is a Canadian gold producer with significant gold production, gold development stage properties, exploration properties, and land positions in Brazil, Argentina and Central America. Yamana is producing gold at intermediate company production levels in addition to significant copper production. The Company plans to continue to build on this base through the advancement of its exploration properties and by targeting other gold consolidation opportunities in the Americas.

2. PREVIOUS CHANGE IN YEAR END

In May 2004, the year end of the Company was changed from February 28/29 to December 31. Consequently, comparisons of current results are to those of the twelve month period ended December 31, 2005 and the ten month period ended December 31, 2004.

3. HIGHLIGHTS

Significant achievements during the year include:

- Annual sales of $169.2 million, an increase of 270% over the corresponding prior year. Fourth quarter sales of $60 million.
- Mine operating earnings of $35.1 million for the year, an increase of over 300% over the corresponding prior year.
- Adjusted earnings (a non-GAAP measure) for the year of $42.6 million before income tax effects and $19.5 million after income tax effects or $0.07 per share and net loss under Canadian generally accepted accounting principles of $70.2 million.
- Commenced commercial production at its São Francisco Mine August 1, 2006.
- Completed construction of its Chapada copper-gold project with commercial production declared in February 2007.
- Acquired RNC Gold Inc., Desert Sun Mining Corp. and Viceroy Exploration Ltd. whereby the Company acquired two additional mines and an advanced-stage exploration property.
- Declared quarterly dividends of $0.01 per share with the first dividend being paid in mid October.
- Cash balance of $69.7 million as at December 31, 2006.
- Cash flow from operations of $40.2 million was reduced by $43.4 million relating to changes in non-cash working capital resulting in a net decline of $3.2 million in cash flow from operating activities.
- Raised $170 million in net proceeds from the public issue of 17.4 million common shares.
- Repaid outstanding long-term debt: now debt free.
- Settled the terms and conditions for $200 million revolving line of credit.
- Increased copper hedging program intended to help secure a less than two year payback at the Chapada copper-gold project.
- Total production of 359,272 ounces of gold for the twelve month period ended December 31, 2006 including pre-acquisition production (37,248 ounces) from mines acquired during the year and assets sold during the year (8,433 ounces). Commercial production was 283,460 ounces at an average cash cost of $326 per ounce (a non-GAAP measure).

4. OUTLOOK AND STRATEGY

The Company is committed to increasing shareholder value through increases in reserves and production thereby increasing earnings per share and cash flow from operations. The Company's strategy involves optimizing operations, completing construction of projects currently under development, investing in high target exploration areas and growing through acquisitions of high quality accretive properties and projects. The Company's financial strategy involves ensuring there are sufficient resources available to bring the Company's development projects into production and fund an exploration program focused on high priority targets.

The focus for 2007 and 2008 will continue to include the following:

- Advance exploration and development projects.
- Pursue consolidation opportunities in the Americas.
- Continue an extensive exploration program in Brazil, Argentina and Central America.
- Increase throughput at Chapada.
- Further assess the pyrite concentrate/sulphuric acid opportunity at Chapada.
- Continue to advance understanding of the coarse gold effect at São Francisco.
- Complete feasibility for Gualcamayo.

With the acquisition of RNC Gold Inc., Desert Sun Mining Corp. and Viceroy Exploration Ltd. the Company acquired an additional two operating mines and an advanced-exploration-stage property. In 2006, the Company also declared commercial production at São Francisco and in early 2007 declared commercial production at Chapada bringing the total number of mines to six. Yamana also has four advanced-exploration and development-stage projects along with an extensive Brazilian and Central American exploration portfolio. Yamana's objective remains to achieve a sustainable annual gold production rate of at least 1 million ounces per year by late 2008. In addition, the Company will have significant copper production in 2007.

PRODUCTION

During the year ending December 31, 2007, it is estimated that the Company will produce gold in the range of 585,000 to 650,000 ounces at average cash costs of $(114) per ounce. The Company will account for sales of copper as by-product credits to gold production costs.

Estimated gold production from the Company's properties in 2007 is as follows:

Gold Production Estimates	2007E
Fazenda Brasileiro	80-85,000
Fazenda Nova	15-20,000
São Francisco	120-130,000
Chapada	180-205,000
San Andrés	70-80,000
Jacobina *(i)*	120-130,000
Total	585-650,000
Average Projected Total Cash Costs/Ounce	$ (114)
Chapada copper production	130-145 million pounds

(i) The Company is evaluating the impact on production of certain sill pillar failures in historical areas of the mine (refer to the Jacobina commentary in Section 7)

Production estimates stated above do not include the potential gold production from advanced projects including Gualcamayo, São Vicente, Ernesto and C1 Santa Luz. These projects are subject to completion of feasibility studies or favourable construction decisions.

Forecast information is based on the opinions and estimates of management under current circumstances and is subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ from projections. Forecast cash costs assume a Real to US Dollar exchange rate of 2.4 to 1 in 2007. This exchange rate assumption is more favourable than the current rate, but in line with Brazilian consensus estimates for 2007.

5. ACQUISITIONS

The Company made three strategic acquisitions during the year. RNC Gold Inc. was acquired February 28, 2006 at a cost of $53 million, which included $18.9 million of cash and 5.8 million common shares. The acquisition of RNC Gold Inc. brought in two operating mines including the San Andrés Mine and La Libertad Mine, the latter which was subsequently sold in July 2006. In April 2006, the Company acquired Desert Sun Mining Corp. acquiring the Jacobina Mine. Consideration consisted of 63.9 million common shares and transactions cost for a total cost of $632 million. The Company's third acquisition of Viceroy Exploration Ltd. was made in the fourth quarter. Consideration for this acquisition was $549.1 million which included 52.5 million common shares. With the acquisition of Viceroy Exploration Ltd., the Company acquired a development-stage project, Gualcamayo in Argentina.

All three acquisitions have been accounted for using the purchase method of accounting for business combinations. The cost of the acquisitions have been allocated to identifiable assets and liabilities acquired. Approximately $55 million, being the excess of the purchase price over the net assets acquired of Desert Sun Mining Corp. represented goodwill. Goodwill primarily represents the advantage of sustaining and growing a portfolio of mining operations and synergies that are realizable from consolidating certain business functions.

The allocation of the purchase price for Viceroy Exploration Ltd. represents management's initial estimates. A detailed valuation is expected to be completed in 2007. Although the results of this review are presently unknown, it is anticipated that it may result in a change to the amount assigned to mineral properties and a change to the value attributable to tangible assets. The unallocated purchase price has been included in mineral properties for balance sheet presentation.

The Company has spent considerable effort in integrating the operations of each of these acquisitions.

6. OVERVIEW OF FINANCIAL RESULTS

The table below presents selected financial data for the Company's three most recently completed fiscal years:

	December 31, 2006	December 31, 2005	December 31, 2004 *(10 months)*
Financial results *(in thousands of dollars)*			
Revenues[1]	$ 169,206	$ 46,038	$ 32,298
Mine operating earnings	$ 35,056	$ 8,569	$ 10,377
Net (loss) earnings[2]	$ (70,163)	$ (4,111)	$ 2,783
Adjusted net earnings[3]	$ 19,506	$ 1,986	$ 2,696
Cash flow (to) from operations *(after changes in non-cash working capital items)*	$ (3,215)	$ 3,410	$ 8,536
Cash flow from operations *(before changes in non-cash working capital items)*	$ 40,171	$ 6,445	$ 9,293
Per share financial results			
Basic (loss) earnings per share[2]	$ (0.25)	$ (0.03)	$ 0.03
Diluted (loss) earnings per share[2]	$ (0.25)	$ (0.03)	$ 0.02
Adjusted net earnings per share[3]	$ 0.07	$ 0.01	$ 0.03
Financial position *(in thousands of dollars)*			
Total assets	$ 2,181,192	$ 468,446	$ 177,106
Total long-term liabilities	$ 364,141	$ 122,030	$ 9,572
Gold Production *(ounces):*			
Commercial			
Fazenda Brasileiro	76,413	74,570	78,168
Fazenda Nova	29,843	28,780	–
São Francisco	57,878	–	–
Jacobina	62,534	–	–
Total Brazil	226,668	103,350	78,168
Central America			
San Andrés	56,792	–	–
Commercial Production	283,460	103,350	78,168
Pre-Commercial			
Fazenda Nova	–	7,379	2,849
São Francisco	22,250	4,843	3,214
Chapada *(gold contained in concentrate)*	7,881	–	–
Pre-Commercial Production	30,131	12,222	6,063
Pre-acquisition production:			
San Andrés	13,987	–	–
Jacobina	18,974	–	–
La Libertad	–	–	–
Post acquisition production from operations sold:			
La Libertad	12,720	–	–
	359,272	115,572	84,231

	December 31, 2006	December 31, 2005	December 31, 2004 *(10 months)*
Gold Sales *(ounces)*			
Commercial			
Fazenda Brasileiro	75,321	72,074	79,822
Fazenda Nova	28,484	31,698	–
São Francisco	55,551	–	–
Jacobina	64,102	–	–
Total Brazil	223,458	103,772	79,822
Central America			
San Andrés	54,484	–	–
Total commercial sales	277,942	103,772	79,822
Pre-Commercial			
Fazenda Nova	–	4,694	1,704
São Francisco	19,739	4,050	2,883
Pre-Commercial Sales	19,739	8,744	4,587
	297,681	112,516	84,409
Non-GAAP Measures[3]			
Per ounce data:			
Cash costs per ounce produced			
Fazenda Brasileiro	$ 350	$ 320	$ 205
Fazenda Nova	$ 294	$ 208	–
São Francisco	$ 295	–	–
Jacobina	$ 327	–	–
San Andrés	$ 342	–	–
	$ 326	$ 289	$ 205
Average gold price realized (1)	$ 613	$ 448	$ 409
Average gold spot price	$ 604	$ 445	$ 409
Operating statistics			
Gold ore grade (g/t)			
Fazenda Brasileiro	2.63	2.44	3.13
Fazenda Nova	0.66	0.87	–
São Francisco	0.67	–	–
Jacobina	1.91	–	–
San Andrés	0.66	–	–
Gold recovery rate (%)			
Fazenda Brasileiro	92.0	89.3	91.9
Fazenda Nova	82.1	81.0	–
São Francisco	51.7	–	–
Jacobina	94.2	–	–
San Andrés	85.6	–	–

(1) Revenues consist of sales net of sales taxes. Revenue per ounce data is calculated based on gross sales.
(2) Net (loss) earnings, basic (loss) earnings per share and diluted earnings per share for the year ended December 31, 2006 include an unrealized non-cash loss on commodity contracts of $35.8 million. (December 31, 2005 - $8.6 million; December 31, 2004 (ten months) - $nil).
(3) Non GAAP measure - see reconciliation table on next page. Section 7 of this Management's Discussion and Analysis of Operations and Financial Condition contains a cautionary note of non-GAAP measures.
(4) Pro-forma adjustments - Pro-forma adjustments adjust mine production to twelve months and for production from assets sold during the year.

Net loss for the 2006 year included certain non-cash and non-recurring charges in respect of stock-based compensation, foreign exchange gains, unrealized losses on commodity contracts, debt repayment financing charges, impairment of the Fazenda Nova Mine and a future income tax expense on foreign currency translation of inter-corporate debt. Adjusted earnings for these non-cash and non-recurring items (a non-GAAP measure - see Non-GAAP measures in Section 7 of this Management's Discussion and Analysis) was $42.6 million before income tax effects and $19.5 million after income tax effects compared to $2 million for the comparative year ended December 31, 2005 and $2.7 million for the ten month period ended December 31, 2004. The following chart summarizes adjusted net earnings:

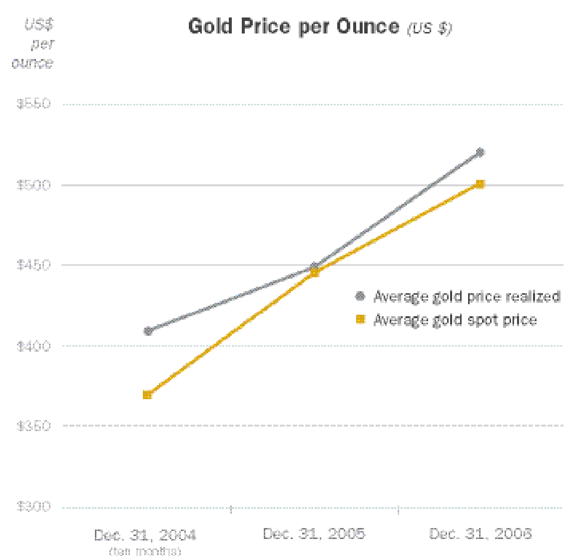
A non-GAAP Measure *(in thousands of dollars)*	**December 31, 2006**	December 31, 2005	December 31, 2004 *(10 months)*
Net (loss) earnings per consolidated financial statements	**$ (70,163)**	$ (4,111)	$ 2,783
Adjustments:			
Stock-based compensation	**41,099**	2,298	2,191
Foreign exchange gains	**(343)**	(369)	(1,848)
Unrealized losses on commodity contracts	**35,773**	8,615	–
Debt repayment expense	**24,750**	–	–
Loss on impairment of the Fazenda Nova Mine	**3,675**	–	–
Future income tax (recovery) expense on foreign currency translation of inter-corporate debt	**7,825**	(4,447)	(430)
Adjusted earnings before income tax effects	**$ 42,616**	$ 1,986	$ 2,696
Income tax effect of adjustments	**(23,110)**	–	–
Adjusted net earnings	**$ 19,506**	$ 1,986	$ 2,696
Adjusted net earnings per share	**$ 0.07**	$ 0.01	$ 0.03

(Unaudited)		Quarter Ended	
A non-GAAP Measure *(in thousands of dollars)*	**December 31, 2006**	December 31, 2005	December 31, 2004 *(10 months)*
Net earnings (loss) for the quarter	**$ 6,140**	$ (73)	$ 804
Adjustments:			
Stock-based compensation	**2,799**	–	–
Foreign exchange loss (gain)	**5,790**	3,057	(519)
Unrealized (gains) losses on commodity contracts	**(1,229)**	8,615	–
Loss on impairment of the Fazenda Nova Mine	**3,675**	–	–
Future income tax (recovery) expense on foreign currency translation of inter corporate debt	**6,439**	(8,288)	(1,548)
Adjusted net earnings before income tax effects	**$ 23,614**	$ 3,311	$ (1,263)
Income tax effect of adjustments	**(23,110)**	–	–
Adjusted net earnings	**$ 504**	$ 3,311	$ (1,263)
Adjusted net earnings per share	**$ 0.00**	$ 0.02	$ (0.01)

The basic loss per share was $0.25. This compares to a basic loss per share of $0.03 for fiscal year ended December 31, 2005 and basic earnings per share of $0.03 per share and diluted earnings of $0.02 per share for the comparative ten month period ended December 31, 2004.

Earnings per share adjusted for certain non-cash and non-recurring items were $0.07 for the year. This compares to adjusted earnings per share of $0.01 for the comparative year ended December 31, 2005 and adjusted earnings per share of $0.03 for the comparative ten month period ended December 31, 2004.

Revenue for the fiscal year was $169.2 million, an increase of 270% over the preceding year. Commercial revenue for the year consisted of 277,942 ounces of gold sold.



The Company's average realized gold price during the year was $613 per ounce, an increase of 37% from an average realized price of $448 per ounce during the comparative year ended December 31, 2005. This also compares to an average spot price of $604 per ounce for the year ended December 31, 2006. All gold sales were transacted in the spot market. The spot price itself increased 36% relative to the comparative year ended December 31, 2005. A higher gold price positively affected the Company's revenues. The impact of a higher average gold price on mine operating earnings was partially offset by a strengthening of the Brazilian Real relative to the US Dollar and higher operating costs. Higher local operating costs before the impact of foreign exchange movements were a result of increases in maintenance costs, the price of fuel, the price of power, and other consumables.

Mine operating earnings for the year were $35.1 million before a $2.2 million loss that arose from assets sold during the year consisting of operations from the Fazenda Brasileiro Mine, the Fazenda Nova Mine, the São Francisco Mine as of commercial production which commenced August 1, 2006, the Jacobina Mine acquired as of April 6, 2006 and the San Andrés Mine acquired as of February 28, 2006. This compares to mine operating earnings of $8.6 million for the comparative year ended December 31, 2005 and to $10.4 million for the comparative ten month period ended December 31, 2004.

A total of 359,272 ounces of gold were produced by the Company's mines during the twelve month period ended December 31, 2006 of which 313,591 ounces of gold were produced from the Company's existing mines including commercial production of 283,460 ounces and pre-commercial production of 30,131 ounces. The twelve month's production of 359,272 ounces includes pre-acquisition production from mines acquired during the year through business acquisitions of 37,248 ounces and 8,433 ounces from assets sold during the year. This compares to 115,572 ounces of gold produced during the comparative year of 2005 of which 103,350 ounces were produced from commercial production activities and 12,222 ounces were produced from pre-commercial activities and also compares to 84,231 ounces produced during the comparative ten month period ended December 31, 2004. Comparing fiscal 2006 versus fiscal 2005, commercial production increased for Fazenda Nova and Fazenda Brasileiro by 1,063 and 1,843 ounces, respectively.

Average cash costs for the year were $326 per ounce compared to $289 per ounce for the comparative year ended December 31, 2005 and to $205 per ounce for the ten month comparative period ended December 31, 2004.

Inventory as at December 31, 2006 was $51.3 million compared to $7 million as at December 31, 2005. Inventory increased as a result of the acquisition of the Jacobina and San Andrés mines in 2006 as well as commercial production commencing at the São Francisco Mine in August 2006, in-circuit plant inventory, concentrate inventory and ore stockpiled at the Chapada Mine during 2006.

Proven and probable reserves were 6.8 million ounces of contained gold and 2.3 billion pounds of contained copper as of December 31, 2006 based on a gold price of $425-450 per ounce (except for Fazenda Nova which is calculated assuming $550 gold price) and a copper price of $1.10 per pound. This represents an increase of approximately 1.5 million ounces, a 39% increase after mining of approximately 400,000 contained ounces during the year.

Cash as at December 31, 2006 was $69.7 million compared to $151.6 million as at December 31, 2005. Significant cash transactions during the year included $170 million, net of issue costs of $9.7 million received from an equity financing held in May; repayment of the outstanding long-term loan, including accrued interest and prepayment fees, totalling $116.4 million; $19.8 million received on the exercise of warrants held by the lender of the loan; and expenditures relating to construction of the São Francisco and Chapada mines.

Cash flow from operations before changes in non-cash working capital items was $40.2 million for the year compared to $6.4 million for the comparative year ended December 31, 2005 and $9.3 million for the ten month period ended December 31, 2004. The increase in cash flow from operations is primarily due to the incremental production resulting from the acquisition of the San Andrés and Jacobina mines, the commencement of commercial production at the São Francisco mine and higher gold prices.

Working capital as at December 31, 2006 was $53 million compared to $134.6 million as at December 31, 2005 and to $88.9 million as at December 31, 2004.

The balance sheet as at December 31, 2006 reflects $35.2 million of total Brazilian tax credit receivables of which $10.7 million is included in advances and deposits and $24.5 million is included in other assets. A recoverability provision in the amount of approximately $0.9 million was charged to operations during 2006. Brazilian tax credits of $24.2 million included in the receivable balance may be applied against future income taxes payable and taxes payable on eligible local sales. The tax credits can be recovered by domestic sales (currently nil) or may be sold at a discount. It is expected that a portion of copper concentrate from the Chapada Mine will be sold locally in Brazil which will take advantage of some of these eligible tax credits. An increase in tax credits arose as operating expenditures and capital expenditures relating to construction and operations increased significantly during the year.

Assets under construction of $224.6 million reflect construction of the Chapada mine. Construction costs include cash expenditures, capitalized interest, capitalized amortization of deferred financing charges and capitalized pre-operating net earnings.

General and administrative expenses were $24.4 million for the year compared to $10.4 million for the comparative year ended December 31, 2005 and $6.2 million for the ten month period ended December 31, 2004. The increase in general and administrative expenses is reflective of the Company's growing infrastructure related to its production growth plans and acquisitions and regulatory compliance costs.

Investment income was $5.3 million for the fiscal year, compared to $4 million for the comparative year ended December 31, 2005 and $0.8 million for the ten month period ended December 31, 2004. Investment income increased principally due to higher average cash balances in Brazil at higher interest rates than those available in Canada.

7. NON-GAAP MEASURES

The Company has included certain non-GAAP Measures including cost per ounce data, adjusted net earnings (loss) and adjusted net earnings (loss) per share to supplement its financial statements, which are presented in accordance with Canadian GAAP. Non-GAAP measures do not have any standardized meaning prescribed under Canadian GAAP, and therefore they may not be comparable to similar measures employed by other companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP.

The Company has included cost per ounce information data because it understands that certain investors use this information to determine the Company's ability to generate earnings and cash flow for use in investing and other activities. The Company believes that conventional measures of performance prepared in accordance with Canadian GAAP do not fully illustrate the ability of its operating mine to generate cash flow. The measures are not necessarily indicative of operating profit or cash flow from operations as determined under Canadian GAAP. Where cost per ounce data is computed by dividing GAAP operating cost components by ounces sold, the Company has not provided formal reconciliations of these statistics. Cash costs are determined in accordance with the Gold Institute's Production Cost Standard. Cost of sales under Canadian GAAP and cash costs are reconciled by the following: non-cash movements in net working capital items and provisions for losses on inventory

The Company uses the financial measures "adjusted net income (loss)" and "adjusted earnings (loss) per share" to supplement its consolidated financial statements. The presentation of adjusted measures are not meant to be a substitute for net earnings (loss) or net earnings (loss) per share presented in accordance with GAAP, but rather should be evaluated in conjunction with such GAAP measures. Adjusted net earnings (loss) and adjusted net earnings (loss) per share are calculated as net earnings excluding *(a)* options expense, *(b)* foreign exchange loss, *(c)* future income tax expense (recovery) on the translation of foreign currency inter corporate debt, *(d)* unrealized gains (losses) on commodity contracts, *(e)* debt repayment expense and *(f)* impairment losses. The terms "adjusted net earnings (loss)" and "adjusted net earnings (loss) per share" do not have a standardized meaning prescribed by Canadian GAAP, and therefore the Company's definitions are unlikely to be comparable to similar measures presented by other companies. The Company's management believes that the presentation of adjusted net earnings (loss) and adjusted net earnings (loss) per share provide useful information to investors because they exclude non-cash charges and are a better indication of the Company's profitability from operations. The items excluded from the computation of adjusted net earnings (loss) and adjusted net earnings (loss) per share, which are otherwise included in the determination of net earnings (loss) and net earnings (loss) per share prepared in accordance with Canadian GAAP, are items that the Company does not consider to be meaningful in evaluating the Company's past financial performance or the future prospects and may hinder a comparison of its period to period profitability.

8. MINES AND DEVELOPMENT PROJECTS

During the year the Company has made three strategic business acquisitions: RNC Gold Inc., Desert Sun Mining Corp. and Viceroy Exploration Ltd. by which it has acquired the San Andrés Mine, the Jacobina Mine and the Gualcamayo advanced-stage exploration project. Since acquisition the San Andrés Mine has produced 56,792 ounces of gold and has added 0.5 million ounces to the proven and probable reserves at December 31, 2006. The Jacobina Mine has produced 62,534 ounces of gold since acquisition and has added 1.2 million ounces to the proven and probable reserves at December 31, 2006.

As well, the Company has completed its development of two additional mines, specifically São Francisco and Chapada which declared commercial production on August 1, 2006 and February 11, 2007, respectively.

The following chart summarizes commercial production and cash costs per ounce for the quarter and year ended December 31, 2006 with comparative figures for the year ended December 31, 2005:

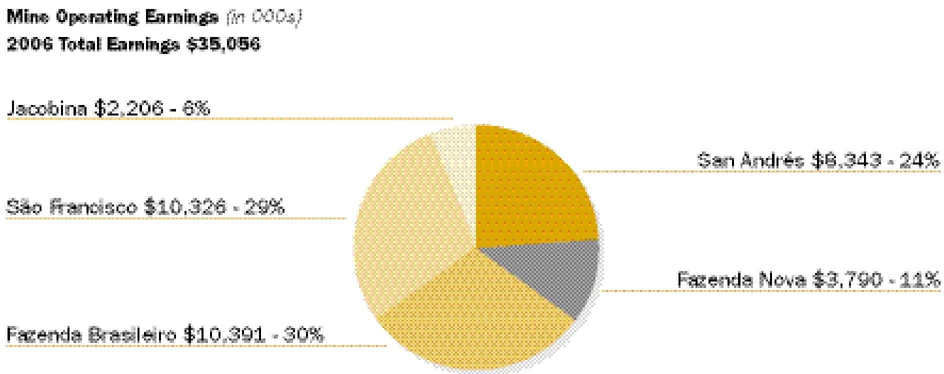
	Quarter ended December 31, 2006			Quarter ended December 31, 2005		
	Production (oz.)		Cash costs per oz. (a non-GAAP measure)	Production (oz.)		Cash costs per oz. (a non-GAAP measure)
Brazil						
Fazenda Brasileiro	20,443	$	357	17,810	$	357
Fazenda Nova	7,853	$	305	12,740	$	177
São Francisco	37,089	$	284	–	$	–
Jacobina	20,880	$	332	–	$	–
Total Brazil	86,265	$	315	30,550	$	282
Central America						
San Andrés	18,298	$	349	–	$	–
Commercial Production	104,563	$	321	30,550	$	282
Pre-commercial Production						
São Francisco	–	$	–	1,212	$	–
Chapada	7,881	$	–	–	$	–
TOTAL PRODUCTION	112,444	$	–	31,762	$	–

	For the year ended December 31, 2006			For the year ended December 31, 2005		
	Production (oz.)		Cash costs per oz. (a non-GAAP measure)	Production (oz.)		Cash costs per oz. (a non-GAAP measure)
Brazil						
Fazenda Brasileiro	76,413	$	350	74,570	$	320
Fazenda Nova	29,843	$	294	28,780	$	208
São Francisco	57,878	$	295	–	$	–
Jacobina	62,534	$	327	–	$	–
Total Brazil	226,668	$	322	103,350	$	289
Central America						
San Andrés	56,792	$	342	–	$	–
Commercial Production	283,460	$	326	103,350	$	289
Pre-commercial Production						
Fazenda Nova	–	$	–	7,379	$	–
São Francisco	22,250	$	–	4,843	$	–
Chapada	7,881	$	–	–	$	–
	30,131	$	–	12,222	$	–
	313,591			115,572		
Pre-acquisition Production						
Jacobina	18,974	$	–	–	$	–
San Andrés	13,987	$	–	–	$	–
Production from operations sold						
La Libertad	12,720	$	–	–	$	–
TOTAL PRODUCTION	359,272	$	–	115,572	$	–

Mine operating earnings for the year were $35.1 million before a $2.2 million loss that arose from assets sold during the year, an increase of over 300% from mine operating earnings of $8.6 million for the comparative year ended December 31, 2005. Mine operating earnings for the ten month period ended December 31, 2004 were $10.4 million.

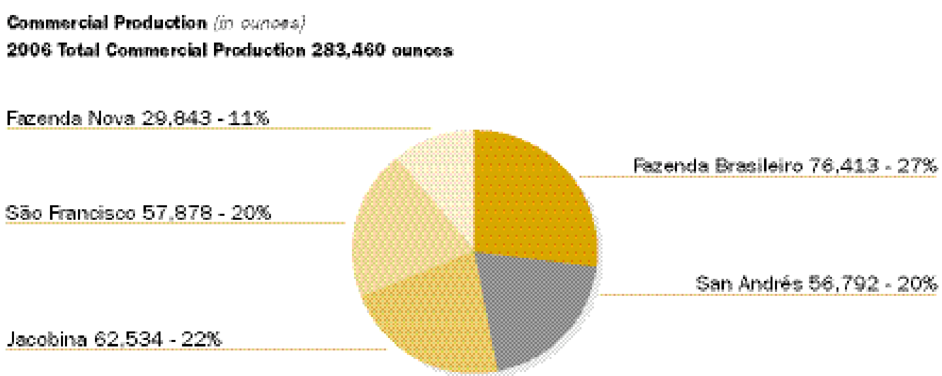
Mine operating earnings for fiscal 2006 consisted of earnings from the Fazenda Brasileiro Mine, the Fazenda Nova Mine, the São Francisco Mine as of August 1, 2006, the Jacobina Mine acquired as of April 6, 2006 and the San Andrés Mine acquired as of February 28, 2006.

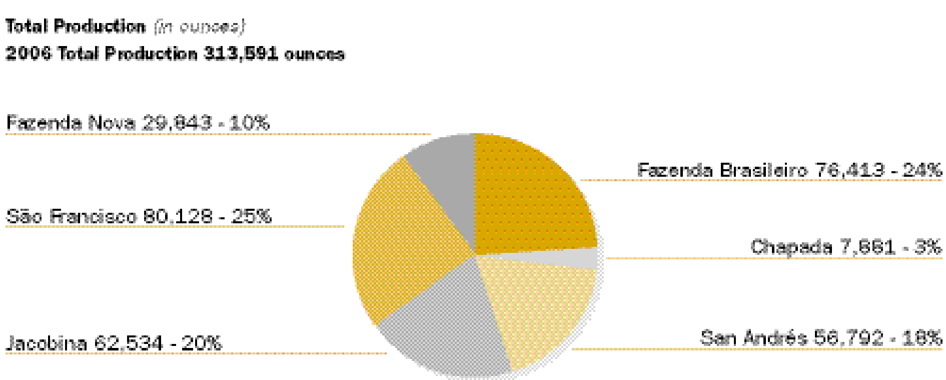
The following graph depicts mine operating earnings by mine:



A total of 359,272 ounces of gold were produced during the twelve months, including commercial production of 283,460 ounces at average cash costs of $326 per ounce, pre-commercial production of 30,131 ounces, 8,433 ounces from assets sold during the year and 37,248 ounces of pre-acquisition production from mines acquired during the year. This compares to 115,572 ounces of gold produced during the comparative year ended December 31, 2005 at an average cash cost of $289 per ounce produced. A total of 84,231 ounces were produced during the ten month period ended December 31, 2004 including commercial production of 78,168 ounces of gold at an average cash cost of $205 per ounce.

Of the 283,460 commercially produced gold ounces during the year, 76,413 ounces were from the Fazenda Brasileiro Mine at an average cash cost of $350 per ounce and 29,843 ounces were from the Fazenda Nova Mine at an average cash cost of $294 per ounce. These cost levels are higher than the previous year with the increases being $30 and $86 per ounce or 9.4% and 41.3%, respectively.





Note: The above graph excludes production from assets sold during the year and excludes pro-forma adjustments for pre-acquisition production from assets acquired during the year.

Revenue for the year ended December 31, 2006 was $169.2 million from the sale of 277,942 ounces of gold compared to revenue of $46 million from the sale of 103,772 ounces of gold for the comparative year ended December 31, 2005 and $32.3 million from the sale of 79,822 ounces of gold during the ten month period ended December 31, 2004.

Revenue for the fiscal year was $169.2 million, an increase of 270% over the preceding year. Revenue for the year consisted of 277,942 ounces of gold sold as follows:

(in ounces)	**December 31, 2006**	December 31, 2005	December 31, 2004 *(10 months)*
Fazenda Brasileiro	**75,321**	72,074	79,822
Fazenda Nova	**28,484**	31,698	–
São Francisco *(i)*	**55,551**	–	–
San Andrés *(ii)*	**54,484**	–	–
Jacobina *(iii)*	**64,102**	–	–
	277,942	103,772	79,822

(i) excludes ounces sold prior to commercial production as of August 1, 2006
(ii) post acquisition February 28, 2006
(iii) post acquisition April 6, 2006

Inventory as at December 31, 2006 was $51.3 million compared to $7 million as at December 31, 2005 and to $5.9 million as at December 31, 2004. Inventory increased as a result of the acquisition of the Jacobina and San Andrés mines in 2006 as well as commercial production commencing at the São Francisco Mine in August 2006, in circuit plant inventory, concentrate inventory and ore stockpiled at the Chapada Mine.

Of the total inventory on hand as at December 31, 2006, $17.3 million consisted of supplies and materials, $25.4 million of in-circuit and gold in-process inventory and $8.6 million of finished product. Of the total of in-circuit and gold in process inventory, $11.9 million is held at Chapada in stockpiled ore.

Inventory as at December 31, 2006 consisted of approximately 7,800 ounces of gold at the Fazenda Brasileiro Mine, 4,200 ounces of gold at the Fazenda Nova Mine, 43,800 ounces of gold at the São Francisco Mine, 7,500 ounces of gold at the Jacobina Mine, 5,400 ounces of gold at the San Andrés Mine and 9,100 tonnes of copper inventories at the Chapada Mine. The contained gold inventory is primarily metal in the processing circuit or production in process.

CHAPADA COPPER-GOLD PROJECT

Chapada is the Company's flagship operation, located in the state of Goias, Brazil. The Chapada Mine and processing facilities were constructed in less than two years following receipt of a positive feasibility study in June 2004 and the start of construction in November 2004. The processing of ore at Chapada began in late November 2006 and the mine has been operating above design specifications since start up of operations.

The commissioning of the Chapada Mine occurred over a short period of time given the size and complexity of the plant. Ore was first processed through the plant in November 2006 and the Company declared commercial production on February 11, 2007 based on successful production results from December 2006 through to mid-February 2007. Not only did the plant reach commercial production but it also reached full design capacity levels. This will allow the mine operators to focus on further increasing the efficiency and effectiveness of the mine. The original design and operational results to date show the promise of expanding mill throughput to over 16 million tonnes per year of mill feed. The Company expects to optimize the mill and increase throughput.

Chapada produced approximately 11,000 tonnes of concentrate prior to the end of December 2006 and in January 2007 increased production to over 16,000 tonnes of concentrate. The mine's operating performance will be reflected in financial results from operations as of February 11, 2007. Annual production for 2007 from Chapada is targeted at between 180,000 and 205,000 ounces of gold and 130 to 145 million pounds of copper.

Accumulated construction costs as at December 31, 2006 were $224.6 million. Construction costs incurred during the year ended December 31, 2006 and during the fourth quarter were $71.1 million and $2.6 million, respectively.

The Company plans to complete a scoping study by mid 2007 to evaluate the potential of a pyrite recovery circuit to roast pyrite to produce sulphuric acid for the fertilizer and mining industry.

In addition there is an oxide stockpile of 1.7 million tonnes from the pre-stripping of the mine that contains gold at 0.52 g/t. The Company is also studying the feasibility of the leaching of this material to produce gold.

SÃO FRANCISCO MINE

São Francisco declared commercial production effective August 1, 2006.

Operating earnings for the mine for the 5 months since declaring commercial production were $10.3 million. Operating earnings for the fourth quarter were $6.7 million compared to $3.7 million for the previous quarter which consisted of only 2 months of commercial production.

After declaring commercial production, 55,551 ounces of gold were sold at an average price of $609 resulting in overall sales of $33.8 million.

Gold sales in ounces and dollars for the fourth quarter were 33,723 and $20.7 million, respectively compared to 21,828 ounces and $13.1 million for the 2 months of commercial production in the third quarter.

A total of 57,878 ounces of gold were produced at the mine since declaring commercial production in August 2006 at an average cash cost of $295. During the fourth quarter of 2006, 37,089 ounces were produced at an average cash cost of $284 compared to 20,789 ounces, and $314 for the two months of the previous quarter.

The average ore grade for the fourth quarter of 0.74 g/t increased by 0.16 g/t compared to the ore grade of 0.58 g/t for the previous quarter. Ore grade includes gravity/crush ore and run of mine marginal ore. The average heap leach recovery for São Francisco for 2006 for crushed ore and run of mine ore is 74%. It should be noted that most of the piles are still being leached and the final recovery will be higher. The leach recovery results range from a low of 51% (surface saprolitic material) to 92.8% (run of mine material).

Inventory of gold as at December 31, 2006 at the mine consisted of approximately 43,800 ounces of gold of which 5,700 ounces were finished product and the remaining 38,100 ounces were in-circuit inventory and gold in process.

Annual production from São Francisco is targeted at between 120,000 and 130,000 ounces for 2007.

The Company plans to concentrate on upgrading the large indicated and inferred resource to reserves to extend the mine life beyond the current life of mine during 2007. The Company will also be studying the potential for underground mining to access deeper ore resources. There is potential production upside from the “coarse gold effect” at São Francisco. Grade reconciliation during 2006 indicate that there is a 30% positive grade reconciliation when comparing actual results to results predicted in the block model. Expectations are that there is good potential for the same or better positive reconciliation as we mine deeper in the higher grade, “fresher” ore.

JACOBINA

Operating earnings for the mine were $2.2 million for the 9 months since acquisition. Operating loss for the fourth quarter was $1.5 million compared to $1.1 million earnings for the previous quarter.

During the nine months since acquisition 64,102 ounces of gold were sold at an average price of $618 per ounce resulting in overall sales of $39.6 million. Gold sales in ounces and dollars for the fourth quarter were 19,867 ounces and $12.1 million, respectively compared to 20,221 ounces and $12.4 million in the third quarter.

A total of 62,534 ounces of gold were produced at the mine during the 9 months since acquisition at an average cash cost of $327. During the fourth quarter of 2006, 20,880 ounces were produced at an average cash cost of $332 compared to 19,321 ounces and $317 for the previous quarter.

The average mine recovery rate during the 9 months since acquisition was 94.2%.

The average ore grade for the 9 months since acquisition was 1.91 g/t.

Inventory of gold as at December 31, 2006 at the mine consisted of approximately 7,500 ounces of gold of which 115 ounces were finished product and the remaining ounces were in-circuit inventory and gold in process.

The year end 2006 mineral reserves at Jacobina are 1.2 million ounces at a grade of 2.14 g/t. Measured and Indicated Resources (including reserves) are 2.9 million ounces at a grade of 2.26 g/t and the inferred resources are 4.2 million ounces at a grade of 2.84 g/t. A large percentage of the inferred resources and Indicated Resources are at Canavieiras located approximately 4 kilometres from the mill. As this material is significantly higher grade it should assist in lowering unit costs. The Company is prioritizing the exploration and development of this area.

As part of a two phase expansion, Yamana plans to complete an expansion of the Jacobina processing plant to a capacity of 8,500 tonnes per day by late 2008. The final throughput rate will be dependent on converting the large inferred and indicated resource at Canavieiras to reserves and determining the full potential at Canavieiras. The Company continues to evaluate the impact on production as a result of the collapse of certain sill pillars at historical mine workings at João Belo. Production shortfalls in Jacobina are expected particularly in the first quarter of 2007 as the Company conducts health and safety checks of other areas and improves air blast and ventilation procedures for the health and safety of its mine workers. Development work continues unaffected by this and it is expected that Jacobina will be producing at the expected annualized level of 150,000 ounces per year by the end of 2007. Any production shortfall in 2007 is expected to be offset by additional production at the Company's other mines.

GUALCAMAYO PROJECT

This property located in the San Juan Province of Argentina was one of the properties held by Viceroy Exploration Ltd. which the Company acquired in a step-up acquisition from October 13, 2006 to December 31, 2006.

Prior to the acquisition, work had been done on the completion of an Environmental Impact Statement which was finished in late 2006 and submitted to the San Juan provincial authorities. The Company expects that it will receive notification on the permit by June 2007. Receipt of the required Environmental Impact Statement will allow construction to commence immediately.

The Company completed an updated resource for the Quebrada Del Diablo ("QDD") area in September 2006, which outlined 2.1 million ounces of measured and indicated resources. The QDD area will form the basis of the feasibility study expected before the second quarter of 2007. The Amelia Inés/Magdalena deposit is located 800 metres to 1,200 metres west of the QDD zone. A feasibility study for this area will be completed during the third quarter of 2007. As this material is significantly higher grade than QDD, the Company is studying the potential of mining and processing this material in the second year of operation for at least six years.

During 2006, the Company discovered a high-grade, multi-metre wide zone below QDD called the QDD Lower West Zone. This zone is currently being accessed by an exploration decline so that bulk sampling and delineation/exploration drilling can be completed. The metallurgical tests and resource estimate will be used to complete a Preliminary Economic Evaluation (PEE) during the fourth quarter of 2007 with a feasibility study to follow early in 2008. Currently the Company is studying the potential for mining and processing the higher grade material in Year 3 of the mine life.

The Company expects to produce 200,000 ounces of gold per year with a mine life of 10 years.

SAN ANDRÉS

Operating earnings for the mine for the ten months since acquisition were $8.4 million.

During this period 54,624 ounces of gold were sold at an average price of $614 resulting in overall sales of $33.3 million. Gold sales in ounces and dollars for the fourth quarter were 16,260 and $10.1 million, respectively compared to 14,578 and $9 million in the third quarter.

A total of 56,792 ounces of gold were produced at the mine during ten months since acquisition at an average cash cost of $342. During the fourth quarter of 2006, 18,298 ounces were produced at an average cash cost of $349 compared to 14,685 ounces and $386 for the previous quarter.

The average mine recovery rate during the ten months since acquisition was 85.6%. For the fourth quarter the rate was 79.3% compared to 80% for the previous quarter.

The average ore grade for the ten months since acquisition was 0.66 g/t. The grade for the fourth quarter was 0.63 g/t.

Inventory of gold as at December 31, 2006 at the mine consisted of approximately 5,400 ounces of gold of which 3,100 ounces were finished product and the remaining 2,300 ounces were in-circuit inventory and gold in process. Annual production from San Andrés is targeted at between 70,000 and 80,000 ounces for 2007.

Over 20,600 metres of drilling in 131 holes were drilled in 2006. A resource and reserve estimate completed by Scott Wilson Roscoe Postle calculated Proven and Probable Reserves of 499,000 ounces. It is significant to note that there is a large indicated resource of 790,000 outside of the current designed pit limits. The Company plans to complete metallurgical test-work and a study to determine the economics and feasibility of employing dump leaching to mine this material. This has the potential of dramatically increasing the mine life or increasing annual production.

The country of Honduras is currently revising their mining law. The Company supports this endeavour and looks forward to participating in the process with stakeholders and the government.

FAZENDA BRASILEIRO MINE

The Fazenda Brasileiro Mine was originally acquired in August 2003 with 2.5 years of remaining reserve life. The objective for the Fazenda Brasileiro Mine is to add resources and convert existing resources into reserves thereby increasing the life of the mine.

Current reserve and resource estimates support an additional 4 to 6 years of mine life at production levels of approximately 80,000 ounces per year. Fazenda Brasileiro has a history of more than replacing ounces mined.

Operating earnings for the mine were $10.4 million for the year compared to $4 million for the year ended December 31, 2005 and $10.4 million for the ten month period ended December 31, 2004. This represents an increase in 2006 operating earnings over the previous year of $6.4 million or 160%. Operating earnings for the fourth quarter were $2.7 million compared to $3.1 million for the previous quarter and $1.1 million for the fourth quarter of the prior year.

During the year, 75,321 ounces of gold were sold at an average price of $603 resulting in sales of $45.4 million. This compares to sales of $31.7 million on 72,074 ounces of gold sold at an average price of $439 for the year ended December 31, 2005 and sales of $32.3 million for the ten month period ended December 31, 2004. Gold sales in ounces and dollars for the fourth quarter were 20,574 and $12.8 million, respectively compared to 19,835 and $12.1 million in the third quarter. In the fourth quarter of 2005, 19,257 ounces were sold resulting in revenues of $9.2 million.

A total of 76,413 ounces of gold were produced at the mine during 2006 at an average cash cost of $350 per ounce. This compares to 74,570 ounces produced during the year ended December 31, 2005 at an average cash cost of $320 per ounce. During the ten month period ended December 31, 2004, 78,168 ounces of gold were produced at an average cash cost of $205.

During the fourth quarter of 2006, 20,443 ounces were produced at an average cash cost of $357 compared to 18,569 and $356 per ounce for the previous quarter or 17,810 and $357 in the fourth quarter of 2005.

An aggregate of 1 million tonnes were milled through the CIP circuit during the year in comparison to 1.1 million tonnes milled during the comparative year ended December 31, 2005. An aggregate of 0.8 million tonnes were milled during the ten month period ended December 31, 2004.

The average mine recovery rate during the year was 92% compared to an average rate of 89.3% during the year ended December 31, 2005 and 91.9% during the ten month period ended December 31, 2004.

The average ore grade for the year of 2.63 g/t increased by 7.8% compared to the ore grade of 2.44 g/t for the comparative year ended December 31, 2005. The average ore grade for the ten month period ended December 31, 2004 was 3.13 g/t.

Inventory of gold as at December 31, 2006 at the mine consisted of approximately 7,800 ounces of gold of which 3,000 ounces were finished product and the remaining 4,800 ounces were in-circuit inventory and gold in process.

Target production for 2007 is 80,000 to 85,000 ounces.

The following table summarizes the major components of total average cash costs per ounce for the Fazenda Brasileiro Mine:

	December 31, 2006		December 31, 2005		December 31, 2004 *(10 months)*	
	Cash costs/oz. *(a non-GAAP measure)*	**Percentage of Cash costs/oz.**	Cash costs/oz. *(a non-GAAP measure)*	Percentage of Cash costs/oz.	Cash costs/oz. *(a non-GAAP measure)*	Percentage of Cash costs/oz.
Mining	**$ 191**	**55%**	$ 170	53%	$ 107	52%
Milling	**103**	**29%**	97	30%	63	30%
General and administrative	**44**	**13%**	41	13%	35	18%
Other *(i)*	**12**	**3%**	12	4%	–	0%
Total	**$ 350**	**100%**	$ 320	100%	$ 205	100%

(i) Includes by-product revenues

FAZENDA NOVA MINE

The Fazenda Nova Mine is an open pit heap leach mine constructed in fiscal year ended December 2004 at a cost of approximately $6.5 million before the capitalization of pre-operating costs. Commercial production at the Fazenda Nova Mine was declared May 1, 2005.

Operating earnings for the mine were $3.8 million for the year compared to $4.7 million for the 8 months after commercial production was declared May 1, 2005. This represents a decrease in 2006 operating earnings over the period of commercial production in 2005 of $0.9 million. Operating earnings for the fourth quarter were $0.3 million compared to an operating loss of $0.5 million for the previous quarter or operating earnings of $3.7 million for the fourth quarter of the prior year.

During the year, 28,484 ounces of gold were sold at an average price of $599 resulting in sales of $17.1 million. This compares to sales of $14.5 million on 31,698 ounces sold at an average price of $458 in the 8 months of commercial production in 2005. Gold sales in ounces and dollars for the fourth quarter were 6,816 and $4.2 million, respectively, compared to 6,140 ounces and $3.7 million in the third quarter. In the fourth quarter of 2005, 15,463 ounces were sold resulting in revenues of $7.5 million.

A total of 29,843 ounces of gold were produced at the mine during 2006 at an average cash cost of $294. This compares to 28,780 ounces produced during the 8 months after commercial production was declared in 2005 at an average cash cost of $208. Cash costs per ounce in 2006 are $86 higher than 2005, an increase of 41%. During the fourth quarter of 2006, 7,853 ounces were produced at an average cash cost of $305 compared to 6,548 and $306 for the previous quarter or 12,740 and $177 in the fourth quarter of 2005.

An aggregate of 1.9 million tonnes were stacked on the heap leach pads during 2006 compared to 1.6 million tonnes that were stacked the previous year.

The average mine recovery rate during the year was 82.1% compared to an average rate of 81% during the 8 months of commercial production in 2005.

The average ore grade for the year of 0.66 g/t decreased by 24% compared to the ore grade of 0.87 g/t for the 8 months of commercial production in 2005.

Inventory of gold as at December 31, 2006 at the mine consisted of approximately 4,200 ounces of gold of which 124 ounces were finished product and the remaining ounces were in-circuit inventory and gold in process. Quantities of recoverable gold placed on the heap leach pads are reconciled by comparing the grades of ore placed on the heap leach pads to the quantities of gold actually recovered, however, the nature of the leaching process inherently limits the ability to precisely monitor inventory levels. As such, engineering estimates are refined based on actual results over time.

The target production for 2007 is 15,000 to 20,000 ounces. The Company plans to explore at the mine site during 2007 to try and increase the mine life. However current mining reserves will be exhausted in the third quarter of 2007 and current plans are for the Company to close the mine and reclaim the site. The Company has recorded an impairment of $3.7 million in respect to the Fazenda Nova Mine during the year.

The following table summarizes the major components of total average cash costs per ounce for the Fazenda Nova Mine for the current period:

	2006			2005*(ii)*		
		Cash costs/oz. *(a non-GAAP measure)*	**Percentage costs/oz.**		Cash costs / oz. *(a non-GAAP measure)*	Percentage costs/oz.
Mining	**$**	**113**	**38%**	$	69	33%
Crushing, agglomeration and stacking		**76**	**26%**		63	30%
Leaching and solution neutralization, recovery plant		**43**	**15%**		31	15%
General and administrative		**35**	**12%**		22	11%
Other *(i)*		**27**	**9%**		23	11%
Total	**$**	**294**	**100%**	$	208	100%

(i) Includes by-product revenues
(ii) Commercial production began May 1, 2005

9. LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents as at December 31, 2006 were $69.7 million compared to $151.6 million as at December 31, 2005. Factors that could impact on the Company's liquidity are monitored regularly and include the market price of gold, production levels, operating cash costs, capital costs and exploration expenditures.

Cash on hand as at December 31, 2006 decreased from the prior year. The main cash inflows and outflows contributing to the change were:

- $170 million in net proceeds from a public share equity issue that closed in May 2006;
- repayment of the Notes Payable;
- cash from Company acquisitions;
- expenditures on mineral properties, property, plant and equipment; and
- expenditures on assets under construction.

Working capital decreased to $53 million compared to $134.6 million as at December 31, 2005 and $88.9 million as at December 31, 2004.

OPERATING CASH FLOW

Cash flow generated from operations before changes in non-cash working capital items for the year was $40.2 million compared to $6.4 million for the comparative year ended December 31, 2005 an increase of approximately 530%, cash flows for the ten month period ended December 31, 2004 were $9.3 million. Changes in non-cash working capital items for the year were a cash outflow of $43.4 million (2005 - $3 million; 2004 - $0.8 million).

Cash flow from operations for the year consists of operating results from the Fazenda Brasileiro Mine, the Fazenda Nova Mine, the São Francisco Mine as of August 1, 2006, the Jacobina Mine acquired as of April 6, 2006 and the San Andrés Mine acquired as of February 28, 2006.

Cash flow from operations for 2005 consists of operating results from the Fazenda Brasileiro Mine and the Fazenda Nova Mine as of May 1, 2005. Cash flow from operations for the comparative ten month period ended December 31, 2004 consisted solely of operating cash flows from the Fazenda Brasileiro Mine.

FINANCING ACTIVITIES

Cash inflows and outflows from financing activities for the year ended December 31, 2006 were $97.9 million and included the following:

- $170 million of net proceeds received on the issue of common shares issued in May;
- $22.8 million from the exercise of options and share appreciation rights;
- $28.4 million from the exercise of warrants;
- repayment of debt and long-term liability in the amount of $115.4 million; and
- dividends paid of $2.9 million of a total of $6.3 million of dividends declared during the year.

Financing activities for the comparative year ended December 31, 2005 of $250.5 million included the issue of shares and warrants for cash and a draw down under the terms of the Long Term Notes Payable.

In May 2006, the Company issued 17.4 million shares for net proceeds of $170 million. Also in May, as part of the agreement for the prepayment of the Notes Payable, the debt holder exercised 5 million warrants for cash in the amount of $19.8 million.

In the prior year, the Company raised net proceeds of $105.3 million through a share equity issue. As well, $41.3 million was raised through the early exercise of publicly traded warrants.

In May 2006, the Company prepaid the Notes Payable with a portion of the funds raised from the public issue of shares earlier in the month. This debt had been established in April 2005 when the Company drew down on a $100 million debt facility for the development of the Chapada copper-gold project. Prior to the repayment of this debt, interest and amortization of the deferred financing fees were capitalized to the construction project. At the time of repayment of the debt facility the unamortized balance of deferred financing fees and prepayment charges were expensed.

During December 2006, the Company entered into a $200 million revolving credit facility with a syndicate of banks. The credit facility, which is secured by a share pledge of the Company's principal subsidiaries, excluding Jacobina and Viceroy, matures in 2011 and includes a $100 million reduction in availability in the last year. Amounts drawn under the facility bear an interest rate of LIBOR plus 1.10% to 1.84% per annum depending on the Company's Debt to Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio. Undrawn amounts are subject to a commitment fee of 0.375% to 0.631% per annum dependant on the Company's Debt to EBITDA ratio. As at December 31, 2006, the Company had not drawn any amounts under the facility.

The Company declared cash dividends of $0.01 per common share for each of the third and fourth quarters. The amount and timing of any dividends is within the discretion of the Board of Directors. The Board of Directors reviews the dividend policy periodically based on cash requirements of operating assets, exploration and development activity as well as potential acquisitions, combined with our current and future projected financial position.

INVESTING ACTIVITIES

Cash flow from investing activities includes expenditures on property, plant and equipment, mineral properties and construction. A cash outflow from investing activities of $179 million for the year consisted of construction related expenditures of $126.7 million, expenditures on mineral properties of $64.8 million, and property, plant and equipment acquisitions of $27.8 million and additions to other assets of $26.5 million net of additional cash on business acquisition of $66.8 million.

In 2005, investing activities totalled $192.6 million, of which capital expenditures were $161 million. Other investing activities included $19 million which had been advanced to RNC Gold Inc. and $12.6 million expended on other assets.

For the ten month period ended December 31, 2004 there was an outflow of $27.1 million of which $26.5 million was for capital expenditures.

The Company has allocated $130-150 million for capital expenditures excluding potential construction expenditures for 2007. Construction expenditures may be in the range of $125-145 million. Capital expenditures for 2007 will be funded by existing cash balances and operating cash flows.

10. CAPITALIZATION

Shareholders' equity as at December 31, 2006 was $1.7 billion compared to $315 million as at December 31, 2005.

SHARE CAPITAL

As at December 31, 2006, the Company had 344.6 million (December 31, 2005 - 191.3 million; December 2004 - 122.3 million) common shares outstanding. The weighted average shares outstanding for the fiscal year end December 31, 2006 was 276.6 million common shares.

The Company issued a total of 153.3 million common shares during the year, 5.8 million shares in connection with the acquisition of RNC Gold Inc., 63.9 million shares in connection with the acquisition of Desert Sun Mining Corp., 50.2 million in connection with the acquisition of Viceroy Exploration Ltd., 17.4 million shares from a public offering and an additional 16 million common shares in respect to the exercise of stock options, warrants and compensation.

WARRANTS

As at December 31, 2006, the Company had a total of 16.9 million (December 31, 2005 - 5.3 million; December 2004 - 43.4 million) share purchase warrants outstanding with an average exercise price of C$8.66 per share. Expiry dates on share purchase warrants range from July 2007 to May 2011, and exercise prices range from C$2.09 to C$19.08. All outstanding warrants were exercisable at an average weighted exercise price of C$8.66 per share (December 31, 2005 - C$4.43 per share; December 2004 - C$1.78 per share). The weighted average remaining life of warrants outstanding was 2.6 years (December 31, 2004 - 3.9 years; February 29, 2004 - 3.7 years).

During 2006, the Company issued 19.9 million warrants, of which 15 million related to warrants outstanding in the companies that were acquired. The remaining 4.9 million were issued to the debt holder at the time the Notes Payable were repaid.

In 2006 7.6 million warrants were exercised and 0.7 million expired.

In the money warrants as at March 20, 2007 would bring in additional $53 million into treasury.

SHARES TO BE ISSUED

At December 31, 2006, there were 4.4 million shares to be issued in connection with the acquisition of Viceroy Exploration Ltd. These shares were issued on January 3, 2007.

STOCK OPTIONS AND SHARE INCENTIVE PLAN

A significant contributing factor to the Company's future success is its ability to attract and maintain qualified and competent people. To accomplish this, the Company has adopted a Share Incentive Plan designed to advance the interests of the Company by encouraging employees, officers and directors, and consultants to have equity participation in the Company through the acquisition of common shares. The Company granted 9.2 million options to employees, officers and directors during the current fiscal year. A total of 2.8 million stock options were granted during the comparative period ended December 31, 2005 and 1.3 million stock options were granted during the ten month period ended December 31, 2004.

A total of $38.5 million was charged to operations as stock-based compensation in 2006 with an off-setting credit to contributed surplus in respect to the options issued under the Share Incentive Plan during the year.

In 2006, a total of 9.9 million options were exercised. A total of 1.5 million (December 31, 2004 - 41,000) stock options under the Share Incentive Plan were exercised during 2005.

A total of 16.1 million (December 31, 2005 - 7.95 million; December 31, 2004 - 6.66 million) stock options were outstanding as at December 31, 2006 of which 15.9 million were exercisable (December 31, 2005 - 7.95 million; December 31, 2004 - 6.5 million). Stock options outstanding as at December 31, 2006 had a weighted average exercise price of C$7.27 per share (December 31, 2005 - C$2.67; December 31, 2004 - C$2.04 per share) and a weighted average life of 4.55 years (December 31, 2004 - 8.16 years; December 31, 2004 - 8.28 years).

In the money options as at March 20, 2007 would bring $92.7 million into treasury.

11. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were $24.4 million for the year ended December 31, 2006 which compares to $10.4 million for the comparative year ended December 31, 2005 and $6.2 million for the ten month period ended December 31, 2004. General and administrative expenses for the fourth quarter were $10.6 million.

General and administrative expenses have increased as a result of growing operations as the Company continues to build its infrastructure and personnel relating to the construction of the São Francisco and Chapada mines and the three corporate acquisitions completed during the year. This includes an increase in personnel head count and associated facilities and costs. As well, in 2006 the Company has expended considerable time, effort and financial resources to meet its objective of being SOX compliant. Sox compliance will continue into next year. Additionally, next year will be the first year of compliance for operations acquired in 2006.

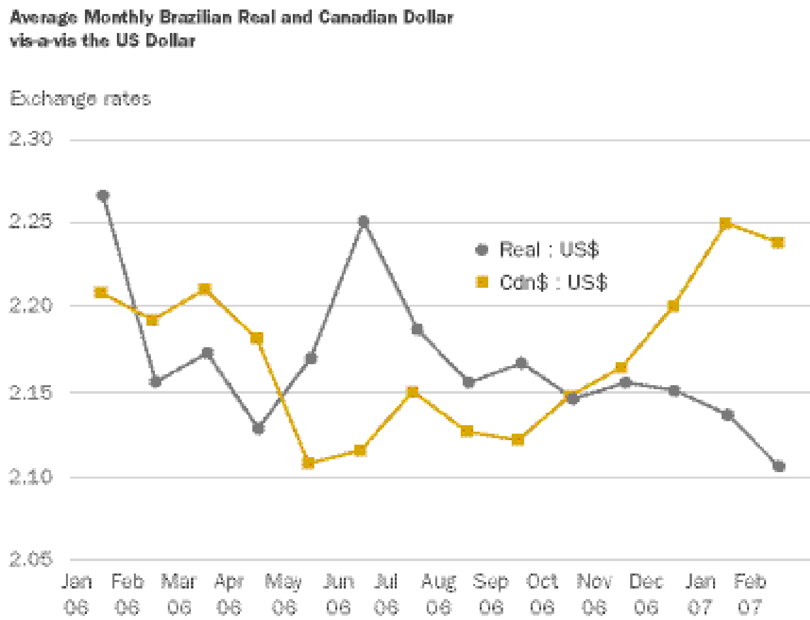
12. FOREIGN EXCHANGE

In 2006 the Company recognized a foreign exchange gain of $0.4 million compared to a $0.4 million gain for the comparative period ended December 31, 2005 and a gain of $1.8 million for the ten month period ended December 31, 2004.

The Company translates non US Dollar monetary items at period end rates and recognizes the gain or loss on translation in the period. As such, an unrealized foreign exchange gain is recognized during periods when the Canadian Dollar and/or the Real appreciate vis-à-vis the US Dollar on a net monetary asset position and an unrealized foreign exchange loss is recognized when the Canadian Dollar and/or Real appreciate vis-à-vis the US Dollar on a net monetary liability position.

The Cdn-US Dollar exchange rate as at December 31, 2006 was 1.1653 compared to an exchange rate as at December 31, 2005 of 1.163 (1.202 as at December 31, 2004). Although the year end rates where basically the same, conversion of currency during the year was subject to fluctuations in the exchange rates.

The Real-US Dollar exchange rate as at December 31, 2006 was 2.138 compared to 2.3407 as at December 31, 2005 and 2.6544 as at December 31, 2004. This represents an increase in the value of the Real of 9.5% during 2006.



The Company's revenues are denominated in US dollars. However, the Company's mine operating expenses are incurred predominantly in Brazilian Reais and to a lesser extent in Canadian dollars, US dollars and Honduras Lempiras. Accordingly, fluctuations in the exchange rates could significantly impact the results of operations. For as long as this environment of a strong Real continues, the Company plans to hold the majority of its excess cash in Canadian dollars and Brazilian Reais.

As at year end, the Company held US$1.8 million, C$43.7 million, R$45.2 million, ARG$17.9 million and LEM 63.2 million.

Subsequent to the year end, the Company entered into certain hedge contracts where the value of the Real has been fixed against the US Dollar. These hedges are further described in Section 17.

13. INVESTMENT INCOME

Interest rates in Brazil continue to be higher than rates in North America. Consequently, the Company continues to hold cash balances in Brazil to take advantage of these high local rates. An aggregate of $5.3 million of investment income was earned during the year, of which $2 million was earned in Brazil. Cash held in Brazil as at December 31, 2006 was $21.1 million. Average cash cost balances were higher in 2006 than 2005 and higher rates were achieved in Canada in 2006 compared to 2005.

14. INCOME TAXES

The Company recorded an income tax recovery of $25 million for the year. The current year income tax provision mainly reflects a future income tax recovery of $31.1 million. This recovery was booked mainly on the recognition of tax losses available to be used against future income taxes payable in Canada and in Brazil. This compares to a tax recovery of $4.3 million for the period ended December 31, 2005 and an expense of $1.8 million recognized for the comparative ten month period ended December 31, 2004.

The consolidated balance sheet reflects recoverable tax instalments in the amount of $2.2 million and an income tax liability of $3.9 million. Additionally, the balance sheet reflects a future income tax asset of $53.8 million and a future income tax liability of $328.4 million. A total of $309.5 million was recorded on the step-up to fair market on the net assets acquired on business acquisitions.

The Company has reduced its future income tax valuation allowance with the operations from the São Francisco mine and Chapada coming on stream. An approximate total of R$42.6 million of tax losses are available for carry-forward in Brazil. These losses will be used against future taxable income from the São Francisco and Chapada mines.

As the Real strengthened by 9% throughout the year vis-à-vis the US Dollar, from a rate of 2.34 as at December 31, 2005 to a rate of 2.138 as at December 31, 2006, a future income tax expense of approximately $7.8 million arose in Brazil on the revaluation of US Dollar denominated inter-corporate debt. This debt is eliminated on consolidation. Inter-corporate debt substantially increased during the year as funds raised by the issue of shares were sent to Brazil, thus increasing the US Dollar inter-corporate debt and cash on hand in Reais.

The income tax expense reported from period to period will vary period to period depending on the foreign currency exchange rate then in effect. However, the income tax is payable only if the inter-corporate debt is repaid and as such, as that debt may never be repaid, the income tax expense may never be paid. The amount of the tax liability will depend on the foreign exchange rate in effect at the time that the inter-corporate debt is repaid.

Additionally, approximately C$11.8 million of tax losses are available for carry-forward in Canada. The Company expects to use these losses against future income taxes payable that will arise from inter-corporate interest income.

The Company's combined federal and provincial statutory tax rate was 36.12% (December 31, 2005 - 36.12%; December 31, 2004 - 36.12%). There are a number of factors that will affect the Company's effective tax rate including the non-recognition of tax assets, foreign currency gains and losses. As a result, the Company's effective tax rate may fluctuate from period to period. A reconciliation of the Company's statutory rate to the actual provision is provided in Note 21 to the consolidated financial statements.

15. CLOSURE AND RECLAMATION COSTS

The Company accrues reclamation and closure costs at their fair value. Fair value is determined as the discounted future cash expenditures. Significant management judgments and estimates are made when estimating reclamation and closure costs. Reclamation and closure costs are estimated based on the Company's interpretation of current regulatory requirements and are amortized over the life of each mine on a unit-of-production basis.

The initial fair value of the estimated reclamation and closure expenses for Fazenda Brasileiro and São Vicente were recorded as a liability on acquisition in fiscal February 29, 2004. The initial fair value of estimated reclamation and closure expenses for the Fazenda Nova Mine were recorded as a liability in fiscal December 31, 2004.

The fair value of estimated reclamation and closure expenses of $3.2 million for the São Francisco Mine and that of the Chapada project have been recorded in 2005 with a corresponding amount capitalized to mine development costs. For those mines acquired in 2006 a review of the fair value of the closure and reclamation costs estimates was performed and balances were adjusted as required. A total of $4.7 million of site reclamation liability were assumed on business acquisitions during the year.

Accretion charged to 2006 earnings was $0.6 million resulting in a balance as at December 31, 2006 of $18.7 million (December 31, 2005 - $8 million).

16. CONTRACTUAL COMMITMENTS

In addition to commitments otherwise reported in the MD&A the Company is contractually committed to the following as at December 31, 2006:

Year	2007	2008	2009	2010	2011 and thereafter	Total
Mine operating and service contracts:						
Fazenda Brasileiro	$ 3,120	$ 476	$ 20	$ –	$ –	$ 3,616
Fazenda Nova	6,788	2,512	1,736	723	–	11,759
Chapada	13,223	6,836	2,675	–	–	22,734
São Francisco	8,767	948	392	392	1,569	12,068
Jacobina	18,642	3,622	189	–	–	22,453
Gualcamayo	7,122	99	–	–	–	7,221
Other	1,921	521	520	520	157	3,639
	$ 59,583	$ 15,014	$ 5,532	$ 1,635	$ 1,726	$ 83,490

17. CURRENCY HEDGING

Subsequent to year end the Company has entered into forward contracts to economically hedge against the risk of an increase in the value of the Real versus the US Dollar with respect to a portion of the expected Real expenditures. These contracts fix the rate of exchange for the sale of approximately 280 million Reais at an average exchange rate of 2.316 Real to the US Dollar. These contracts are based on projected monthly sales beginning in February 2007 through to February 2010.

18. COPPER HEDGING PROGRAM

The Company implemented an economic copper hedging program that is intended to help secure a less than two year payback at its Chapada copper-gold project and manage the Company's exposure to copper prices, thus protect future earnings and cash flows from a decline in the market price of copper.

This program is a combination of forward and call option contracts intended to economically hedge against the risk of declining copper prices for a portion of its forecast copper concentrate sales. This copper economic hedging program provides a forward price of $1.37 per pound of copper for a total of 50.2 million pounds of copper in 2007 and a forward price of $2.75 per pound of copper for a total of 90 million pounds in 2008. The program includes long call options at an average strike price of approximately $1.67 per pound of copper on the 2007 hedge and an average strike price of approximately $3.25 per pound of copper on the 2008 hedge thereby permitting the Company to participate in price increases in the event that copper prices exceed the strike price of the options. The program requires no cash margin, collateral or other security from the Company.

This program increases operating cash flow from Chapada above feasibility study levels without removing the upside from significantly higher copper prices. As such, it also mitigates against certain cost increases primarily resulting from the appreciation of the Brazilian currency to the United States Dollar as it increases forecast revenue. It ensures that revenue from copper at the Chapada mine will be at much higher levels than assumed in the feasibility study and mine plan for the Chapada mine. To the extent that the copper is produced in quantities equal to or greater than the hedged pounds under the forward contracts, then at the closing of the forward contract, any obligation under the contracts is economically offset against the additional revenue derived from the physical production.

Benefits of the hedging program include:

- providing support for the payback of Chapada which at $1.00 per pound of copper price and $400 per ounce of gold price has a two year payback;
- increasing the value of Chapada and thereby the net asset value per share of the Company;
- ensuring that the Company participates in higher copper prices especially for the balance of its copper production;
- ensuring that the Company fully participates in any increase in gold prices from its significant gold production at Chapada as no gold is being hedged;
- better positioning the Company and Chapada as a significant gold producer as copper is monetized into cash; and
- as copper is monetized, that cash flow will be available for development and acquisition of other gold projects.

Non-hedging derivative instruments are recorded at fair value. Fair value of copper derivative instruments are based on quoted market prices for similar instruments and on market closing prices at period end. The Company recorded a mark-to-market gain of $1.2 million for the quarter ended December 31, 2006 and a mark-to-market loss of $35.8 million on a year-to-date basis (December 31, 2005 - $8.6 million loss). As at December 31, 2006, the aggregate unrealized loss on the copper derivatives was $44.4 million.

These economic hedges do not meet the requirements for hedge accounting under current generally accepted accounting principles, however, the Company has concluded that the above mentioned financial instruments provide an effective means for the Company to manage metal price risk and enable business planning with greater certainty.

The formal requirements under generally accepted accounting principles may have permitted this arrangement as a hedge if cash flows from sales come from copper solely. Since Chapada produces a concentrate of copper and gold which is sold in concentrate form, under accounting rules, hedge accounting is disallowed. Accordingly, changes in the fair value of the financial instruments will be reflected in current earnings from period to period. This will result in fluctuations in net earnings from period to period until which time the contracts are closed in January 2009. The unrealized mark-to-market loss represents the value on cancellation of these contracts based on market values as at December 31, 2006 and does not represent an economic obligation for the Company nor does it represent an estimate of future gains or losses nor does it represent an economic obligation for the Company.

The Company continues to evaluate the benefit of further hedging a portion of 2009 forecast production.

19. OFF-TAKE AGREEMENTS

The Company has agreed to terms relating to off-take agreements with smelters for up to 160,000 tonnes of copper-gold concentrate in 2007 from Chapada securing a "home" for a large portion of production. Arrangements that have been made are designed to ensure that in the event that future smelter capacity does not increase to meet copper-gold concentrate production, it will not affect the Company's ability to sell its concentrate. Treatment and refining charges for a portion of the concentrate will be set as a percentage of the copper price, providing price protection at lower copper prices. Payment for concentrate will be based on future commodity prices as concentrate is shipped to the smelters.

Production from the Chapada copper-gold mine is forecast at an average of 134 million pounds payable copper and 135,000 ounces payable gold per year in concentrate for the first five years of operation and for total life of mine production of 2 billion pounds of copper and 1.3 million ounces of gold. Of the total gold production approximately 675,000 ounces is forecast in the first five years with 365,000 ounces of gold in the first two years. Production in the first two years is targeted at 290 million pounds payable copper.

20. RELATED PARTY TRANSACTIONS

The Company paid or accrued directors' fees of $233,500 during the year and $67,300 during the fourth quarter. These transactions were measured and recorded at the amount of consideration established and agreed to by the related parties based on their estimate of fair market value. Total related party transactions for the comparative period ended December 31, 2005 were $243,300 and for the ten month period ended December 31, 2004 were $179,200.

Stock options granted to non-executive directors during the year were 2.1 million.

21. CONTINGENCIES

(a) A sales tax audit was completed by Brazilian state tax authorities which could result in a liability, including penalties or a potential loss of recoverable Brazilian sales tax credits, that have been recorded as receivables, of approximately $1.3 million including penalties that have been recorded as receivables. The Company has not recorded the potential negative impact of the results of the sales tax audit as at December 31, 2006 as it is the Company's view that the total amount of sales tax credits is recoverable. The Company is currently undergoing an appeal process and while it is not possible to determine the ultimate outcome of such process at this time, the Company believes that the ultimate resolution will not have a material effect on the Company's financial condition or results of operation.

(b) The Company has a contingent liability to settle health related claims by former employees of Jacobina Mineração e Commercio Ltda ("JMC"). The Company estimates this contingency to be $17 million which has been accrued as at December 31, 2006. The Company will continue to monitor the issue in the future. Adjustments if any, will be recorded if circumstances change or the matter is settled.

22. FOURTH QUARTER ANALYSIS

Consolidated net earnings for the quarter ended December 31, 2006 was $6.1 million (after recognizing an income tax recovery in the quarter of $19.3 million) compared to a net loss of $73,000 for the period ended December 31, 2005 and to net earnings of $0.8 million for the comparative quarter ended December 31, 2004.

Adjusted net earnings for the quarter included the following non-cash expenses: foreign exchange losses, stock-based compensation, gain on commodity contracts and future income tax expense in foreign currency translation of intercorporate debt. Adjusted earnings (a non-GAAP measure) for the quarter were $23 million before income tax effects and $0.5 million after tax effecting the adjustments. This compares to an adjusted earnings for the comparative quarter ended December 31, 2005 of $3.3 million.

Earnings per share for the quarter were $0.02. This compares to a loss per share of $0.00 for the comparative quarter ended December 31, 2005. Earnings per share adjusted for the above mentioned non-cash items was $0.00 per share. This compares to adjusted act earnings per share of $0.02 for the comparative quarter ended December 31, 2005.

Revenues for the fourth quarter were $60 million from the sale of 97,240 ounces of gold. This compares to $16.7 million for the comparative quarter ended December 31, 2005 based on a total of 34,720 ounces of gold sold by the Fazenda Brasileiro and Fazenda Nova mines. Sales for the comparative quarter ended December 31, 2004 were $10.3 million from the sale of 23,982 ounces of gold which was solely by the Fazenda Brasileiro Mine.

The average gold price realized during the fourth quarter was $619 per ounce. This compares to an average spot price of $604 per ounce of gold for the same period.

Mine operating earnings for the quarter were $8.9 million compared to $9.5 million for the third quarter ended September 30, 2006 and $4.8 million for the comparative quarter ended December 31, 2005, an increase of 54% and 204%, respectively.

In the fourth quarter of 2006 the Company recognized a foreign exchange loss of $5.8 million which compares to a $3.1 million loss in the fourth quarter of 2005.

Gold production for the fourth quarter totalled 112,444 compared to 88,781 ounces of gold produced in the period ended September 30, 2006 and 31,762 ounces in the comparative period ended December 31, 2005. Commercial production for the same periods was 104,563 ounces, 79,912 ounces and 30,550 ounces respectively. The increase in the fourth quarter production was primarily from São Francisco, which had declared commercial production on August 1, 2006.

Production at São Francisco was positively affected by the grade of ore processed, which increased by 28% from an average of 0.58 g/t during the third quarter to an average of 0.74 g/t for the fourth quarter and the recovery percentage, which increased from 60.6% to 67.1% in the fourth quarter. Production for the fourth quarter at the Fazenda Brasileiro Mine also increased as grade increased by 10% from an average of 2.54 g/t during the third quarter to an average of 2.81 g/t for the fourth quarter.

Average cash costs for the quarter were $321 compared to $337 for the quarter ended September 30, 2006 and $282 for the comparative quarter ended December 31, 2005. The increase in average cost between the last quarter of 2006 and the last quarter of 2005 is partly due to a stronger Reais and higher prices of operating inputs that are tied to commodity prices.

Inventory increased during the fourth quarter as stacking of ore onto the heap leach pads began at the São Francisco Mine and the build up of copper/gold concentrate and operating inventory and supplies at Chapada.

The table below presents selected quarterly financial and operating data:

(Unaudited)	**December 31, 2006**	September 30, 2006	June 30, 2006	March 31, 2006
Financial results *(in thousands of dollars)*				
Revenue *(i)*	**$ 59,951**	$ 50,299	$ 41,882	$ 17,074
Net earnings (loss) for the period	**$ 6,141**	$ (12,085)	$ (58,312)	$ (5,907)
Per share financial results				
Basic and diluted earnings (loss) per share	**$ 0.02**	$ (0.04)	$ (0.21)	$ (0.03)
Financial Position *(in thousands of dollars)*				
Total assets	**$ 2,181,192**	$ 1,433,890	$ 1,448,069	$ 529,954
Total long-term liabilities	**$ 364,141**	$ 181,535	$ 186,389	$ 134,426
Gold sales (ounces): *(iii)*				
Brazil				
Fazenda Brasileiro	**20,574**	19,835	19,803	15,109
Fazenda Nova	**6,816**	6,140	6,044	9,484
São Francisco	**33,723**	21,828	–	–
Jacobina	**19,867**	20,221	24,014	–
Total Brazil	**80,980**	68,024	49,861	24,593
Central America				
San Andrés	**16,260**	14,578	17,319	6,327
Sales from operations held for sale				
La Libertad	**–**	–	6,508	–
	97,240	82,602	73,688	30,920
Gold production *(ounces)*:				
Commercial production:				
Fazenda Brasileiro	**20,443**	18,569	19,658	17,743
Fazenda Nova	**7,853**	6,548	5,893	9,549
São Francisco	**37,089**	20,789	–	–
Jacobina	**20,880**	19,321	22,333	–
Total Brazil	**86,265**	65,227	47,884	27,292
Central America				
San Andrés	**18,298**	14,685	17,082	6,727
Commercial production	**104,563**	79,912	64,966	34,019
Pre-operation production				
São Francisco	**–**	8,869	12,194	1,187
Chapada	**7,881**	–	–	–
	112,444	88,781	77,160	35,206
Pro-forma adjustments:				
Pre-acquisition production				
San Andrés	**–**	–	–	13,987
Jacobina	**–**	–	–	18,974
La Libertad	**–**	–	–	–
Post acquisition production from operations sold				
- La Libertad	**–**	–	5,929	6,791
Total pro-forma production	**–**	–	5,929	39,752
Total production	**112,444**	88,781	83,089	74,958

(Unaudited)	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
Non-GAAP Measures *(iv)*				
Per ounce data:				
Cash costs per ounce produced: *(ii), (iii)*				
Brazil				
Fazenda Brasileiro	**$ 357**	$ 356	$ 334	$ 353
Fazenda Nova	**$ 305**	$ 306	$ 392	$ 216
São Francisco	**$ 284**	$ 314	–	–
Jacobina	**$ 332**	$ 317	$ 331	–
Average Brazil	**$ 315**	$ 325	$ 340	$ 305
Central America				
San Andrés	**$ 349**	$ 386	$ 311	$ 271
Average production cost	**$ 321**	$ 337	$ 332	$ 290
Average gold price realized: *(i), (iii)*				
Brazil				
Fazenda Brasileiro	**$ 618**	$ 615	$ 628	$ 552
Fazenda Nova	**$ 628**	$ 610	$ 633	$ 567
São Francisco	**$ 620**	$ 613	$ –	$ –
Jacobina	**$ 619**	$ 620	$ 628	$ –
Average Brazil	**$ 620**	$ 615	$ 629	$ 557
Central America				
San Andrés	**$ 614**	$ 615	$ 626	$ 553
Average price realized	**$ 619**	$ 615	$ 628	$ 555
Operating statistics *(iii)*				
Gold ore grade *(g/t)*:				
Fazenda Brasileiro	**2.80**	2.54	2.80	2.40
Fazenda Nova	**0.57**	0.63	0.60	0.89
São Francisco	**0.74**	0.58	–	–
Jacobina	**1.91**	1.72	2.03	–
Central America				
San Andrés	**0.63**	0.63	0.68	0.74
Gold recovery rate *(%)*:				
Fazenda Brasileiro	**93.6**	93.0	93.0	88.2
Fazenda Nova	**93.3**	70.0	65.0	80.0
São Francisco	**67.2**	60.6	–	–
Jacobina	**95.3**	93.6	93.8	–
Central America				
San Andrés	**79.3**	80.0	98.1	88.6

	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005
Financial results *(in thousands of dollars)*				
Revenue *(i)*	$ 16,655	$ 10,749	$ 10,785	$ 7,850
Net earnings (loss) for the period	$ (73)	$ 3,246	$ (7,576)	$ 292
Per share financial results				
Basic and diluted earnings (loss) per share	$ (0.00)	$ 0.02	$ (0.06)	$ 0.00
Financial Position *(in thousands of dollars)*				
Total assets	$ 468,446	$ 345,206	$ 289,433	$ 177,902
Total long-term liabilities	$ 122,030	$ 118,557	$ 113,586	$ 8,924
Gold sales *(ounces): (iii)*				
Fazenda Brasileiro	19,257	16,137	18,131	18,549
Fazenda Nova	15,463	8,809	7,426	–
	34,720	24,946	25,557	18,549
Gold production *(ounces)*:				
Commercial production:				
Fazenda Brasileiro	17,810	19,558	18,143	19,059
Fazenda Nova	12,740	10,364	5,676	–
	30,550	29,922	23,819	19,059
Pre-operating production:				
Fazenda Nova	–	–	2,150	5,229
São Francisco Pilot Plant	1,212	1,033	1,376	1,222
	1,212	1,033	3,526	6,451
Total production	31,762	30,955	27,345	25,510
Non-GAAP Measures *(iv)*				
Per ounce data:				
Cash costs per ounce produced: *(ii), (iii)*				
Fazenda Brasileiro	$ 357	$ 332	$ 330	$ 263
Fazenda Nova	$ 177	$ 215	$ 265	$ –
	$ 282	$ 291	$ 314	$ 263
Average gold price realized: *(i), (iii)*				
Fazenda Brasileiro	$ 483	$ 436	$ 426	$ 427
Fazenda Nova	$ 487	$ 433	$ 427	$ –
	$ 485	$ 435	$ 426	$ 427
Operating statistics *(iii)*				
Gold ore grade *(g/t)*:				
Fazenda Brasileiro	2.31	2.47	2.33	2.66
Fazenda Nova	0.87	0.86	0.90	–
Gold recovery rate *(%)*:				
Fazenda Brasileiro	88.3	89.6	89.6	90.4
Fazenda Nova	90.0	78.0	83.0	–

(i) Revenues consist of sales net of sales taxes. Revenue per ounce data is calculated based on gross sales.
(ii) Certain mine general and administrative costs have been reclassified from mine operating earnings and cash costs to general and administrative expenses.
(iii) During commercial production.
(iv) A cautionary note regarding non-GAAP measures follows this Management's Discussion and Analysis of Operations and Financial Condition.
(v) Net (loss) earnings, basic (loss) earnings per share and diluted earnings per share for the quarter ended December 31, 2006 include an unrealized non-cash gain on commodity contracts of $1.2 million (December 31, 2005 - loss of $8.6 million).

General and administrative expenses for the quarter were $10.6 million compared to $4.1 million for the comparative quarter ended December 31, 2005 and $5.1 million for the quarter ended September 30, 2006. The increase in general and administrative expenses during the quarter is due to unanticipated year end accruals, corporate transaction expenses and the impact of São Francisco in commercial production.

23. OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

24. RESERVE ESTIMATES

The figures for reserves and resources are determined in accordance with National Instrument 43-101, issued by the Canadian Securities Administrators. This National Instrument lays out the standards of disclosure for mineral projects including rules relating to the determination of mineral reserves and resources. This includes a requirement that a "qualified person" (as defined under the NI 43-101) supervise the preparation of the reserve reports. The Company's reserve reports are prepared and reviewed by Evandro Cintra, Vice-President Exploration, who is a "qualified person".

As at December 31, 2006, the Company had proven and probable reserves of 6.8 million contained ounces of gold, an increase of 1.6 million contained ounces from the previous year end, primarily as a result of the acquisition of the Jacobina and San Andrés mines. The primary changes in proven and probable reserves were:

	Increase in contained ounces *(000's)*
Jacobina	1,185
San Andrés	499

Reserves as at December 31, 2006 were estimated using a gold price of $425-$475 per ounce (except for the very small reserve at Fazenda Nova where $550 was used) compared to $425 used to calculate reserve estimates as at December 31, 2005.

Mine/Project	Gold price per oz/price per lb	
	2006	2005
Jacobina	**$ 475**	–
San Andrés	**$ 450**	–
Fazenda Brasileiro	**$ 450**	$ 425
Chapada	**$ 450/$1.10**	$ 425/$1.00
São Francisco	**$ 450**	$ 425
São Vicente	**$ 427.50**	$ 425
Fazenda Nova	**$ 550**	$ 500
C1 Santa Luz	**$ 425**	$ 425
Ernesto	**$ 450**	$ 450

Proven and probable reserves for the São Francisco Mine of 1.42 million contained ounces are moderately higher than last year. Exploration activities during the year replaced production. Current resource estimates include 1.87 million ounces of measured and indicated resources plus an addition of 1.44 million ounces of inferred resources. This compares to 1.7 million ounces of measured and indicated resources plus an addition of 0.9 million ounces of inferred resources as at December 31, 2005. Furthermore, bulk samples and production experience at São Francisco suggest actual grades may exceed drill indicated grades due to the coarse gold effect.

The year end proven and probable reserves at the Fazenda Brasileiro Mine as at December 31, 2006 were 254,900 ounces of gold (December 31, 2005 - 206,700 ounces). Reserves have increased by 48,200 contained ounces despite having produced approximately 76,000 contained ounces during the year. Total measured and indicated resources at year end were 434,900 contained ounces only slightly below 2005. The Company plans to continue an exploration program to expand the resources and reserves and increase the mine life.

As at December 31, 2006, Fazenda Nova had proven and probable reserves of 24,100 ounces compared to 92,300 ounces as at December 31, 2005. The Fazenda Nova Mine is expected to be exhausted in 2007.

Proven and probable reserves as at December 31, 2006 for São Vicente are 341,900 ounces of contained gold. Total measured and indicated resources are 605,000 contained ounces as at December 31, 2006. In November 2006, the Company completed a positive feasibility study in respect to São Vicente. The results of the feasibility study confirmed a 5.3 year mine life at an annual production rate of 57,000 ounces. The initial plan for São Vicente contemplated treating São Vicente and São Francisco on a combined basis, however, the Company later concluded that São Vicente could be constructed as a stand-alone mine. In addition, São Vicente has significant coarse gold effect similar to São Francisco.

Proven and probable reserves at Chapada are 2.51 million ounces of contained gold and 2.31 billion pounds of contained copper, comparable to last year. The current mine plan for Chapada contemplates a 19-year mine life. Resource estimates for Chapada include 3.03 million gold ounces of measured and indicated resources and 2.80 billion pounds of copper.

The C1 Santa Luz Project contains 556,000 contained ounces of proven and probable reserves. It is the Company's view that these reserve estimates could support a stand-alone mine. Additionally, C1 Santa Luz resource estimates (including reserves) include 1.04 million ounces of measured and indicated resources plus 402,100 ounces of inferred resources. Ernesto added 178,900 ounces of measured and indicated resources and 179,600 ounces of inferred resources to current year resource estimates. The development plan for these target areas are further discussed in the Exploration and Development section of this report.

Proven and probable reserves at San Andrés, which was acquired by the Company through its takeover of RNC Gold Inc. in February 2006, are 499,400 ounces, sufficient for an approximate 5 year mine life. Measured and indicated resources have significantly increased as a result of the Company's exploration activities in 2006 to 1.29 million ounces. Metallurgical testing is now in progress including an investigation of dump leaching to lower operating costs to bring more of the measured and indicated resource into reserves.

At Jacobina, acquired by the Company through its takeover of Desert Sun Mining Corp. in April 2006, proven and probable reserves total 1.185 million ounces. Measured and indicated resources total 2.92 million ounces with inferred resources totalling 4.16 million ounces. A broad phased expansion has been implemented that would result in production increasing to an annual rate of approximately 140,000-150,000 ounces of gold in late 2007 as plant capacity and ore processing is increased to 6,500 tonnes per day from its current 5,000 tonnes per day. The level of production will depend on the extent to which ore development at the Morro do Vento Extension and Canavieiras areas is advanced by the end of 2007. Total capital expenses for this expansion to the end of 2007, for plant capacity increases and ore development, is estimated at $58 million for which the Company is fully funded.

Measured and indicated resources at the Gualcamayo project in Argentina, acquired through the Company's takeover of Viceroy Exploration Ltd. in October 2006, are 2.28 million ounces with a further 698,000 ounces of inferred resources. The feasibility study in progress on the QDD deposit is scheduled to be completed in the second quarter of 2007, the Amelia Inés/Magdalena feasibility study in the third quarter of 2007 and the preliminary economic evaluation for the QDD Lower West zone in the fourth quarter of 2007. The QDD and other zones support the potential for an operation with production of over 200,000 ounces per year for at least ten years.

It should be noted that reserves and resources are estimates only. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any reserve or resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation.

Fluctuations in gold and copper prices, results of drilling, metallurgical testing and production and the evaluation of mine plans subsequent to the date of any estimate may require revision of such estimate. The volume and grade of reserves mined and processed and recovery rates may not be the same as currently anticipated. Any material reductions in estimates of mineral reserves and mineral resources, or of the Company's ability to extract these mineral reserves, could have a material adverse effect on the Company's results of operations and financial condition. Depreciation and amortization using the units of production would be impacted by a change in reserves/resources.

Complete information relating to reserves and resources indicating tonnage and grade for the various mines and projects is contained in a complete resource and reserve table accompanying this annual report.

25. EXPLORATION AND DEVELOPMENT

The Corporation plans an aggressive exploration program in 2007 on its projects in Brazil, Argentina, Honduras and Nicaragua. The Company has allocated approximately $32 million in 2007 for budgeted exploration with the bulk of funds allocated to Gualcamayo, Jacobina and the Guapore Gold Belt. These projects will be funded by operating cash flows.

The Company spent $4.8 million and $15.4 million during the fourth quarter and the year ended December 31, 2006, respectively on exploration programs. This compares to $6.8 million spent during the comparative periods ended December 31, 2005 on exploration.

The Company has allocated $32 million in the 2007 budget for exploration as follows:

	2006
Gualcamayo	45%
Jacobina	14%
Guapore	13%
Itapicaru Greenstone Belt	8%
Pilar	8%
Nicaragua	5%
Other	7%
	100%

SAN ANDRÉS

Since Yamana's acquisition of RNC, an aggressive exploration program, has been carried out to better define the pit boundaries, test areas between the pits, and assess potential extensions of the mineralization in other areas of the mining lease. Measured and indicated resources at San Andrés now total 1.29 million ounces. Metallurgical testing is now in progress including an investigation of dump leaching to lower operating costs to bring more of the measured and indicated resource into reserves.

JACOBINA

Measured and indicated resources at Jacobina now total 2.92 million ounces and inferred resources, 4.16 million ounces. Three areas were explored by the Company during 2006 (Canavieiras South Extension, João Belo and Serra de Córrego) and a program was initiated late in the year at Morro do Vento to investigate the down-dip potential of the Intermediate Reef. At João Belo, work focused on the continuity of the Large to Medium Pebble Conglomerate ("LMPC") reef north of the main cross fault as well as in-fill drilling of the dip extension of the LMPC reef in support of upgrading the classification of the mineral resources from the inferred category. Work in the Northern Bahia Gold Belt included drilling at Pindobaçu and follow-up regional exploration including geological mapping, sampling, prospecting and soil geochemical surveys. Drilling by the Company at Canavieiras, 4 kilometres north of the Jacobina mine processing plant, has extended the mineralized conglomerate reefs for a strike length of 2 kilometres south of the old mine workings. The target reefs are not exposed at surface but have been intersected from depths of 100 metres to as deep as 600 metres below surface. East-west striking normal faults have caused vertical displacement of the stratigraphy up to 200 metres resulting in a series of stacked blocks each of which has a strike length of 500 metres to 600 metres. The conglomerate reefs remain open along strike to the south and this target will be drill tested in 2007.

GUALCAMAYO

In November, 2006, the Company released significant results from diamond drilling on the Lower West Zone of the QDD and Magdalena deposits. The drilling was extremely successful with several high grade intercepts in the QDD Lower West zone. Furthermore, three of the new drill holes intercepted a second zone near surface that will likely expand the limits of the current pit design and improve the strip ratio on the west side. The Company plans to develop an exploration adit to provide a base for further diamond drilling to determine the down-dip extension of the zone and to find out if this is part of the higher grade "feeder" system linked to the QDD fault zone some 500 metres to the southeast. Significant results from three new holes drilled at Magdalena showed that not only was the overall model generally correct, but that there is a very significant zone of high grade mineralization which is more continuous than previously thought.

SÁO VICENTE

At São Vicente, the 2006 exploration program included (i) a program of surface drilling; (ii) drift excavation and bulk sampling; and (iii) underground drilling from drill stations established from the drift and extending into the orebody. São Vicente has a significant coarse gold effect similar to São Francisco and as such bulk sampling and underground drilling were undertaken to better understand the true grade. Evidence from bulk samples to date suggests grades that will exceed drill indicated and reserve grades.

C1 SANTA LUZ

C1 Santa Luz is one of eight (and the most advanced) of the priority targets on the Company's 197,000 hectares of mineral claims on the Rio Itapicuru Greenstone Belt north of the Fazenda Brasileiro Mine.

In December 2005, the Company announced the results of a Phase 1 scoping study for C1 Santa Luz. This was upgraded to a pre-feasibility study in 2006. The purpose of the study was to provide an initial economic assessment of the project and assess the merits of undertaking a formal feasibility study. The results were positive and the Company is continuing to assess the development of the project as a stand-alone mine. Measured and indicated resources are 1.04 million ounces and inferred resources of 402,000 ounces. The Company is continuing to drill and believes that it can add to the current resource base that will supplement the feasibility of an open pit and underground operation.

Yamana plans to complete a feasibility study for C1 Santa Luz in the second quarter of 2007. Assuming the feasibility study is positive the Company would start construction in 2007 for commencement of production in late 2008.

ERNESTO

Ernesto is a priority target on the Company's 450,000 hectares of mineral claims on the Guapore (Santa Elina Gold Belt). A current drilling program supports the potential for Ernesto to become a stand-alone mine. Ernesto is located approximately 65 kilometres south of the São Francisco project. The Company believes Ernesto has the potential to be a high grade, very shallow underground mine. The development plan for Ernesto contemplates a pre-feasibility study in early 2007 and, assuming a positive result, a feasibility study will be carried out in later 2007 with potential commencement of construction in 2008.

FAZENDA BRASILEIRO

Current reserves and resources at Fazenda Brasileiro are expected to support a mine life for an additional four years. However, ongoing exploration initiatives are aimed at increasing the mine life of Fazenda Brasileiro to a minimum of seven years. The Company has doubled its mineral concessions and mining rights on the Rio Itapicuru Greenstone Belt north of Fazenda Brasileiro to 180,000 hectares and the exploration budget this year for this area is approximately $4.1 million. Four high-priority targets were tested in 2006 including: E-deep, Barrocas Oeste, Pinhões and Barracão; further work is planned on these in 2007.

26. SALE OF ARGENTINE ASSETS

Assets identified as held for sale as at December 31, 2005 were sold in 2006. Consideration was comprised of a combination of cash proceeds and an equity interest in the capital of the purchaser. Upon closing of the transaction, the purchaser paid $350,000 and delivered 8 million common shares of the purchaser and 4 million common share purchase warrants of the purchaser. According to the terms of sale, additional consideration was due by the end of 2006. As a consequence, an additional 10 million common shares of the purchaser together with 5 million common share purchase warrants of the purchaser were received in late 2006. The Company did not recognize a significant gain or a loss on the transaction.

27. DEPLETION AND IMPAIRMENT OF MINERAL PROPERTIES

Depletion on mineral properties is calculated based on a unit-of-production basis which is highly impacted by estimates of reserves and resources. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources as discussed under reserve estimates.

Management has reviewed the undiscounted future cash flows of its mining projects, based on a long-term gold price of $450 per ounce. Other estimates included in the determination of future cash flows include estimates on the amount of reserves, recoverable ounces and production levels. Based on this review, management has concluded that there is no impairment in mineral properties as at the current fiscal year end, except for an impairment of the Fazenda Nova Mine of $3.7 million. Assumptions underlying future cash flow estimates are subject to risks and uncertainties.

Differences between management's assumptions and market conditions could have a material effect in the future.

28. RISKS AND UNCERTAINTIES

Exploration, development and mining of metals involve numerous inherent risks. As such, the Company is subject to various financial, operational and political risks that could have a significant impact on its profitability and levels of operating cash flows. Although the Company assesses and minimizes these risks by applying high operating standards, including careful management and planning of its facilities, hiring qualified personnel and developing their skills through training and development programs these risks cannot be eliminated. Such risks include changes in local laws governing the mining industry, a decline in the price of gold or copper and the activity in the mining sector, uncertainties inherent in estimating mineral reserves and mineral resources and fluctuations in local currency against the US Dollar. At year end the Company did not have any foreign currency hedges outstanding. However, subsequent to year end the Company entered into several hedges between the Real and the US Dollar.

The Company holds mining properties in Brazil, Honduras and Argentina and as such is exposed to the laws governing the mining industry in those countries. The governments in those countries are currently supportive of the mining industry but changes in government regulations including taxation, the repatriation of profits, restrictions on production, export controls, environmental compliance, expropriation of property and shifts in the political stability of the country and labour unrest could adversely affect the Company and its exploration and production initiatives in these countries.

In December 2006, the Company submitted an Environmental Impact Statement document to the San Juan authorities where the Gualcamayo Project is located. However, there is no assurance that an EIS permit will be issued.

To mitigate land title risks, the Company makes no commitments and does not undertake exploration without first determining that necessary property rights are in good standing. However, despite the Company's best efforts, land title may still be affected by undetected defects.

Conducting exploration and production in Latin America also exposes the Company to the risk of currency fluctuations. A significant portion of the Company's expenditures are denominated in Brazilian Reais and Canadian Dollars and revenues are earned in US Dollars. A strengthened local currency could adversely affect the Company's costs denominated in US dollars. Historically, the Real has been highly volatile relative to other currencies and can fluctuate significantly against the US Dollar over short-term periods.

The mining industry is intensely competitive and is highly dependent on commodity prices. A decline in the price of gold or copper could negatively impact the Company's operations.

Mineral reserves and resources are estimates which may differ significantly from actual mining results.

Readers are encouraged to read and consider the risk factors more particularly described in the Company's Annual Information Form for the year ended December 31, 2006. Such risk factors could materially affect the future operating results of the Company and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

29. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing financial statements in accordance with Canadian GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses for the period end. Critical accounting estimates represent estimates that are uncertain and for which changes in those estimates could materially impact on the Company's financial statements. Management reviews its estimates and assumptions on an ongoing basis using the most current information available. The following accounting estimates are critical:

- **Closure and reclamation costs**
  Closure and reclamation costs are accrued at their fair value and are estimated based on the Company's interpretation of current regulatory requirements.

- **Depletion and impairment of mineral properties**
  Mining interests are the most significant assets of the Company and represent capitalized expenditures related to the development of mining properties and related plant and equipment and the value assigned to exploration potential on acquisition. Capitalized costs are depreciated and depleted using either a unit-of-production method over the estimated economic life of the mine which they relate to, or using the straight-line method over their estimated useful lives.

  The costs associated with mining properties are separately allocated to exploration potential, reserves and resources and include acquired interests in production, development and exploration-stage properties representing the fair value at the time they were acquired. The values of such mineral properties are primarily driven by the nature and amount of material interests believed to be contained or potentially contained, in properties to which they relate.

  The Company reviews and evaluates its mining interests for impairment at least annually or when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. An impairment is considered to exist if the total estimated future undiscounted cash flows are less than the carrying amount of the assets. An impairment loss is measured and recorded based on discounted estimated future cash flows. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

  There are numerous uncertainties inherent in estimating mineral reserves and mineral resources. Differences between management's assumptions and market conditions could have a material effect in the future on the Company's financial position and results of operation.

- **Goodwill and impairment testing**
  The acquisition of Desert Sun Mining Corp. was accounted for using the purchase method whereby assets acquired and liabilities assumed were recorded at their fair market values as of the date of acquisition and any excess of the purchase price over such fair value was recorded as goodwill. Goodwill was identified and allocated by preparing estimates of the fair value of the reporting unit and comparing this amount to the fair value of assets and liabilities in the reporting unit.

  The Company evaluates, on at least an annual basis, the carrying amount of goodwill to determine whether current events and circumstances indicate that such carrying amount may no longer be recoverable. To accomplish this, the Company compares the fair value of the reporting unit to its carrying amounts. If the carrying value of the reporting unit exceeds its fair value, the Company compares the implied fair value of the reporting unit's goodwill to its carrying amount, and any excess of the carrying value over the fair value is charged to operations. Assumptions underlying fair value estimates are subject to significant risks and uncertainties.

- **Reserve estimates**

  The figures for reserves and resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any reserve or resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

- **Income taxes**

  Future income tax assets and liabilities are determined based on the temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recorded on the financial statements if realization is considered more likely than not.

- **Purchase price allocations on business acquisitions**

  Purchase price allocations on business acquisitions are determined based on management's best estimates. The allocation of the purchase price for Viceroy Exploration Ltd. represents management's initial estimates. A detailed valuation is expected to be completed in 2007. Although the results of this review are presently unknown, it is anticipated that it may result in a change to the amounts assigned to mineral properties and a change to the value attributable to tangible assets.

There were no changes in the Company's accounting policies during the year.

30. RECENT ACCOUNTING PRONOUNCEMENTS

Recently issued Canadian and United States accounting pronouncements have been outlined below.

In July 2006, the CICA issued Section 1506, *Changes in Accounting Policies and Estimates, and Errors* to replace the existing Section 1506, *Accounting Changes*. This section applies to fiscal years beginning on or after January 1, 2007, and is therefore effective for the Company in fiscal 2008.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). This interpretation clarifies the recognition threshold and measurement of a tax position taken on a tax return, and requires expanded disclosure with respect to the uncertainty in income taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact that adoption of FIN 48 will have on its financial condition or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). This statement defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company expects that adoption of SFAS 157 will not have a material effect on its financial condition or results of operation.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans* - an amendment of FASB Statement No. 87, 88, 106 and 132R (SFAS 158). This Statement requires an employer to recognize in its statement of financial position an asset of a plan's over funded status or a liability for a plan's under funded status, measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions), and recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. The Company expects that adoption of SFAS 158 will have no impact on its financial condition or results of operations.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108). SAB 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 permits existing public companies to record the cumulative effect of initially applying this approach in the fiscal year ending after November 15, 2006 by recording necessary correcting adjustments to the carrying values of assets and liabilities as of the beginning of that year with the offsetting adjustment recorded to the opening balance of retained earnings. The adoption of SAB 108 had no impact on the Company's financial condition and results of operations.

In February 2007 the FASB issued SFAS No.159, *the Fair Value Option for Financial Assets and Financial Liabilities* - including an amendment to FAS 115. This standard permits a company to choose to measure certain financial assets, financial liabilities and firm commitments at fair value. The standard is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact SFAS No.159 will have on its financial condition and results of operations.

In April 2005 the CICA issued Section 1530, *Comprehensive Income*. This Section establishes standards for reporting and display of comprehensive income. It does not address issues of recognition or measurement for comprehensive income and its components. The mandatory effective date for the new Section is for interim and annual financials statements relating to fiscal years beginning on or after October 1, 2006. Management does not expect the adoption of this standard to have a material effect on the Company's consolidated financial position and results of operations.

In 2005 the CICA issued Section 3855, *Financial Instruments - Recognition and Measurement*. This Section established standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The following four fundamental decisions serve as cornerstones underlying this Section:

1. Financial instruments and non-financial derivatives represent rights or obligations that meet the definition of assets or liabilities and should be reported in financial statements;
2. Fair value is the most relevant measurement for financial instruments and the only relevant measure for derivative financial instruments;
3. Only items that are assets or liabilities should be reported as such in the financial statements; and
4. Special accounting for items designated as being part of a hedging relationship should be provided only for qualifying items.

The mandatory effective date for the new Section is for interim and annual financial statements relating to fiscal years beginning after October 1, 2006. Management does not expect the adoption of this standard to have a material effect on the Company's consolidated financial position and results of operations.

During 2005, the CICA also issued Section 3861, *Financial Instruments - Disclosure and Presentation*. This section established standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. The presentation paragraphs deal with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and liabilities are offset. The disclosure paragraphs deal with information about factors that affect the amount, timing and certainty of an entity's future cash flows relating to financial instruments. This Section also deals with disclosure of information about the nature and extent of an entity's use of financial instruments, the business purposes that serve, the risks associated with them and management's policies for controlling those risks. This Section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Management does not expect the adoption of this standard to have a material effect on the Company's consolidated financial position and results of operations.

31. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's President and Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's system of disclosure controls and procedures includes, but is not limited to, our Timely Disclosure and Confidentiality Policy, our Code of Business Conduct and Ethics, our Insider Trading Policy and Share Dealing Code, our Whistleblower Policy, our Fraud Policy, the effective functioning of our Audit Committee and procedures in place to systematically identify matters warranting consideration of disclosure by the Audit Committee.

As at the end of the period covered by this Management's Discussion and Analysis, management of the Company, with the participation of the President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by applicable US and Canadian securities laws. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under applicable Canadian securities laws, is recorded, processed, summarized and reported within time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In conducting its evaluation of the effectiveness of the Company's disclosure controls and procedures, management has concluded that the Company's disclosure controls and procedures that are in place in place remained effective.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting for external purposes in accordance with accounting principles generally accepted in Canada and the United States of America to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements. Internal control over financial reporting includes:

- maintaining records that in reasonable detail accurately and fairly reflect our transactions and dispositions of the assets of the Company;
- providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements in accordance with generally accepted accounting principles;
- providing reasonable assurance that receipts and expenditures are made in accordance with authorizations of management and the directors of the Company; and
- providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on the Company's financial statements would be prevented or detected on a timely basis.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on this assessment, Yamana's CEO and CFO have determined that, as of December 31, 2006, the Company's internal control over financial reporting is effective and have certified Yamana's annual filings with the U.S. Securities and Exchange Commission on Form 40-F as required by the United States Sarbanes-Oxley Act and with Canadian securities regulatory authorities.

No significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses, were made as a result of the evaluation.

Management excluded from its assessment the internal control over financial reporting at RNC Gold Inc., Desert Sun Mining Corp. and Viceroy Explorations Ltd., which were acquired on February 28, 2006, April 5, 2006 and October 13, 2006, respectively, and whose financial statements respectively constitute 2.4%, 36.6%, and 29.5% and 2.6%, 35.4% and 31.5% of net and total assets, 22%, 22.7% and 0% percent of revenues, and 4.8%, 0% and 3.7% percent of net income (loss) of the consolidated financial statement amounts as of and for the year ended December 31, 2006.

LIMITATIONS OF CONTROLS AND PROCEDURES

The Company's management, including the President and Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

This report provides a discussion and analysis of the financial condition and results of operations ("Management's Discussion and Analysis") to enable a reader to assess material changes in financial condition between December 31, 2006 and December 31, 2005 and results of operations for the period ended December 31, 2006, for the period ended December 31, 2005 and for the 10 month period ended December 31, 2004.

This Management's Discussion and Analysis has been prepared as of March 26, 2007. The audited consolidated financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") follow this Management's Discussion and Analysis. This Management's Discussion and Analysis is intended to supplement and complement the audited consolidated financial statements and notes thereto for the period ended December 31, 2006 (collectively the "Financial Statements"). You are encouraged to review the Financial Statements in conjunction with your review of this Management's Discussion and Analysis. This Management's Discussion and Analysis should be read in conjunction with both the annual audited consolidated financial statements for the period ended December 31, 2006 and the most recent Annual Information Form for the period ended December 31, 2006 on file with the Securities Commissions of all of the provinces in Canada and the Annual Report on Form 40-F on file with the United States Securities and Exchange Commission. Certain notes to the Financial Statements are specifically referred to in this Management's Discussion and Analysis and such notes are incorporated by reference herein. All Dollar amounts in the Management's Discussion and Analysis are in US dollars, unless otherwise specified.

Cautionary Note Regarding Forward-Looking Statements

This Management's Discussion and Analysis contains "forward-looking statements, within the meaning of the United States Private Securities Litigation Reform Act of 1995 and applicable Canadian Securities legislation", that involve a number of risks and uncertainties. Forward-looking statements include, but are not limited to, statements with respect to the future price of gold and copper, the estimation of mineral reserves and resources, the realization of mineral estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of new deposits, success of exploration activities, permitting time lines, currency exchange rate fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage and timing and possible outcome of pending litigation. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements are based on the opinions and estimates of management as of the date such statements are made, and they involve known and unknown risks, uncertainties and other factors which may cause the actual results, level of activity, performance or achievements of the Company to be materially different from any other future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others: risks relating to the integration of acquisitions, risk relating to international operations, the actual results of current exploration activities; actual results of current reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of gold and copper; possible variations in ore reserves, grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; fluctuations in metal prices; as well as those risk factors discussed or referred to in the Company's annual Management's Discussion and Analysis and Annual Information Form for the year ended December 31, 2006 filed with the securities regulatory authorities in all provinces of Canada and available at www.sedar.com, and the Company's Annual Report on Form 40-F filed with the United States Securities and Exchange Commission. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.

Cautionary Note Regarding Reserves and Resources

Readers should refer to the Annual Information Form of the Company for the year ended December 31, 2006 and other continuous disclosure documents filed by the Company since January 1, 2007 available at www.sedar.com, for further information on mineral reserves and resources, which is subject to the qualifications and notes set forth therein.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Yamana Gold Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the financial statements.

Yamana Gold Inc. maintains systems of internal accounting and administrative controls in order to provide, on a reasonable basis, assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board, and all of its members are independent directors. The Committee meets at least four times a year with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the quarterly and the annual reports, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or reappointment of the external auditors. The consolidated financial statements have been audited by Deloitte & Touche LLP, Independent Registered Chartered Accountants, in accordance with Canadian generally accepted auditing standards and standards of the Public Company Accounting Oversight Board (United States) on behalf of the shareholders. Deloitte & Touche LLP have full and free access to the Audit Committee.

Charles B. Main

Peter Marrone
President and
Chief Executive Officer

Charles B. Main
Vice President, Finance and
Chief Financial Officer

March 26, 2007

Report of Independent Registered Chartered Accountants

To the Board of Directors and Shareholders of Yamana Gold Inc.

We have audited the accompanying consolidated balance sheets of Yamana Gold Inc. and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of operations and retained earnings (deficit), and cash flows for the years ended December 31, 2006 and December 31, 2005 and the ten month period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

With respect to the financial statements for the year ended December 31, 2006, we conducted our audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). With respect to the financial statements for the year ended December 31, 2005 and the ten month period ended December 2004, we conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Yamana Gold Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years ended December 31, 2006 and December 31, 2005 and the ten month period ended December 31, 2004 in conformity with Canadian generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 26, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP.

Independent Registered Chartered Accountants

Vancouver, Canada
March 26, 2007

YAMANA GOLD INC.

Consolidated Balance Sheets

As at

(In thousands of US Dollars)

	December 31, 2006	December 31, 2005
ASSETS		
Current		
Cash and cash equivalents	$ 69,680	$ 151,633
Accounts receivable, advances and deposits	30,280	6,160
Inventory *(Note 6)*	51,252	6,981
Income taxes recoverable	2,248	1,261
	153,460	166,035
Capital		
Property, plant and equipment *(Note 7)*	134,792	24,992
Assets under construction *(Note 8)*	224,650	158,717
Mineral properties *(Note 9)*	1,496,732	61,506
Capital assets held for sale *(Note 5 (a))*	–	5,667
	1,856,174	250,882
Other		
Investments *(Note 10)*	28,322	2,259
Loan receivable *(Note 11)*	–	18,986
Other assets *(Note 12)*	34,452	20,974
Future income tax assets *(Note 21)*	53,784	9,310
Goodwill *(Note 4)*	55,000	–
	171,558	51,529
	$ 2,181,192	$ 468,446
LIABILITIES		
Current		
Accounts payable	$ 39,467	$ 20,606
Accrued liabilities	10,722	2,018
Income taxes payable	3,922	203
Derivative related liabilities *(Note 26)*	44,423	8,615
Current portion of long-term liabilities *(Note 14)*	1,927	–
	100,461	31,442
Long-term		
Notes payable *(Note 13)*	–	106,847
Asset retirement obligations *(Note 15)*	18,720	8,012
Future income tax liabilities *(Note 21)*	328,372	5,671
Long-term liabilities *(Note 14)*	17,049	–
Long-term liabilities associated with assets held for sale *(Note 5)*	–	1,500
	364,141	122,030
	464,602	153,472
SHAREHOLDERS' EQUITY		
Capital Stock		
Issued and Outstanding 344,595,212 common shares (December 31, 2005 - 191,341,932 shares) *(Note 16 (a))*	1,619,850	310,409
Shares to be issued *(Note 16 (b))*	42,492	–
Share purchase warrants *(Note 17)*	73,004	3,737
Contributed surplus *(Note 16 (c))*	61,578	4,676
Deficit	(80,334)	(3,848)
	1,716,590	314,974
	$ 2,181,192	$ 468,446

Commitments and contingencies *(Notes 25 and 28)*
Subsequent events *(Note 27)*

The accompanying notes are an integral part of the financial statements.

Approved by the Board

Peter Marrone
Director

Victor H. Bradley,
Director

YAMANA GOLD INC.

Consolidated Statements of Operations and Retained Earnings (Deficit)

For the Periods Ended

(In thousands of US Dollars)

	December 31, 2006	December 31, 2005	December 31, 2004 *(10 months)*
Sales	$ 169,206	$ 46,038	$ 32,298
Cost of sales	(100,004)	(30,371)	(17,016)
Depreciation, amortization and depletion	(33,510)	(6,740)	(4,541)
Accretion of asset retirement obligations *(Note 15)*	(636)	(358)	(364)
Mine operating earnings	35,056	8,569	10,377
Expenses			
General and administrative	(24,350)	(10,415)	(6,226)
Foreign exchange gain	343	369	1,848
Loss on impairment of the Fazenda Nova Mine *(Note 19)*	(3,675)	–	–
Stock-based compensation *(Note 18)*	(41,099)	(2,298)	(2,191)
Operating (loss) earnings	(33,725)	(3,775)	3,808
Investment and other business income	5,328	4,049	792
Interest and financing expense *(Note 20)*	(28,846)	(94)	–
Unrealized loss on commodity contracts *(Note 26 (a))*	(35,773)	(8,615)	–
Loss arising from assets sold *(Note 5 (b))*	(2,186)	–	–
(Loss) earnings before income taxes	(95,202)	(8,435)	4,600
Income tax recovery (expense) *(Note 21)*	25,039	4,324	(1,817)
Net (loss) earnings	(70,163)	(4,111)	2,783
(Deficit) retained earnings, beginning of period	(3,848)	263	(2,520)
Dividends declared	(6,323)	–	–
(Deficit) retained earnings, end of period	$ (80,334)	$ (3,848)	$ 263
Basic (loss) earnings per share	$ (0.25)	$ (0.03)	$ 0.03
Diluted (loss) earnings per share	$ (0.25)	$ (0.03)	$ 0.02
Weighted average number of shares outstanding *(in thousands) (Note 16 (d))*	276,617	144,888	100,036

The accompanying notes are an integral part of the financial statements.

YAMANA GOLD INC.

Consolidated Statements of Cash Flows

For the Periods Ended

(In thousands of US Dollars)

	December 31, 2006	December 31, 2005	December 31, 2004 (10 months)
Operating Activities			
Net (loss) earnings for the period	$ (70,163)	$ (4,111)	$ 2,783
Asset retirement obligations realized *(Note 15)*	(358)	(309)	(237)
Non-operating financing fee	5,000	–	–
Items not involving cash			
Depreciation, amortization and depletion	33,510	6,740	4,541
Stock-based compensation *(Note 18)*	41,099	2,298	2,191
Future income taxes *(Note 21)*	(31,077)	(4,447)	430
Accretion of asset retirement obligations *(Note 15)*	636	358	364
Unrealized foreign exchange (gains) losses	(343)	(3,252)	(1,792)
Financing charge	19,744	–	–
Unrealized loss on commodity contracts *(Note 26)*	35,773	8,615	–
Impairment of the Fazenda Nova Mine *(Note 19)*	3,675	–	–
Other	2,675	553	1,013
	40,171	6,445	9,293
Net change in non-cash working capital *(Note 23 (c))*	(43,386)	(3,035)	(757)
	(3,215)	3,410	8,536
Financing Activities			
Issue of common shares, options and warrants for cash (net of issue costs)	221,209	155,099	71,931
Deferred financing charges	–	(4,630)	(3,049)
Proceeds of notes payable	–	100,000	–
Repayment of notes payable and long-term liabilities	(115,414)	–	–
Dividends	(2,883)	–	–
Financing costs	(5,000)	–	–
	97,912	250,469	68,882
Investing Activities			
Expenditures on mineral properties	(64,829)	(23,199)	(11,512)
Acquisition of property, plant and equipment	(27,762)	(5,752)	(3,079)
Expenditures on assets under construction	(126,710)	(132,031)	(11,965)
Corporate acquisitions, net of cash acquired	66,815	–	–
Loan receivable	–	(18,986)	–
Other assets and investments	(26,543)	(12,584)	(531)
	(179,029)	(192,552)	(27,087)
Effect of foreign exchange on non-US dollar denominated cash and cash equivalents	2,379	3,252	2,120
(Decrease) increase in cash and cash equivalents	(81,953)	64,579	52,451
Cash and cash equivalents, beginning of period	151,633	87,054	34,603
Cash and cash equivalents, end of period	$ 69,680	$ 151,633	$ 87,054
Cash and cash equivalents are comprised of the following:			
Cash at bank	$ 40,015	$ 20,576	$ 11,903
Bank term deposits	29,665	131,057	75,151
	$ 69,680	$ 151,633	$ 87,054

Supplementary cash flow information *(Note 23)*

The accompanying notes are an integral part of the financial statements.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2006, December 31, 2005 and the Ten Month Period Ended December 31, 2004

(Tabular amounts in thousands or thousands of US Dollars unless otherwise noted)

1. BASIS OF PRESENTATION/THE COMPANY

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and include the assets, liabilities and operations of the Company and its wholly-owned subsidiaries. Canadian GAAP differs in certain respects from United States of America generally accepted accounting principles (US GAAP) as described in Note 30.

The Company is engaged in the acquisition, exploration and development and operation of mineral properties in Latin America. The Company has gold and copper production, exploration properties and land positions in Brazil, Honduras and Argentina. Since August 2003 the Company has focused on creating production efficiencies at the Fazenda Brasileiro Mine, constructing the Fazenda Nova, São Francisco and Chapada Mines, discovering high priority exploration targets and acquisition of other high quality properties in Latin America.

The Company's sales result from operations in Brazil and Honduras. Gold mining requires the use of specialized facilities and technology. The Company relies heavily on such facilities and technology to maintain its production levels. Cash flow and profitability of operations are also affected by the gold price and exchange rates which can fluctuate widely and other numerous factors beyond the Company's control.

2. CHANGE IN YEAR END

In 2004 the Company changed its year end from February 28/29 to December 31. As such, the 2004 comparative period is for the ten month period ended December 31, 2004.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash on deposit with banks and highly liquid short-term investments. Short-term investments are recorded at the lower of cost and net realizable value.

Inventory

Inventory consisting of metal-in-circuit ore, gold in process and product inventories is valued at the lower of the weighted average cost of production and net realizable value. Net realizable value is calculated as the difference between the estimated future metal price based on prevailing and long-term metal prices and estimated costs to complete production into a saleable form. Inventories of material and supplies expected to be used in production are valued at the lower of cost and net replacement value.

Write-downs of inventory resulting from net realizable and/or net replacement impairments are reported as a component of current period costs.

Metal in circuit is comprised of ore in stock piles and ore on heap leach pads. Ore in stock piles is comprised of ore extracted from the mine and is available for further processing. Costs are added to ore in stock piles at the current mining cost per tonne and removed at the accumulated average cost per tonne. Costs are added to ore on the heap leach pads based on current mining costs and removed from the heap leach pad as ounces are recovered in process at the plant based on the average cost per recoverable ounce on the heap leach pad.

Although the quantities of recoverable gold placed on the heap leach pads are reconciled by comparing the grades of ore placed on the heap leach pads to the quantities of gold actually recovered, the nature of the leaching process inherently limits the ability to precisely monitor inventory levels. As such, engineering estimates are refined based on actual results over time. Variances between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write-downs to net realizable value are accounted for on a prospective basis. The ultimate recovery of gold from each heap leach pad will not be known until the leaching process is concluded.

Gold in process represents materials that are currently in the process of being converted to a saleable product.

Investments

Investments in shares in which the Company's ownership is less than 20% and over which the Company does not exercise significant influence, are accounted for using the cost method. The Company periodically reviews the carrying value of its investments. When a decline in the value of an investment is estimated to be other than temporary, the investment is written down accordingly. A write-down in investments is reported as a component of current period costs.

The financial statements of entities which are controlled by the Company through voting equity interests, referred to as subsidiaries, are consolidated. Entities which are jointly controlled, referred to as joint ventures, are proportionately consolidated. Variable Interest Entities ("VIEs"), which include, but are not limited to, special purpose entities, trusts, partnerships, and other legal structures, as defined by the Accounting Standards Board in Accounting Guideline ("AcG") 15, "Consolidation of Variable Interest Entities" ("AcG 15"), are entities in which equity investors do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are subject to consolidation by the primary beneficiary who will absorb the majority of the entities' expected losses and/or expected residual returns. All intercompany balances and transactions are eliminated upon consolidation. The Company did not hold any Variable Interest Entities as at December 31, 2006.

Financing costs and deferred financing charges

Financing costs, including interest, are capitalized to assets under construction for projects that are actively being prepared for production. Deferred financing charges consist of expenses related to debt financing transactions and are amortized over the life of such debt facilities. Amortization of deferred financing charges is capitalized to assets under construction when the debt financing arrangement relates to a project actively being prepared for production. Capitalization is discontinued after commencement of commercial production.

Property, plant and equipment

Property, plant and equipment are initially recorded at cost and amortization is recorded on a straight-line basis over the estimated useful lives of the asset. Useful lives of property, plant and equipment currently range from three to nineteen years, but do not exceed the related estimated mine life based on proven, probable reserves and the portion of resources that management expects to become reserves in the future.

Expenditures that extend the useful lives of existing facilities or equipment are capitalized and amortized over the remaining useful lives of the assets. Repairs and maintenance expenditures are expensed as incurred.

Yamana reviews the carrying value of its property, plant and equipment on a regular basis and where the carrying value is estimated to exceed the estimated undiscounted future net cash flows, a provision is made against income in the year that such impairment is determined by management.

Assets under construction

Assets under construction consist of expenditures on the construction of future mines and include preproduction revenues and expenses prior to achieving commercial production. Commercial production is a convention for determining the point at which time a mine is producing at a sustainable commercial level, after which production costs are no longer capitalized and are reported as operating costs.

Mineral properties and exploration costs

Acquisition costs of mineral properties and direct exploration and development expenditures and pre-stripping costs are capitalized. Costs incurred for general explorations that are not project specific or do not result in the acquisition of mineral properties are charged to operations. Costs relating to properties abandoned are written off when such a decision is made.

Depletion of mining properties and amortization of preproduction and development costs are calculated and recorded on the unit-of-production basis over the proven, probable reserves of the mine and the portion of mineralization expected to be classified as reserves.

The Company reviews the carrying value of each property on an ongoing basis. This review generally is made by reference to the timing of exploration and/or development work, work programs proposed and the exploration results achieved. Any excess of carrying value over the estimated undiscounted future net cash flows is charged to operations in the period in which such impairment is determined by management. Estimated undiscounted future net cash flows are calculated using estimated metal prices, operating costs, capital costs and reclamation and closure costs.

Asset retirement obligation

Reclamation and closure costs have been estimated based on the Company's interpretation of current regulatory requirements and measured at fair value. Fair value is determined based on the net present value of future cash expenditures upon reclamation and closure. Reclamation and closure costs are capitalized as mine development costs and amortized over the life of the mine on a unit-of-production basis.

Income taxes

The Company follows the liability method of accounting for income taxes whereby future income tax assets and liabilities are determined based on the temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recorded on the financial statements if realization is considered more likely than not.

Revenue recognition

Revenue from the sale of gold or other metals is recognized when title is transferred and the risks and rewards of ownership pass to the purchaser including delivery of the product, there is a fixed or determinable selling price and collectability is reasonably assured. Settlement adjustments, if any, are reflected in revenue when the amounts are determinable.

(Loss) earnings per share

The (loss) earnings per share are based on the weighted average number of common shares of the Company that were outstanding each year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the year, if dilutive. For this purpose, the "treasury stock method" is used for the assumed proceeds upon the exercise of outstanding stock options and warrants that are used to purchase common shares at the average market price during the year.

Share issue costs

Costs incurred in connection with the issuance of capital stock are netted against the proceeds received.

Stock-based compensation

The Company has a stock option plan that is described in Note 18.

The Company accounts for all stock-based payments to employees and non-employees using the fair value based method of accounting and recognizes compensation expense over the stock option vesting period. The Company stock option plan includes a stock appreciation feature. If and when the stock options are ultimately exercised, the applicable amount of additional paid-in capital in contributed surplus will be transferred to share capital.

Use of estimates

The preparation of financial statements in accordance with Canadian GAAP and notes thereof requires management to make estimates and assumptions.

Significant estimates used in the preparation of these financial statements include but are not limited to, the recoverability of receivables and investments, the quantities of material on leach pads and in circuit, the proven and probable reserves and the related depreciation and amortization, the estimated tonnes of waste material to be mined and the estimated recoverable tonnes of ore from each mine area, the estimated net realizable value of inventories, the accounting for stock-based compensation, the provision for mining taxes, the anticipated costs of reclamation and closure cost obligations, and the fair value of assets and liabilities acquired in business combinations. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

Derivatives

The Company may enter into commodity contracts including forward contracts and derivatives to manage exposure to fluctuations in metal prices. In the case of forwards, these contracts are intended to reduce the risk of declining prices on future sales. Purchased options are intended to allow the Company to benefit from higher market metal prices. In instances where the call option purchases offset the committed ounces of the corresponding forward, derivative liabilities are presented net of amounts due to/from counterparties.

The Company recognizes the fair value of the financial instruments on the balance sheet and records changes in the fair value in current period earnings.

The Company has entered into non-hedge derivatives that include forward and option contracts intended to manage the risk of declining copper prices. The Company currently does not hedge any of its gold sales.

The Company, from time to time, may enter into forward contracts to economically hedge against the risk of an increase in the value of the Real versus the US Dollar as the majority of the Company's operating costs are denominated in Reais and revenues are in US Dollars.

Foreign currency translation

The Company considers its foreign operations to be integrated operations with the functional currency of the US dollar. As such, monetary assets and liabilities of the Company's operations denominated in a currency other than the US dollar are translated into US dollars at the exchange rate prevailing as at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date. Revenue and expenses are translated at the average exchange rates prevailing during the year, with the exception of amortization which is translated at historical exchange rates. Exchange gains and losses on translation are included in earnings.

Business acquisitions

Business acquisitions are accounted for using the purchase method of accounting whereby identifiable assets acquired and liabilities assumed are recorded at their fair market values as at the date of acquisition. Yamana will continue to review information and perform further analysis with respect to each of the acquired assets, including an independent valuation, prior to finalizing the allocation of the purchase price within a twelve month period from the date of the business acquisition. Reporting during this period is based on management's best estimates and taking into account all available information at the time of reporting thereof.

Goodwill

Acquisitions are accounted for using the purchase method whereby assets and liabilities acquired are recorded at their fair values as of the date of acquisition and any excess of the purchase price over such fair value is recorded as goodwill. Goodwill is identified and allocated to reporting units by preparing estimates of the fair value of each reporting unit and comparing this amount to the fair value of assets and liabilities in the reporting unit. Goodwill is not amortized.

The Company evaluates, on at least an annual basis, the carrying amount of goodwill to determine whether current events and circumstances indicate that such carrying amount may no longer be recoverable. To accomplish this, the Company compares the fair value of its reporting units to their carrying amounts. If the carrying value of a reporting unit exceeds its fair value, the Company compares the implied fair value of the reporting unit's goodwill to its carrying amount, and any excess of the carrying value over the fair value is charged to operations. Assumptions underlying fair value estimates are subject to significant risks and uncertainties.

4. BUSINESS ACQUISITIONS

Acquisition of RNC Gold Inc.

On February 28, 2006, the Company completed the acquisition of RNC Gold Inc. (“RNC”) and 100% of the San Andrés Gold Mine in Honduras. The purchase price of this transaction totaled $53 million, comprised of approximately 5.8 million Yamana common shares, $18.9 million in cash (advanced in 2005, as disclosed in Note 11) and other transaction costs.

The value of shares issued to complete the acquisition was determined using the weighted average share price of approximately $5.22 per share for Yamana stock for the period commencing two days prior to the announcement date of the transaction and ending two days after the announcement date.

Yamana has consolidated the results of operations from the San Andrés Gold Mine from the date of acquisition.

The purchase price was calculated as follows:

Common shares issued to acquire 100% of RNC (4,910,283 common shares)	$ 25,494
Cash consideration to acquire 75% of Minerales de Occidente S.A. (San Andrés Gold Mine)	18,903
Common shares issued to acquire RNC (Honduras) Limited (872,093 common shares)	4,528
Transaction costs	3,409
Fair value of options and warrants issued	664
Purchase price	$ 52,998

The fair value of the Yamana warrants issued has been valued using a Black-Scholes pricing model at $0.4 million. The fair value of stock options issued has been estimated using a Black-Scholes option pricing model at $0.3 million. These values were determined based on an option pricing model using the following assumptions:

Dividend yield	0%
Expected volatility	40%
Risk-free interest rate	3.81%
Expected life	1-3 years
Forfeitures	Nil

The purchase price was allocated as follows:

Net working capital acquired	$ 1,504
Property, plant and equipment	13,528
Mineral properties and other assets	50,501
Loan payable	(1,427)
Asset retirement obligation	(2,894)
Future income taxes	(7,389)
Long-term liabilities	(825)
Net identifiable assets	$ 52,998

This transaction resulted in the Company acquiring the San Andrés Gold Mine and the La Libertad Mine along with a 60% interest in the Cerro Quema development stage property. Certain of these property interests were sold on July 6, 2006 as disclosed in Note 5.

The Company had previously advanced $18.9 million in the form of a purchase loan on December 16, 2005 to RNC Gold Inc. to acquire from Terra Mining Inc. (“Terra”), a private Belize company, 75% of the outstanding shares of Minerales de Occidente S.A.

On February 28, 2006, RNC Gold Inc. exercised its option to acquire all of the outstanding shares of RNC (Honduras) Limited, a Belize corporation, which was the indirect owner of the remaining 25% interest in the San Andrés Gold Mine.

Acquisition of Desert Sun Mining Corp.

On April 5, 2006, the Company completed the acquisition of Desert Sun Mining Corp. (“DSM”) which owned the Jacobina gold mine in the Bahia state of Brazil near the Company’s Fazenda Brasileiro mine. Total consideration was approximately $632 million comprised of approximately 63.9 million common shares, transaction costs and issued options and share purchase warrants. Yamana exchanged all outstanding shares, options and share purchase warrants of DSM for similar securities of Yamana at an exchange ratio of 0.6 of a Yamana common share for 1 DSM common share.

The value of shares issued to complete the transaction was determined using the weighted average share price of approximately $8.39 per share for Yamana stock for the period of two days prior to the announcement date as well as two days following the announcement date.

Yamana has consolidated the results of operations from the Jacobina Mine from the date of acquisition.

The purchase price was calculated as follows:

Common shares issued to acquire 100% of DSM (63,746,381 common shares at approximately $8.39 per share)	$ 534,852
Shares issued for employee severance (174,068 common shares)	1,361
Transaction costs	3,094
Fair value of options and warrants issued	92,658
Purchase Price	$ 631,965

The fair value of the Yamana warrants issued has been valued using a Black-Scholes pricing model at $61.9 million. The fair value of stock options issued has been estimated using a Black-Scholes option pricing model at $30.8 million. These values were determined based on an option pricing model using the following assumptions:

Dividend yield	0%
Expected volatility	35%
Risk-free interest rate	3.92%
Expected life	1-3 years
Forfeitures	Nil

The purchase price was allocated as follows:

Net working capital acquired (including cash of $18.1 million)	$ 26,944
Property, plant and equipment	37,792
Mineral properties and other assets	665,867
Other assets	3,548
Silicosis liability	(17,154)
Other long-term liabilities	(6,954)
Future income taxes	(133,078)
Net identifiable assets	$ 576,965
Excess of purchase price allocated to goodwill	55,000
	$ 631,965

ACQUISITION OF VICEROY EXPLORATION LTD.

In mid October the Company acquired approximately 95% of the outstanding common shares of Viceroy Exploration Ltd. ("Viceroy"), an exploration-stage company, through a take-over bid announced in August 2006. The Company offered Viceroy shareholders 0.97 of a Yamana common share for each Viceroy common share. Since the offer was accepted by holders of more than 90% of the Viceroy common shares, the Company commenced and completed the compulsory acquisition of the remaining Viceroy common shares not already owned at the same ratio of 0.97 of a Yamana common share for each Viceroy common share. Yamana exchanged all outstanding shares, options and share purchase warrants of Viceroy for similar securities of Yamana at an exchange ratio of 0.97 of a Yamana common share for 1 Viceroy common share. Total consideration paid was approximately $549.1 million comprised of approximately 52.5 million common shares, transaction costs and issued options and share purchase warrants acquired from Viceroy. Yamana has consolidated the results of operations from October 13, 2006.

The purchase price was determined using the weighted average share price of approximately $9.70 per share for Yamana stock for the period of two days prior to the August 16, 2006 announcement date as well as two days following the announcement date.

The purchase price and preliminary allocation of the purchase price of the shares of Viceroy was calculated as follows and is subject to adjustment. A detailed valuation is expected to be completed in 2007. Although the results of this review are presently unknown, it is anticipated that it may result in a change to the amounts assigned to mineral properties and a change to the value attributable to tangible assets.

The purchase price was calculated as follows:

Common shares issued to acquire 100% of Viceroy	
(52,542,397 common shares at approximately $9.70 per share)	$ 509,842
Estimated transaction costs	4,075
Fair value of options and warrants issued	35,230
Purchase Price	$ 549,147

The fair value of the Yamana warrants issued has been valued using a Black-Scholes pricing model at $12.2 million. The fair value of stock options issued has been estimated using a Black-Scholes option pricing model at $23 million. These values were determined based on an option pricing model using the following assumptions:

Dividend yield	0%
Expected volatility	41%
Risk-free interest rate	4.12%
Expected life	1-3 years
Forfeitures	Nil

The purchase price was allocated as follows:

Net working capital	$ 53,881
Property, plant and equipment	1,666
Unallocated purchase price *(i)*	661,094
Other assets	2,794
Future income tax liability	(170,288)
Net identifiable assets	$ 549,147

(i) The unallocated price has been included in mineral properties for balance sheet presentation, and is subject to detailed valuation.

5. ASSETS HELD FOR SALE

(a) Assets held for sale

There were no assets held for sale as at December 31, 2006.

The following table presents summarized financial information regarding certain Argentinian assets held for sale:

	2005
Capital assets	
Property, plant and equipment	$ 350
Mineral properties	5,317
Total assets held for sale	5,667
Liabilities	
Future income tax liability	(1,500)
Net assets held for sale	$ 4,167

(b) Loss arising from assets sold

On July 6, 2006, the Company completed the sale of the La Libertad gold mine in Nicaragua and its interest in the Cerro Quema development-stage property in Panama to Glencairn Gold Corporation ("Glencairn"). Total consideration for the disposition was 32 million Glencairn common shares. The Company has recognized a loss on the sale of these assets of $2.2 million. Subsequent to the sale, the Company owned 18.4% of the outstanding common shares of Glencairn.

Details of the assets sold on July 6, 2006 are as follows:

	La Libertad	Cerro Quema	Total
Capital assets			
Property, plant and equipment	$ 6,551	$ 581	$ 7,132
Mineral properties	11,413	7,776	19,189
	17,964	8,357	26,321
Other assets and liabilities transferred	(1,937)	303	(1,634)
Net assets sold	$ 16,027	$ 8,660	$ 24,687

6. INVENTORY

	2006	2005
Metal in circuit and gold in process	$ 25,403	$ 4,333
Product inventories	8,581	435
Materials and supplies	17,268	2,213
	$ 51,252	$ 6,981

At December 31, 2006 the Company recorded an impairment charge against inventory as disclosed in Note 19.

7. PROPERTY, PLANT AND EQUIPMENT

	2006			2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 2,447	$ –	$ 2,447	$ 1,116	$ –	$ 1,116
Buildings	35,189	6,154	29,035	12,141	3,024	9,117
Machinery and equipment	45,573	9,366	36,207	14,286	3,383	10,903
Vehicles	8,472	2,363	6,109	2,632	728	1,904
Furniture and office equipment	64,837	5,332	59,505	1,817	418	1,399
Computer equipment and software	1,971	482	1,489	750	197	553
	$ 158,489	$ 23,697	$ 134,792	$ 32,742	$ 7,750	$ 24,992

At December 31, 2006 the Company recorded an impairment charge against property, plant and equipment as disclosed in Note 19.

8. ASSETS UNDER CONSTRUCTION

	2006	2005
São Francisco *(i)*	$ –	$ 64,996
Chapada *(ii)*	224,650	93,721
	$ 224,650	$ 158,717

(i) Construction costs, net of preproduction revenues were transferred to property, plant and equipment and mineral properties as of August 1, 2006, upon commencement of commercial production.

(ii) Net interest capitalized during the year was $4.6 million (December 31, 2005 - $6.7 million). Amortization of deferred financing fees capitalized during the year was $0.6 million (December 31, 2005 - $1.1 million).

9. MINERAL PROPERTIES

	2006			2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Fazenda Brasileiro	$ 41,115	$ 9,896	$ 31,219	$ 30,711	$ 5,843	$ 24,868
Santa Elina Properties	59,118	3,438	55,680	26,407	2,116	24,291
Chapada	34,276	–	34,276	11,747	–	11,747
San Andrés	42,964	3,809	39,155	–	–	–
Jacobina	678,555	8,891	669,664	–	–	–
Gualcamayo	664,221	–	664,221	–	–	–
Other	2,521	4	2,517	600	–	600
	$ 1,522,770	$ 26,038	$ 1,496,732	$ 69,465	$ 7,959	$ 61,506

At December 31, 2006 the Company recorded an impairment charge against mineral properties as disclosed in Note 19.

10. INVESTMENTS

Investments consist of portfolio investments recorded at cost. The quoted market value as at December 31, 2006 was approximately $23.8 million (December 31, 2004 - $2.2 million).

	2006			2005		
	% Ownership	Cost	Fair Market Value	% Ownership	Cost	Fair Market Value
Glencairn Gold Corp., common shares and share purchase warrants	14.1%	$ 25,325	$ 20,194	2.5%	$ 2,259	$ 2,200
Other	–	2,997	3,602	–	–	–
	–	$ 28,322	$ 23,796	–	$ 2,259	$ 2,200

11. LOAN RECEIVABLE

In connection with the acquisition of RNC Gold Inc. and the purchase of 100% of the San Andrés Gold Mine in Honduras, the Company entered into a credit agreement in 2005 whereby the Company made a senior secured loan to a wholly owned subsidiary of RNC Gold Inc. in the amount of $18.9 million. The loan was used primarily to fund the purchase of 75% of the outstanding capital of Minerales de Occidente S.A., the 100% owner of the San Andrés Gold Mine. In February 2006, the Company acquired 100% of RNC Gold Inc. (as described in Note 4).

12. OTHER ASSETS

	2006	2005
Long-term tax credits *(i)*	$ 28,906	$ 8,864
Hidefield consideration *(ii)*	938	–
Deferred financing charges *(iii) (iv)*	3,562	10,138
Other	1,046	1,389
Restricted cash	–	583
	$ 34,452	$ 20,974

(i) Long-term tax credits consist of Brazilian and Argentinean sales taxes which are recoverable against other taxes payable and value added tax credits.

(ii) Amount represents royalty and deferred consideration receivable on sale of the Company's Argentina assets (Note 5(a)).

(iii) On May 5, 2006, the Company repaid its $100 million debt facility and expensed the unamortized portion of the deferred financing charges through to December 31, 2005 totaling $9.8 million as disclosed in Note 13.

(iv) In December 2006 the Company finalized an agreement establishing a revolving line of credit in the amount of $200 million. Deferred financing charges will be amortized over the life of the agreement.

13. NOTES PAYABLE

On May 5, 2006, the Company repaid its $100 million debt facility plus accrued interest of $11.4 million relating to the development and construction of the Chapada copper-gold project. Under the terms of the facility, the loan was not payable until maturity although the Company had the option to repay the loan after three years.

Together with accrued interest and early repayment penalties of $15 million, the Company paid $116.4 million in cash and issued 4.9 million share purchase warrants at a strike price of C$19.08, valued at $13.1 million, based on a Black-Scholes option pricing model using 35% volatility in the price of common shares in capital of the Company. These warrants are exercisable for a term of five years.

The unamortized deferred financing costs in respect of these notes and the early repayment fee totaling $24.8 million were expensed in the second quarter of 2006.

14. LONG-TERM LIABILITIES

	2006	2005
Silicosis liability *(i) (Also see Note 28(b))*	$ 17,022	$ –
Suppliers credit facilities *(ii)*	1,327	–
Other *(iii)*	627	–
	18,976	–
Less: current portion	1,927	–
Long-term portion	$ 17,049	$ –

(i) The silicosis liability consists of amounts provided to settle claims by former employees of Jacobina Mineração e Commercio Ltda ("JMC"), relating to silicosis. An amount of $17.0 million has been accrued as at December 31, 2006 for all known or anticipated future obligations related to these health related claims as well as outstanding legal claims against JMC relating to silicosis that have not yet been heard by the appropriate Brazilian court.

(ii) The Company has entered into supplier financing contracts for certain mining equipment acquired for use at the Jacobina Mine and at the Morro do Vento development project. These supplier credit facilities are denominated in US dollars, bear interest at the US dollar swap rate applicable at the time of delivery plus 5.75% to 4.30%, are repayable in quarterly installments, are collateralized by security over the particular asset financed and mature at various dates through December 1, 2007.

(iii) As a result of privatization of Hemco Concessions, RNC Gold Inc. (an acquired company) had assumed an interest bearing liability to Corporaciones Nationales del Sector Publico ("CORNAP"), a Nicaraguan government body. This remains an obligation of the Company after the sale of the La Libertad Mine as disclosed in Note 5 (b).

The liability had been restructured by RNC Gold Inc. in May 2005 and interest associated with the liability was relieved. As of December 31, 2006, the outstanding principal balance was $0.6 million to be repaid in bi-monthly installments of $0.1 million.

15. ASSET RETIREMENT OBLIGATIONS

The asset retirement obligations relate to reclamation and closure costs relating to the Company's mine operations and projects under development. The asset retirement obligations are calculated as the net present value of estimated future cash flows which total $18.7 million and are required to satisfy the obligations discounted using a credit adjusted risk-free rate of 7%. The settlement of the obligations will occur through to 2024. Reclamation and closure costs of the mines and projects are incurred in Brazilian Reais and Honduran Lempira and are thus subject to translation gains and losses from one reporting period to the next in accordance with the Company's accounting policy for foreign currency translation of monetary items.

The following is an analysis of the asset retirement obligations:

	2006	2005
Balance, beginning of period	$ 8,012	$ 4,972
Accretion incurred in the current period	636	358
Reclamation obligations assumed on acquisitions	4,699	–
Additions to site reclamation during the period	5,013	3,422
Reduction of estimated liabilities	–	(999)
Foreign exchange loss	718	568
Expenditures during the current period	(358)	(309)
Balance, end of period	$ 18,720	$ 8,012

16. CAPITAL STOCK

(a) Common shares issued and outstanding:

	2006		2005	
	Number of Common shares	Amount	Number of Common shares	Amount
Balance, beginning of period	191,342	$ 310,409	122,287	$ 147,407
Exercise of options and share appreciation rights *(i)*	9,634	55,440	1,282	1,973
Exercise of warrants *(ii)*	5,906	27,154	11	55
Issued for the acquisition of RNC Gold Inc. *(Note 4)*	4,910	25,494	–	–
Issued for the acquisition of RNC (Honduras) Limited *(Note 4)*	872	4,528	–	–
Issued in settlement of amounts payable	139	1,163	–	–
Public offering, net of issue costs of $9.7 million (2005 - $5.6 million)	17,400	170,030	26,000	105,289
Issued for the acquisition of Desert Sun Mining Corp. *(Note 4)*	63,920	536,214	–	–
Issued for the acquisition of Viceroy Exploration Ltd. *(Note 4)*	50,172	486,835	–	–
Shares issued as compensation *(iii)*	300	2,583	–	–
Shares issued pursuant to an early exercise of publicly traded warrants, net of costs	–	–	41,286	55,554
Shares issued pursuant to an exchange of publicly traded warrants	–	–	476	131
Balance, end of period	344,595	$ 1,619,850	191,342	$ 310,409

(i) During the year ended December 31, 2006, the Company issued 9.6 million shares to optionees on the exercise of their share options and appreciation rights for cash proceeds of $22.1 million. Previously recognized stock-based compensation in the amount of $33.3 million on the options exercised was added to share capital with a corresponding decrease to contributed surplus.

(ii) During the year ended December 31, 2006, the Company issued 5.9 million shares to warrant holders on the exercise of their warrants for cash proceeds of $24.1 million. An amount of $6.1 million was added to share capital with a corresponding decrease to warrants with respect to these exercises. As part of the debt repayment agreement new warrants were issued to the debt holder, the value of which ($3.1 million) was netted against the proceeds received for the warrants exercised by the debt holder.

(iii) On June 23, 2006, the Board of Directors issued 300,000 common shares to employees of the Company as approved by the shareholders on May 2, 2006.

(b) Shares to be issued

At December 31, 2006 there were 4.4 million shares to be issued in connection with the acquisition of Viceroy Exploration Ltd. (Note 4).

(c) Contributed surplus

	2006	2005
Balance, beginning of period	$ 4,676	$ 1,775
Transfer of stock-based compensation on the exercise of stock options and share appreciation rights	(1,761)	(324)
Expiry of share purchase warrants	2	927
Stock-based compensation on stock options granted *(Note 18)*	38,516	2,298
Value of options issued on the acquisition of RNC Gold Inc. *(Note 4)*	264	–
Value of options issued on the acquisition of Desert Sun Mining Corp. *(Note 4)*	30,771	–
Value of options issued on the acquisition of Viceroy Exploration Ltd. *(Note 4)*	23,006	–
Transfer of value of options on the exercise of options held by former RNC, DSM and Viceroy option holders	(31,519)	–
Transfer of value on the exercise of options included in Shares to be issued	(2,377)	–
Balance, end of period	$ 61,578	$ 4,676

(d) Weighted average number of common shares and dilutive common share equivalents

	2006	2005	2004 *(10 months)*
Weighted average number of common shares	276,617	144,888	100,036
Weighted average number of dilutive warrants	–	–	22,347
Weighted average number of dilutive stock options	–	–	2,622
Diluted weighted average number of common shares	276,617	144,888	125,005

Share purchase warrants (Note 17) and stock options (Note 18) outstanding as at December 31, 2006 and 2005 are anti-dilutive and have not been taken into account in calculating diluted weighted average number of shares.

17. SHARE PURCHASE WARRANTS

A summary of issued share purchase warrants as at the period end and the changes thereof during the period are as follows:

	2006			2005		
	Number of Warrants *(000's)*	Weighted Average Exercise Price *(Cdn$)*	Amount	Number of Warrants *(000's)*	Weighted Average Exercise Price *(Cdn$)*	Amount
Outstanding, beginning of period	**5,308**	**$ 4.43**	**$ 3,737**	43,434	$ 1.78	$ 10,864
Issued	**19,893**	**8.49**	**87,622**	2,500	4.70	1,374
Expired and exercised *(i)*	**(8,311)**	**5.56**	**(18,355)**	(40,626)	1.51	(8,501)
Outstanding and exercisable, end of period	**16,890**	**$ 8.66**	**$ 73,004**	5,308	$ 4.43	$ 3,737

	2004 *(10 months)*		
	Number of Warrants *(000's)*	Weighted Average Exercise Price *(Cdn$)*	Amount
Outstanding, beginning of period	41,431	$ 1.59	$ 8,722
Issued	2,500	4.05	2,142
Expired and exercised	(497)	5.88	–
Outstanding and exercisable, end of period	43,434	$ 1.78	10,864

(i) Of this amount 1.7 million ($12.2 million) shares were issued subsequent to the year end and are presented as shares to be issued as at December 31, 2006.

The fair value of the issued warrants has been valued using a Black-Scholes pricing model at $87.6 million. These values were determined based on an option pricing model with the following assumptions:

	2006	2005	2004 *(10 months)*
Dividend yield	**0%**	0%	0%
Expected volatility	**35%-41%**	34%	46%
Risk-free interest rate	**3.92%-4.33%**	3.4%	3%
Expected life	**1-5 years**	5 years	5 years
Forfeitures	**Nil**	Nil	Nil

The Company had the following share purchase warrants outstanding as at December 31, 2006:

Exercise Price *(Cdn$)*	**Number of Warrants Outstanding** *(000's)*	**Weighted Average Remaining Contractual Life** *(Years)*
$ 19.08	4,885	4.35
$ 10.42	478	3.22
$ 4.17	11,525	1.89
$ 2.09	2	0.52
$ 8.66	16,890	2.64

18. STOCK OPTIONS

Yamana's Share Incentive Plan is designed to advance the interests of the Company by encouraging employees, officers, directors and consultants to have equity participation in the Company through the acquisition of common shares. The Share Incentive Plan is comprised of a share option component and a share bonus component. The aggregate maximum number of common shares that may be reserved for issuance under the Share Incentive Plan is 24.9 million (December 31, 2005 - 9.5 million; December 31, 2004 - 9.5 million). Pursuant to the share bonus component of the Share Incentive Plan, common shares may be issued as a discretionary bonus to employees, officers, directors and consultants of the Company. Options granted under the share option component of the Share Incentive Plan have an exercise price of not less than the closing price of the common shares on the Toronto Stock Exchange ("TSX") on the trading day immediately preceding the date on which the options are granted and are exercisable for a period not to exceed ten years.

The Share Incentive Plan also provides for the granting of share appreciation rights to optionees. An optionee is entitled to elect to terminate his or her option, in whole or part, and, in lieu of receiving the common shares to which their terminated option relates, to receive that number of common shares, disregarding fractions which, when multiplied by the fair value of the common shares to which their terminated option relates, has a total value equal to the product of the number of such common shares times the difference between the fair value and the option price per share of such common shares, less any amount required to be withheld on account of income taxes.

The Company has expensed the value of the share purchase options granted during the year as compensation expense in the amount of $38.5 million (2005 - $2.3 million; 2004 - $2.2 million) with a corresponding increase in contributed surplus. Yamana has accounted for all stock-based payments granted since March 1, 2002 to employees and non-employees using the fair value based method of accounting. The fair value is estimated at the time of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2006	2005	2004 *(10 months)*
Dividend yield	**0%**	0%	0%
Expected volatility	**35%/41%**	34%	50.5%
Risk-free interest rate	**3.97%/4.44%**	3.4%	3.5%
Expected life	**3 years**	3 years	3 years
Forfeitures	**Nil**	Nil	Nil

A summary of the stock options issued to acquire common shares under the Company's Share Incentive Plan as at the period end and the changes thereof during the period is as follows:

	2006		2005		2004 *(10 months)*	
	Number of Options *(000's)*	**Weighted Average Exercise Price** *(Cdn$)*	Number of Options *(000's)*	Weighted Average Exercise Price *(Cdn$)*	Number of Options *(000's)*	Weighted Average Exercise Price *(Cdn$)*
Outstanding, beginning of period	**7,954**	**$ 2.67**	6,660	$ 2.04	5,453	$ 1.73
Issued *(i)*	**18,302**	**6.82**	2,785	3.78	1,250	3.38
Exercised	**(9,940)**	**2.58**	(1,485)	1.97	(41)	2.25
Expired and cancelled	**(189)**	**15.61**	(6)	2.93	(2)	2.93
Outstanding, end of period	**16,127**	**$ 7.27**	7,954	$ 2.67	6,660	$ 2.04
Exercisable, end of period	**15,928**	**$ 7.23**	7,954	$ 2.67	6,535	$ 2.03

(i) Stock options issued by the Company during 2006 are as follows: Yamana employee stock option plan, 9.2 million; issued to former option holders of RNC Gold Inc. at time of acquisition, 0.4 million; issued to former option holders of Desert Sun Mining Corp. at time of acquisition, 5.0 million; and issued to former option holders of Viceroy Exploration Ltd. at time of acquisition, 3.7 million.

Stock options outstanding and excercisable as at December 31, 2006 are as follows:

Exercise Price *(Cdn$)*	**Quantity Outstanding** *(000's)*	**Weighted Average Remaining Contractual Life** *(Years)*	**Quantity Exercisable** *(000's)*	**Weighted Average Remaining Contractual Life** *(Years)*
$ 25.00	1	2.01	1	2.01
$ 10.00 to 15.00	935	4.34	848	4.29
$ 5.00 to 9.99	9,831	4.07	9,718	4.06
$ 4.00 to 4.99	116	3.74	117	3.74
$ 3.00 to 3.99	2,778	7.21	2,778	7.21
$ 2.00 to 2.99	940	2.25	940	2.25
$ 1.00 to 1.99	1,526	4.45	1,526	4.45
	16,127	4.55	15,928	4.55

19. LOSS ON THE IMPAIRMENT OF THE FAZENDA NOVA MINE

As a result of its review of carrying values compared to undiscounted future net cash flows, the Company has taken an impairment charge of $3.7 million against the Fazenda Nova Mine, one of its mines located in Brazil. Future cash flows are based on management's estimate of the operating results of the mine together with their estimate of the resale value of assets at the end of life of the mine. The life of the mine has been shortened as a consequence of a revised estimate of the proven and probable reserves.

Asset categories impacted are as follows:

	Impairment amount
Inventory	$ 474
Property, plant and equipment	1,207
Mineral properties	1,994
Impairment charge	$ 3,675

20. INTEREST AND FINANCING EXPENSE

During the year the Company expensed the following:

	2006	2005
Debt repayment expense	$ 24,750	$ –
Interest on derivative options	2,720	–
Other	1,376	94
Total	$ 28,846	$ 94

21. INCOME TAXES

(a) Income tax expense

The following table reconciles income taxes calculated at statutory rates with the income tax expense in these financial statements:

	2006	2005	2004 *(10 months)*
(Loss) earnings before income taxes	$ (95,202)	$ (8,435)	$ 4,600
Canadian statutory tax rate	36.12%	36.12%	36.12%
Expected income tax (recovery) expense	$ (34,387)	$ (3,047)	$ 1,662
Impact of lower foreign tax rates	(161)	(883)	(154)
Impact of changes in tax legislation	137	–	–
Permanent differences	16,792	1,935	19
Non-taxable items	(7,929)	(550)	106
Change in valuation allowance	(5,832)	(4,297)	184
Foreign exchange	7,825	2,518	–
Other	(1,484)	–	–
Income tax (recovery) expense	$ (25,039)	$ (4,324)	$ 1,817
Represented by:			
Current income tax expense	$ 6,038	$ 123	$ 1,387
Future Income tax (recovery) expense	(31,077)	(4,447)	430
Net income tax (recovery) expense	$ (25,039)	$ (4,324)	$ 1,817

(b) Future income taxes

The temporary differences that give rise to future income tax assets relating to Canada, United States and Brazil are presented below:

Future Income Tax Assets	2006	2005
Amounts related to tax losses	$ 30,780	$ 13,563
Financing costs	10,535	3,979
Asset retirement obligation	403	733
Derivative liability	16,329	–
Mineral properties and property, plant and equipment	3,965	–
Unrealized foreign exchange losses	3,053	–
Other	713	–
Gross future income tax assets	$ 65,778	$ 18,275
Less: Valuation allowance	(11,994)	(8,965)
Net future income tax assets	$ 53,784	$ 9,310

The temporary differences that give rise to future income tax liabilities relating to Brazil are presented below:

Future Income Tax Liabilities	2006	2005
Mineral properties and property, plant and equipment	$ (314,178)	$ (2,431)
Unrealized foreign exchange gains on intercompany loans	(12,588)	(2,816)
Business development expenses	(1,448)	–
Other	(158)	(424)
Future income tax liabilities	$ (328,372)	$ (5,671)
Net future income tax assets (liabilities)	$ (274,588)	$ 3,639

(c) Non-capital losses

The Company has non-capital losses of approximately $40 million available to apply against future taxable income as follows:

		Local Currency	US Dollar Equivalent	Expiry Date
Canada	Cdn	$ 11,826	$ 10,149	2007 to 2026
United States	US	$ 1,100	$ 1,100	2013 to 2025
Brazil	R	$ 42,561	$ 19,935	Unlimited subject to 30% of taxable income for each subsequent year

22. REVOLVING LINE OF CREDIT

Effective December 15, 2006, Yamana entered into a US$200 million revolving credit facility with a syndicate of banks. The credit facility, which is secured by a share pledge of certain of Yamana's operating subsidiaries, matures in 2011 and includes a $100 million reduction in availability in the last year. Amounts drawn under the facility bear an interest rate of LIBOR plus 1.10% to 1.84% per annum depending on the Company's debt to Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio. Undrawn amounts are subject to a commitment fee of 0.375% to 0.631% per annum dependant on the Company's debt to EBITDA ratio. As at December 31, 2006, Yamana had not drawn any amounts under the facility.

23. SUPPLEMENTARY CASH FLOW INFORMATION

(a) Supplementary information regarding other non-cash transactions:

	2006	2005	2004 (10 months)
Transfer of contributed surplus on the exercise of stock options and share appreciation rights	$ (33,281)	$ (324)	$ (28)
Amortization of deferred financing fees	$ 618	$ 1,058	$ –
Deferred financing charges on the issue of warrants	$ –	$ 1,374	$ 2,142
Accrued interest capitalized to assets under construction	$ 4,556	$ 6,847	$ –
Issue of share purchase warrants in settlement of Notes Payable *(Note 13)*	$ 13,111	$ –	$ –
Issue of shares in settlement of amounts payable	$ 1,163	$ –	$ –
Issue of shares on the business acquisitions *(Note 4)*	$ 1,053,071	$ –	$ –
Contributed surplus recognized on the issue of stock options on the business acquisitions *(Note 4)*	$ 54,041	$ –	$ –
Share purchase warrants recognized on the issue of warrants on the business acquisitions *(Note 4)*	$ 74,511	$ –	$ –
Common shares received as consideration of assets sold during the year	$ 20,800	$ –	$ –
Expired warrants	$ 2	$ 927	$ –

(b) Net change in non-cash working capital:

	2006	2005	2004 (10 months)
Interest paid during the period	$ 13,270	$ 1,363	$ 406
Income taxes paid during the period	$ 1,804	$ 464	$ 2,052

(c) Net change in non-cash working capital:

	2006	2005	2004 (10 months)
Net (increase) decrease in			
Accounts receivable, advances and deposits	$ (24,120)	$ (2,916)	$ (938)
Inventory	(44,271)	(5,491)	(2,014)
Income taxes recoverable	(987)	(1,261)	–
Net increase in accounts payable and accrued liabilities (net of accounts payable relating to assets under construction)	25,992	6,633	2,195
	$ (43,386)	$ (3,035)	$ (757)

Changes in non-cash working capital items are net of working capital items related to assets under construction and working capital items acquired and disposed of during the period.

24. SEGMENTED INFORMATION

The Company considers its business to consist of geographical segments primarily in Brazil, Central America, Argentina and its corporate head office in Canada. The Company's operating segments are Brazil, Central America and Canada (which is solely comprised of corporate and administrative activities).

Capital assets referred to below consist of land, buildings, equipment, mineral properties, exploration costs and assets under construction and goodwill.

2006	Brazil	Central America	Argentina	Canada	Less: Assets Sold (Note 3)	Total
Capital Assets	$ 1,197,582	$ 45,719	$ 667,115	$ 758	$ –	$ 1,911,174
Total Assets	$ 1,366,585	$ 57,288	$ 676,399	$ 80,920	$ –	$ 2,181,192
Sales	$ 135,869	$ 33,337	$ –	$ –	$ –	$ 169,206
Capital expenditures	$ 209,341	$ 5,637	$ 3,599	$ 724	$ –	$ 219,301

2005	Brazil	Central America	Argentina	Canada	Less: Assets Held for Sale (Note 3)	Total
Capital Assets	$ 245,015	$ –	$ 5,667	$ 200	$ (5,667)	$ 245,215
Total Assets	$ 324,073	$ –	$ 5,667	$ 144,373	$ (5,667)	$ 468,446
Sales	$ 46,038	$ –	$ –	$ –	$ –	$ 46,038
Capital expenditures	$ 160,854	$ –	$ –	$ 128	$ –	$ 160,982

2004	Brazil	Central America	Argentina	Canada	Less: Assets Sold (Note 3)	Total
Sales	$ 32,298	$ –	$ –	$ –	$ –	$ 32,298
Capital expenditures	$ 26,532	$ –	$ –	$ 24	$ –	$ 26,556

Reconciliation of Segment Income

2006	Brazil	Central America	Total
Revenue	$ 135,869	$ 33,337	$ 169,206
Cost of sales	(79,929)	(20,075)	(100,004)
Depreciation, amortization and depletion	(28,693)	(4,817)	(33,510)
Accretion of asset retirement obligation	(534)	(102)	(636)
Mine based general and administrative	(3,087)	–	(3,087)
Segment Income	$ 23,626	$ 8,343	$ 31,969
General and administrative			(21,263)
Foreign exchange gain (loss)			343
Loss on impairment of the Fazenda Nova Mine *(Note 19)*			(3,675)
Stock-based compensation *(Note 18)*			(41,099)
Operating loss			(33,725)
Investment and other business income			5,328
Interest and financing expense			(28,846)
Unrealized loss on commodity contracts			(35,773)
Loss arising from assets held for sale *(Note 5)*			(2,186)
Loss before income taxes			$ (95,202)

Prior to 2006 the Company's Brazilian operations represented the Company's sole operating segment.

25. CONTRACTUAL COMMITMENTS

In addition to commitments otherwise reported in these financial statements the Company is contractually committed to the following as at December 31, 2006:

Year	2007	2008	2009	2010	2011 and thereafter	Total
Mine operating and service contracts:						
Fazenda Brasileiro	$ 3,120	$ 476	$ 20	$ –	$ –	$ 3,616
Fazenda Nova	6,788	2,512	1,736	723	–	11,759
Chapada	13,223	6,836	2,675	–	–	22,734
São Francisco	8,767	948	392	392	1,569	12,068
Jacobina	18,642	3,622	189	–	–	22,453
Gualcamayo	7,122	99	–	–	–	7,221
Other	1,921	521	520	520	157	3,639
	$ 59,583	$ 15,014	$ 5,532	$ 1,635	$ 1,726	$ 83,490

26. FINANCIAL INSTRUMENTS

(a) Fair value of financial instruments

The carrying value of cash and cash equivalents, receivables, advances and deposits, accounts payable and income taxes payable (recoverable) approximate their fair values due to the relatively short-term maturities of these instruments. There were no material differences between the book value and fair value of long-term liabilities.

Non-hedging derivative instruments are recorded at fair value. Fair value of derivative instruments are based on quoted market prices for similar instruments and on market closing prices at period end. The Company recorded a mark-to-market loss of $35.8 million (December 31, 2005 - $8.6 million; for the ten month period ended December 31, 2004 - $Nil) on commodity contracts for the year.

The following table summarizes the components of derivative related liabilities:

	2006	2005
Forward Contracts	$ (77,360)	$ (13,355)
Long-call option contracts	81,920	9,097
Option premium	(48,983)	(4,357)
	$ (44,423)	$ (8,615)

The following table summarizes derivative gains (losses) and related future income taxes:

	2006	2005	2004 *(10 months)*
Forward Contracts	$ (64,005)	$ (13,355)	$ –
Long-call option contracts	72,823	9,097	–
Option premium	(44,591)	(4,357)	–
	$ (35,773)	$ (8,615)	$ –
Future income tax - 36.12%	12,921	3,112	–
	$ (22,852)	$ (5,503)	$ –

(b) Currency risk

The Company' sales are predominately denominated in US dollars. The Company is primarily exposed to currency fluctuations relative to the US dollar as a significant portion of the Company's operating costs and capital expenditures are denominated in foreign currencies. Monetary assets denominated in foreign currencies are also exposed to foreign currency fluctuations. These potential currency fluctuations could have a significant impact on production costs and thereby the profitability of the Company. In 2006 the Company acquired a currency hedge put in place by Desert Sun Mining Corp. for sales by Jacobina, its mine in Brazil. The pre-tax gain was $33,500. The Company had no currency contracts outstanding at December 31, 2006.

(c) Commodity price risk

The profitability of the Company is directly related to the market price of gold. As of December 31, 2006, the Company had not hedged its exposure to the price of gold. With the construction of the Company's Chapada copper - gold mine which commenced commercial production in early 2007, the Company will also be exposed to fluctuations in the price of copper. During the current and prior year, the Company entered into a combination of forward and call option contracts to economically hedge against the risk of declining copper prices for a portion of its forecast copper concentrate sales. The copper economic hedging program now in place provides a forward price of $1.37 per pound of copper for a total of 50.2 million pounds of copper in 2007 and a forward price of $2.75 per pound of copper for a total of 90 million pounds in 2008. The program includes long call options at an average strike price of approximately $1.67 per pound of copper on the 2007 hedge and an average strike price of approximately $3.25 per pound of copper on the 2008 hedge thereby permitting the Company to participate in price increases in the event that copper prices exceed the strike price of the options. The program requires no cash margin, collateral or other security from the Company.

27. SUBSEQUENT EVENTS

Subsequent to year end the Company has entered into forward contracts to economically hedge against the risk of an increase in the value of the Real versus the US dollar as the majority of the Company's operating costs are denominated in Reais and its revenues are in US dollars. These contracts fix the rate of exchange for the sale of approximately 280 million Reais at an average exchange rate of 2.316 Real to the US Dollar. These contracts are based on projected monthly sales beginning in February 2007 through to February 2010.

28. CONTINGENCIES

(a) A sales tax audit was completed by Brazilian state tax authorities which could result in a liability, including penalties or a potential loss of recoverable Brazilian sales tax credits, that have been recorded as receivables, of approximately $1.3 million including penalties that have been recorded as receivables. The Company has not recorded the potential negative impact of the results of the sales tax audit as at December 31, 2006 as it is the Company's view that the total amount of sales tax credits is recoverable. The Company is currently undergoing an appeal process and while it is not possible to determine the ultimate outcome of such process at this time, the Company believes that the ultimate resolution will not have a material effect on the Company's financial condition or results of operation.

(b) The Company has a contingent liability to settle health related claims by former employees of Jacobina Mineraçao e Commercio Ltda ("JMC"). The Company estimates this contingency to be $17 million which has been accrued as at December 31, 2006. The Company will continue to monitor the issue in the future. Adjustments, if any, will be recorded if circumstances change or the matter is settled.

29. COMPARATIVE FIGURES

Certain of prior year's figures have been reclassified to conform with the current period's presentation. The Company has reclassified $2.7 million from future income tax assets to future income tax liabilities as at December 31, 2005 and the Company reclassified $4.4 million of inventory to assets under construction as at December 31, 2005.

30. SUMMARY OF PRINCIPAL DIFFERENCES BETWEEN CANADIAN GAAP AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP")

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). Material variations in the accounting principles, practices and methods used in preparing these consolidated financial statements from principles, practices and methods accepted by United States of America generally accepted accounting principles (US GAAP) are described and quantified below.

The impact of US GAAP on the consolidated income statements is as follows:

	December 31, 2006	December 31, 2005	December 31, 2004 *(10 months)*
OPERATIONS			
Net earnings (loss) - Canadian GAAP	$ (70,163)	$ (4,111)	$ 2,783
Adjustment for depreciation, amortization and depletion *(i)*	(4,099)	(1,420)	(1,091)
Write-off of deferred mineral property costs *(i)*	(20,691)	(11,583)	(2,434)
Stock-based compensation expense *(iv)*	–	–	(630)
Pre-operating costs *(ii)*	878	(331)	(439)
	(94,075)	(17,445)	(1,811)
Tax effect of reconciling items	6,003	4,534	1,175
Net loss attributable to common shareholders under US GAAP	$ (88,072)	$ (12,911)	$ (636)
Basic and diluted loss per share under US GAAP	(0.32)	(0.09)	(0.01)
Weighted average number of shares outstanding under US GAAP	276,617	144,888	100,036

The impact of US GAAP on the consolidated balance sheets is as follows:

	December 31, 2006	December 31, 2005	December 31, 2004 *(10 months)*
ASSETS			
Total assets under Canadian GAAP	$ 2,181,192	$ 468,446	$ 177,106
Write-off deferred mineral property costs *(i)*	(40,630)	(19,939)	(8,356)
Adjustment to mineral properties	(7,404)	(4,352)	(2,524)
Adjustment to inventory	(36)	134	57
Adjustment to investments	(4,526)	–	–
Future income tax assets	10,609	4,606	–
Total assets under US GAAP	$ 2,139,205	$ 448,895	$ 166,283
LIABILITIES			
Total liabilities under Canadian GAAP	$ 464,602	$ 153,472	$ 16,797
Future income tax liabilities	(2,922)	(2,922)	(2,994)
Total liabilities under US GAAP	$ 461,680	$ 150,550	$ 13,803
Shareholders' equity under Canadian GAAP	$ 1,716,590	$ 314,974	$ 160,309
Write-off of deferred mineral property costs *(i)*	(40,630)	(19,939)	(8,356)
Adjustment for depreciation, amortization and depletion *(i)*	(7,547)	(3,448)	(2,028)
Net unrealized loss on investments	(4,526)	–	–
Write-off of pre-operating costs *(ii)*	108	(770)	(439)
Future income taxes	13,530	7,528	2,994
Shareholders' equity under US GAAP	$ 1,677,525	$ 298,345	$ 152,480
Total liabilities and shareholders' equity under US GAAP	$ 2,139,205	$ 448,895	$ 166,283

The components of Shareholders' equity under US GAAP would be as follows:

	December 31, 2006	December 31, 2005	December 31, 2004 *(10 months)*
SHAREHOLDERS' EQUITY			
Shareholders' equity:			
Common shares	$ 1,619,850	$ 310,263	$ 147,261
Shares to be issued	42,492	–	–
Additional paid-in capital	129,215	9,410	13,636
Accumulated other comprehensive loss	(4,632)	–	–
Deficit	(109,400)	(21,328)	(8,417)
Total Shareholders' equity	$ 1,677,525	$ 298,345	$ 152,480

The impact of US GAAP on the consolidated cash flows is as follows:

	December 31, 2006	December 31, 2005	December 31, 2004 *(10 months)*
CASH FLOWS			
Cash flows from operating activities per Canadian GAAP	$ (3,215)	$ 3,410	$ 8,536
Write-off of deferred mineral property costs *(i)*	(19,813)	(11,914)	(2,873)
Cash flows from operating activities per US GAAP	$ (23,028)	$ (8,504)	$ 5,663
Cash flows from financing activities per US GAAP	$ 97,212	$ 250,469	$ 68,882
Cash flows from investing activities per Canadian GAAP	$ (179,029)	$ (192,552)	$ (27,087)
Write-off of deferred mineral property costs *(i)*	19,813	11,914	2,873
Cash flows from investing activities per US GAAP	$ (159,216)	$ (180,638)	$ (24,214)

(i) Mineral properties

Under Canadian GAAP, resource property acquisition costs and exploration costs may be deferred and amortized to the extent they meet certain criteria. Capitalized costs under Canadian GAAP are amortized on a unit-of-production basis based on proven, probable and possible reserves.

Under US GAAP, acquisition costs and exploration costs must be expensed as incurred unless the resource properties have proven and probable reserves at which time costs incurred to bring the mine into production are capitalized as development costs. Capitalized costs are then amortized on a unit-of-production basis based on proven and probable reserves. An additional depletion and exploration expense is required to be recognized under US GAAP. For the purposes of the consolidated statements of cash flows, these costs are classified as cash used in investing activities under Canadian GAAP and cash used in operations under US GAAP.

(ii) Pre-operating costs

US GAAP requires pre-operating costs to be expensed as incurred. Canadian GAAP allows pre-operating costs to be capitalized until commercial production is established.

(iii) Income taxes

Under Canadian GAAP, future income taxes are calculated based on enacted or substantively enacted tax rates applicable to future years. Under US GAAP, only enacted rates are used in the calculation of future income taxes. This difference in GAAP did not result in a difference in the financial position, results of operations or cash flows of the Company for the periods ended December 31, 2006, December 31, 2005 or December 31, 2004.

(iv) Stock-based compensation

The Company has adopted the fair value method to account for stock-based transactions with employees and non-employees with effect from March 1, 2002 in accordance with the provisions of SFAS No. 148 and Canadian Institute of Chartered Accountants Handbook Section 3870. Under FIN No. 44 the measurement of stock-based compensation recognized in the period ended December 31, 2004 relating to the 808,000 shares issued would be measured at the date of final approval by the shareholders, with the result of increasing stock compensation expense by $630,000 for the 10-month period ended December 31, 2004. Effective January 1, 2006 the Company adopted FAS 123(R). The adoption of this standard had no impact on the Company.

(v) Investments

Under US GAAP, items such as unrealized gains and losses on investments classified as available for sale are required to be shown separately in the derivation of comprehensive income. Under US GAAP, investments classified as available for sale are carried at the quoted market values. Under Canadian GAAP gains and losses on marketable equity securities are noted in the footnotes and recognized in the statement of operations only when the investment is sold.

(vi) Comprehensive Loss

In May 1993, the FASB issued SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("SFAS No. 115"). Under SFAS No. 115, management determines the appropriate classification of investments in debt and equity securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Under SFAS No. 115, equity securities and long-term investments are classified as available-for-sale securities and accordingly, the Company is required to include the net unrealized holding gain on these securities in other comprehensive income. SFAS No. 130, *Reporting Comprehensive Income*, establishes standards for the reporting and display of comprehensive income and its components (revenue, expenses, gains and losses) in a full set of general purpose financial statements. Details would be disclosed as follows:

	December 31, 2006	December 31, 2005	December 31, 2004
COMPREHENSIVE LOSS			
Net loss attributable to common shareholders under US GAAP	**$ (88,072)**	$ (12,911)	$ (636)
Other comprehensive income (loss)			
Adjustment for unrealized loss on available for sale securities	**(4,526)**	(106)	–
Comprehensive loss under US GAAP	**$ (92,598)**	$ (13,017)	$ (636)

(vii) Pro forma information on business combination

Under US GAAP, SFAS 141, *Business Combinations*, requires disclosure of certain pro forma information when one or more business combinations are effected. The following table presents the pro forma results of operations for informational purposes, assuming that the Company had acquired Desert Sun Mining Corp., Viceroy Exploration Ltd. and RNC Gold Inc. at the beginning of 2005 and 2006.

	December 31, 2006	December 31, 2005
Revenues	**$ 197,288**	$ 88,371
Net earnings	**$ (124,376)**	$ (30,455)
Pro forma basic and diluted earnings per share	**$ (0.45)**	$ (0.21)

(viii) Impact of Recent United States Accounting Pronouncements

Recently issued United States and Canadian accounting pronouncements are outlined below.

In November 2005, the FASB issued FASB Staff Position (FSP) FAS 115-1 and FAS 124-1 - *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP FAS 115-1 and FAS 124-1 is applicable to reporting periods beginning after December 15, 2005. The adoption of this FSP had no impact on the Company's consolidated financial position and results of operations.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). This interpretation clarifies the recognition threshold and measurement of a tax position taken on a tax return, and requires expanded disclosure with respect to the uncertainty in income taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact that adoption of FIN 48 will have on its financial condition or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). This statement defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company expects that adoption of SFAS 157 will not have a material effect on its financial condition or results of operation.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans* - an amendment of FASB Statement No. 87, 88, 106 and 132R (SFAS 158). This Statement requires an employer to recognize in its statement of financial position an asset of a plan's over funded status or a liability for a plan's under funded status, measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions), and recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. The Company expects that adoption of SFAS 158 will have no impact on its financial condition or results of operations.

In February 2007, the FASB issued SFAS No.159, the *Fair Value Option for Financial Assets and Financial Liabilities* - including an amendment to FAS 115. This standard permits a company to choose to measure certain financial assets, financial liabilities and firm commitments at fair value. The standard is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact SFAS No.159 will have on its financial condition and results of operations.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108). SAB 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 permits existing public companies to record the cumulative effect of initially applying this approach in the fiscal year ending after November 15, 2006 by recording necessary correcting adjustments to the carrying values of assets and liabilities as of the beginning of that year with the offsetting adjustment recorded to the opening balance of retained earnings. The adoption of SAB 108 had no impact on the Company's financial condition and results of operations.

In July 2006, the CICA issued section 1506, *Changes in Accounting Policies and Estimates, and Errors* to replace the existing Section 1506, Accounting Changes. This section applies to fiscal years beginning on or after January 1, 2007, and is therefore effective for the Company in fiscal 2008.

In January 2005, the Canadian Institute of Chartered Accountants ("CICA") issued Section 1530, *Comprehensive Income*, Section 3251, *Equity*, Section 3855, *Financial Instruments - Recognition and Measurement* and Section 3865, *Hedges*. The new standards increase harmonization with US GAAP and will require the following:

- Financial assets will be classified as either held-to-maturity, held-for-trading or available-for-sale. Held-to-maturity classification will be restricted to fixed maturity instruments that the company intends and is able to hold to maturity and will be accounted for at amortized cost. Held-for-trading instruments will be recorded at fair value with realized and unrealized gains and losses reported in net income. The remaining financial assets will be classified as available-for-sale. These will be recorded at fair value with unrealized gains and losses reported in a new category of the Consolidated Statement of Financial Position under shareholders' equity called other comprehensive income ("OCI"); and

- Derivatives will be classified as held-for-trading unless designated as hedging instruments. All derivatives, including embedded derivatives that must be separately accounted for, will be recorded at fair value on the Consolidated Statement of Financial Position.

- For derivatives that hedge the changes in fair value of an asset or liability, changes in the derivatives' fair value will be reported in net income and be substantially offset by changes in the fair value of the hedged asset or liability attributable to the risk being hedged. For derivatives that hedge variability in cash flows, the effective portion of the changes in the derivatives' fair value will be initially recognized in OCI and the ineffective portion will be recorded in net income. The amounts temporarily recorded in OCI will subsequently be reclassified to net income in the periods when net income is affected by the variability in the cash flows of the hedged item.

- The above guidance will apply for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption will be permitted only as of the beginning of a fiscal year. The Company is currently reviewing the impact of implementing these new standards.

The Securities and Exchange Commission ("SEC") and the Financial Accounting Standards Board ("FASB") have issued recent interpretations for U.S. GAAP that suggest warrants with an exercise price that is different from the entity's functional currency cannot be classified as equity. As a result, these instruments should be treated as derivatives and recorded as liabilities which and are carried at their fair value, with changes in the fair value from period to period recorded as a gain or loss in the statement of operations. The Company's functional currency is the U.S. dollar and it has issued and outstanding warrants that have an exercise price that is denominated in Canadian dollars.

The recent SEC and FASB interpretations relate to FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* and Emerging Issue Task Force ("EITF") *EITF 00-19 Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock*. The FASB has initiated a project to determine the accounting treatment for certain equity instruments with elements of foreign currency risk. This project is expected to provide further guidance with respect to U.S. GAAP accounting for such items.

The Company is awaiting the results of the FASB's project and has therefore not recorded warrants outstanding that have an exercise price in Canadian dollars as derivatives. Accordingly the issued and outstanding warrants continue to be classified in shareholders' equity at their historical issue price. Upon the issuance of authoritative guidance from the FASB project the Company will assess the impact this may have on the consolidated financial statements and record an adjustment in accordance with the guidance provided in the FASB's project.

Corporate Information

Directors

Victor Bradley
Mining Executive
Non-Executive Chairman

Bruce Humphrey
Mining Executive

C. Nigel Lees
Mining Executive

Peter Marrone
President and CEO,
Yamana Gold Inc.

Patrick Mars
Mining Executive

Juvenal Mesquita Filho
President, Mineraçao
Santa Elina S/A

Antenor Silva
Chief Operating Officer,
Yamana Gold Inc.

Dino Titaro
Mining Executive

Management

Peter Marrone
President and
Chief Executive Officer

Antenor Silva
Chief Operating Officer

Charles B. Main
Vice President, Finance
and Chief Financial Officer

Greg McKnight
Vice President,
Business Development

Evandro Cintra
Vice President, Exploration

Daniel Kivari
Vice President, Operations

Mike Hoffman
Vice President, Special Projects

Jacqueline Jones
General Counsel and
Assistant Corporate Secretary

Betty Soares
Corporate Controller

Mark Bennett
Corporate Secretary

Executive Offices

150 York Street, Suite 1102
Toronto, Ontario, Canada
M5H 3S5

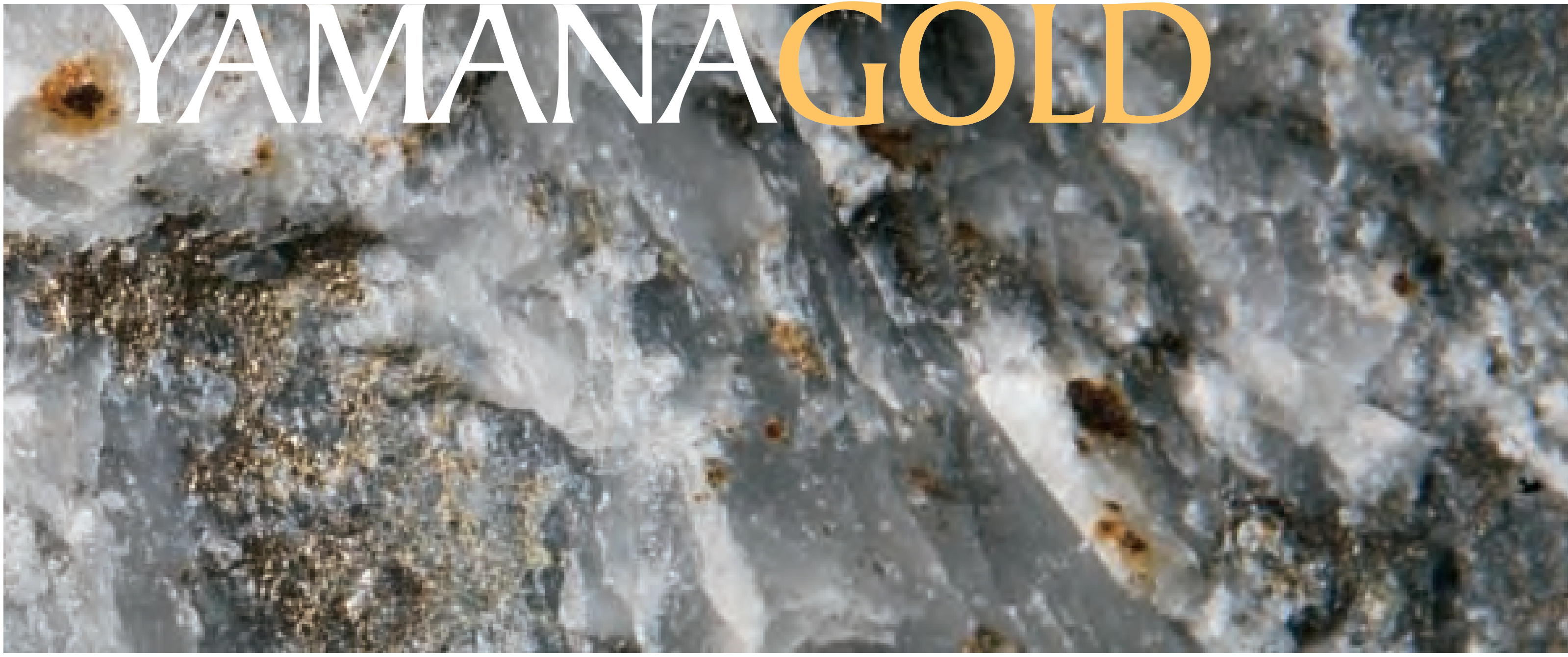
Tel: (416) 815-0220
Fax: (416) 815-0021

Rua Funchal
411 - 5° andar - conjunto 92
CEP 04551-060 - São Paulo
SP - Brazil

Tel: +55 11 2163 8300
Fax: +55 11 2163 8324

Annual General and Special Meeting

Yamana Gold Inc. will hold its Annual General and Special Meeting on Wednesday, May 2 at 11:00 am at the Four Seasons Centre for the Performing Arts located at 145 Queen St. West Toronto, Ontario, Canada. The main entrance is located at the southeast corner of Queen Street West and University Avenue



Transfer Agent

CIBC Mellon Trust Company
320 Bay Street, Box 1,
Toronto, Ontario, Canada
M5H 4A6

Auditors

Deloitte & Touche LLP
Vancouver, British Columbia,
Canada

Legal Counsel

Cassels Brock & Blackwell LLP
Toronto, Ontario, Canada

Dorsey & Whitney LLP
Toronto, Ontario, Canada

Capitalization

344,595,212 common shares
issued as of December 31, 2006

Share Listings

Toronto Stock Exchange
Symbol: YRI
New York Stock Exchange
Symbol: AUY
London Stock Exchange (AIM)
Symbol: YAU

Website

www.yamana.com

Information Contact

investor@yamana.com

Tel: (416) 815-0220

Printed in Canada using vegetable based inks on chlorine-free paper containing 30% post consumer product and which is 100% recyclable.

30% post consumer recycled

Certified EcoLogo

Production
Walter J. Mishko & Co. Inc.

Design
Goodhoofd Inc.

Photography
João Musa

www.yamana.com