YAMANA GOLD INC
Form 6-K
March 31, 2006

FORM 6-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Private Issuer

**Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934**

For the month of March 2006
Commission File Number 001-31880

Yamana Gold Inc.
(Translation of registrant's name into English)

150 York Street
Suite 1902
Toronto, Ontario M5H 3S5
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F o Form 40-F x

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ____

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ____

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-________

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

YAMANA GOLD INC.

Date: March 31, 2006

/s/ Charles Main

Name: Charles Main
Title: CFO

Management's Discussion and Analysis of Operations and Financial Condition
(US dollars, in accordance with Canadian GAAP)

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

1. Core Business

Yamana Gold Inc. is engaged in the acquisition, exploration and development, and operation of mineral properties. Revenue and cash flow from operations is currently generated from the sale of gold bullion. Future revenues and cash flows will include the sale of copper concentrate from its Chapada copper-gold mine which is currently under construction. To date, the Company's activities have been concentrated in Latin America.

2. Change in Year End

In May 2004, the year end of the Company was changed from February 28/29 to December 31. As such, the current fiscal year is for the twelve month period ended December 31, 2005 with comparative figures for the ten month period ended December 31, 2004.

3. Highlights

Significant achievements during the year include:

- Cash balance of $151.6 million as at December 31, 2005
- Cash flow from operations of $6.4 million before changes in non-cash working capital items and cash flow from operations of $3.4 million after a reduction in non-cash working capital items of $3 million
- Achieved average cash costs of $289 per ounce from its Fazenda Nova and Fazenda Brasileiro mines.
- Commenced commercial production at its Fazenda Nova Mine.
- Commenced the start-up of mine operations at its São Francisco Mine.
- Ahead of schedule with the construction of its Chapada copper-gold project.
- Raised gross proceeds of $49.6 million from the early exercise of its publicly traded warrants that otherwise would not have been available to the Company until July 2008.
- Raised $105.3 million in net proceeds from the public issue of 26 million common shares.
- Drew down on debt financing in the amount of $100 million for the construction of the Chapada copper-gold project.
- Entered into smelter off-take agreements for 150,000 tonnes of copper concentrate from its Chapada copper-gold project currently under construction.
- Initiated a copper hedging program that is intended to help secure a less than two year payback at its Chapada copper-gold project.
- Pursued the purchase of RNC Gold Inc. whereby the Company acquired two additional mines: San Andrés and La Libertad bringing total forecast gold production up to more than 500,000 ounces by 2007. The transaction was approved by RNC Gold Inc. shareholders on February 17, 2006, received court approval on February 22, 2006 and closed February 28, 2006.

· Advanced three projects through exploration to the point where they now each have the potential to become our next new mine.

· Increased proven and probable reserves by 1.2 million ounces.

· Continued drilling and the development E-Deep at the Fazenda Brasileiro Mine to further define and expand the size of the ore body.

4. Subsequent events - Acquisitions

RNC Gold Inc.

On December 4, 2005, the Company announced transactions which provided for the acquisition of RNC Gold Inc. (“RNC”) and 100% of the San Andrés gold mine in Honduras. The total purchase price for these transactions was approximately $ 52 million, comprised of approximately 5.7 million Yamana common shares (0.12 of a common share for each RNC share) and other transaction costs and adjustments. Additionally, the Company paid $ 18.9 million in cash for the purchase of the San Andrés Mine.

The addition of San Andrés in Honduras and La Libertad in Nicaragua to the Company’s existing operations will increase gold production by 120,000 per year bringing total forecast gold production to approximately 500,000 to 550,000 ounces by 2007 and up to 650,000 ounces by 2008. The Company also acquired development stage properties including Cerro Quema in Panama. The Company recorded the RNC transaction in accordance with the purchase method of accounting for acquisitions under Canadian generally accepted accounting principles. As such, assets acquired and liabilities assumed under the transaction will be recorded by the Company at their fair market values as of the date of acquisition, February 28, 2006.

Subsequent to the year end, on February 17, 2006 the shareholders of RNC Gold Inc. approved the transaction and all necessary regulatory and court approvals were obtained. The transaction closed on February 28, 2006.

Desert Sun Mining

On February 22, 2006, the Company entered into an arrangement agreement with Desert Sun Mining Corp. which owns the Jacobina gold mine in the Bahia state of Brazil near the Company’s Fazenda Brasileiro mine and its C1 Santa Luz pre-feasibility project.

The acquisition will be completed by way of a court approved Plan of Arrangement whereby each Desert Sun Mining common share will be exchanged for 0.6 of a Yamana common share. All Desert Sun Mining options and warrants will become exercisable for common shares of the Company based on the exchange ratio. As a result of the proposed transaction, the combined company would be held approximately 76% by existing Yamana shareholders and 24% by existing Desert Sun Mining shareholders. The total number of Yamana common shares outstanding would be approximately 262.1 million, calculated on a pro forma basis after giving effect to the Company’s acquisition of RNC Gold Inc.

Cash costs of the combined company are projected at $270 per ounce of gold in 2006, with $125 and $115 per ounce of gold projected for 2007 and 2008, respectively. Projected cash costs assume copper will be treated as a by-product credit.

The Company’s total measured and indicated resources based on information known at the time of announcement would comprise approximately 11.6 million ounces of measured and indicated resources including 7.6 million of proven and probable reserve gold ounces. Proven and probable copper reserves would be approximately 2.3 billion pounds. Inferred gold resources would total 6.1 million ounces.

Taking into consideration the Company's updated reserves and resources as at December 31, 2005, following the Desert Sun acquisition, the Company would have measured and indicated resources of approximately 12.1 million ounces of which 8.1 million ounces would be proven and probable. Inferred resources would total 6.4 ounces and copper reserves would be 2.35 billion pounds.

In addition to the upside in the production profile of the Company, the transaction would facilitate operational and administrative synergies, and broaden shareholder base and increases to share liquidity.

The transaction is subject to all requisite regulatory and court approvals, Desert Sun shareholder approval, third party consents and other conditions customary in transactions of this nature. The combination must be approved by at least two-thirds of the votes cast by shareholders of Desert Sun. The transaction is expected to close during the second quarter of 2006. If the combination does not occur under certain circumstances, Desert Sun has agreed to pay the Company a break-fee of C$21.5 million.

5. Overview of Financial Results

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

		Dec 31, 2005		**Dec 31, 2004 (ten months)**		**Feb 29, 2004**
Financial results (in thousands of dollars)						
Revenues[1]	**$**	**46,038**	$	32,298	$	19,811
Mine operating earnings for the year[4]	**$**	**8,569**	$	10,377	$	6,754
Net earnings (loss) for the year[2]	**$**	**(4,111)**	$	2,783	$	1,008
Adjusted net earnings for the year[3]	**$**	**1,991**	$	2,696	$	1,788
Cash flow from operations *(after changes in non-cash working capital items)*	**$**	**3,410**	$	8,536	$	5,491
Cash flow from operations *(before changes in non-cash working capital items)*	**$**	**6,445**	$	9,293	$	4,953
Per share financial results						
Basic (loss) earnings per share[2]	**$**	**(0.03)**	$	0.03	$	0.02
Diluted (loss) earnings per share[2]	**$**	**(0.03)**	$	0.02	$	0.02
Adjusted earnings per share[3]	**$**	**0.01**	$	0.03	$	0.04
Financial position (in thousands of dollars)						
Total assets	**$**	**465,697**	$	177,106	$	93,948
Total long-term liabilities	**$**	**119,281**	$	9,572	$	7,657

		Dec 31, 2005		Dec 31, 2004 (ten months)		Feb 29, 2004
Gold Production (ounces):						
Pre-Commercial						
Fazenda Nova		**7,379**		2,849		-
São Francisco pilot plant		**4,843**		3,214		283
		12,222		6,063		283
Commercial						
Fazenda Brasileiro		**74,570**		78,168		56,794
Fazenda Nova		**28,780**		-		-
		103,350		78,168		56,794
		115,572		84,231		57,077
Gold Sales (ounces)						
Pre-Commercial						
Fazenda Nova		**4,694**		1,704		-
São Francisco pilot plant		**4,050**		2,883		-
		8,744		4,587		-
Commercial						
Fazenda Brasileiro		**72,074**		79,822		49,989
Fazenda Nova		**31,698**		-		-
		103,772		79,822		49,989
		112,516		84,409		49,989
Non-GAAP Measures[3]						
Per ounce data:						
Cash costs per ounce produced						
Fazenda Brasileiro[4]	**$**	**320**	$	205	$	208
Fazenda Nova	**$**	**208**		-		-
	$	**289**	$	205	$	208
Average gold price realized (1)	**$**	**448**	$	409	$	396
Average gold spot price	**$**	**445**	$	409	$	372
Operating statistics						
Gold ore grade (g/t)						
Fazenda Brasileiro		**2.44**		3.13		3.42
Fazenda Nova		**0.87**		-		-

Gold recovery rate (%)			
Fazenda Brasileiro	**89.3**	91.9	95.5
Fazenda Nova	**81.0**	-	-

(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, 2005 include an unrealized non-cash loss on commodity contracts of $8.6 million.

(3) Non GAAP measure - see reconciliation table below. A cautionary note of non-GAAP measures follows this Management's Discussion and Analysis of Operations and Financial Condition.

(4) Certain mine general and administrative expenses have been reclassified from cost of sales to general and administrative expenses to conform with current year's presentation.

Net loss for the year included non-cash charges in respect of stock options, foreign exchange losses, unrealized losses on commodity contracts and a future income tax recovery. Net earnings for the year, adjusted for these non-cash items (a non-GAAP measure), was $2 million compared to $2.6 million for the comparative ten month period ended December 31, 2004. The following chart summarizes net earnings adjusted for these non-cash items:

A non-GAAP Measure		**Dec. 31, 2005**		**Dec. 31, 2004 (ten months)**		**Feb. 29, 2004**
Net earnings (loss) per consolidated financial statements	**$**	**(4,111)**	$	2,783	$	1,008
Adjustments:						
Stock-based compensation		**2,303**		2,191		612
Foreign exchange gain		**(369)**		(1,848)		(157)
Unrealized losses on commodity contracts		**8,615**		-		-
Future income tax (recovery) expense		**(4,447)**		(430)		324
Adjusted net earnings	**$**	**1,991**	$	2,696	$	1,787
Adjusted earnings per share	**$**	**0.01**	$	0.03	$	0.04

An unrealized non-cash loss of $8.6 million was recognized on the mark-to-market of copper hedging instruments entered into during the year. The Company has effectively sold forward 50 million pounds of 2007 copper production at a net price of $1.27 per pound. This represents approximately 50% of the Company' projected copper production for 2007. The financial instruments entered into were structured to hedge against the risk of declining copper prices on future copper concentrate sales, while permitting the Company to participate in market price increases at prices exceeding the $1.67 strike price of the call options involved in the transactions, thereby maximizing the total exposure at $15 million. By putting this copper hedge in place, the Company is helping to ensure a less than two year pay back for its Chapada copper-gold project. The original pay back outlined in the Chapada feasibility study based on a copper price of $1.00 per pound was approximately two years.

The formal requirements under generally accepted accounting standards permit hedge accounting so long as cash flows come solely from the sale of copper. 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 2007. The unrealized mark-to-market loss represents the value on cancellation of these contracts based on market values as at December 31, 2005 and does not represent an economic obligation for the Company nor does it represent an estimate of future gains or losses.

The Company is currently considering entering into additional contracts to further lock-in the copper price for a portion of its 2008 forecast production. Details to the commodity contacts are further discussed in Section "Hedging Program".

The basic loss per share, including the impact of the mark-to-market loss on the economic copper hedge for the fiscal year ended December 31, 2005 was $0.03. This compares to 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 and basic and diluted earnings of $0.02 per share for the year ended February 29, 2004.

Earnings per share adjusted for non-cash items was $0.01 for the year. This compares to adjusted earnings per share of $0.03 for the comparative ten month period ended December 31, 2004 and $0.04 for the year ended February 29, 2004.

Revenue for the fiscal year was $46 million, an increase of 43% over the preceding ten month period. Revenues for the year consisted of 72,074 ounces of gold sold from the Fazenda Brasileiro Mine and 31,698 ounces of gold sold from the Fazenda Nova Mine as of May 1, 2005 (commencement of commercial production). All gold sales were transacted in the spot market. In addition, a total of 8,744 ounces were sold during the year from pre-commercial activities at the Fazenda Nova Mine and the Francisco pilot plant. Hence, a total of 112,516 ounces of gold were sold in 2005. Sale proceeds prior to commercial production from the Fazenda Nova Mine and from the São Francisco pilot plant were credited against mine development costs. A total of 79,822 and 49,989 ounces were sold during the comparative ten month period ended December 31, 2004 and during the twelve month period ended February 29, 2004, respectively. Additionally, 4,587 ounces of gold were sold during the comparative ten month period ended December 31, 2004 from pre-commercial activities from the Fazenda Nova Mine and the São Francisco pilot plant.

The Company's average realized gold price during the year was $448 per ounce, an increase of 10% from an average realized price $409 per ounce during the comparative ten month period ended December 31, 2004. This also compares to an average spot price of $445 per ounce for the year ended December 31, 2005. The spot price itself increased 9% relative to the comparative ten month period ended December 31, 2004.

Mine operating earnings for the year were $8.6 million and consist of operations from the Fazenda Brasileiro Mine and the Fazenda Nova Mine as of May 1, 2005. This compares to operating earnings from the Fazenda Brasileiro Mine of $10.4 million for the comparative ten month period ended December 31, 2004 and $6.8 million for the year ended February 29, 2004. There were no earnings from the Fazenda Nova Mine for the comparative periods.

A total 115,572 ounces of gold were produced during the year of which 103,350 ounces were produced from commercial production activities and 12,222 ounces were produced from pre-commercial activities. This compares to 84,231 ounces produced during the comparative ten month period ended December 31, 2004 and 57,077 ounces produced during the year ended February 29, 2004. Comparing fiscal 2005 versus fiscal 2004, Fazenda Nova commercial production increased by 28,780 ounces and Fazenda Brasileiro production declined by 3,598 ounces.

Average cash costs for the year were $289 per ounce compared to $205 per ounce for the ten month comparative period ended December 31, 2004 and $208 per ounce for the comparative year ended February 29, 2004.

Inventory as at December 31, 2005 was $11.4 million compared to $5.9 million as at December 31, 2004. Inventory increased as a result of production at the Fazenda Nova Mine, ore being stacked on the heap leach pads at the São Francisco Mine and ore stockpiled at the Chapada Mine which is currently under construction.

Proven and probable reserves were 5.2 million ounces of contained gold and 2.3 billion pounds of contained copper as of December 31, 2005 based on a gold price of $425 per ounce (except for Fazenda Nova which is calculated assuming $500 gold price) and a copper price of $1.00 per pound. This represents an increase of 1.2 million ounces, a 31% increase after mining of 115,000 ounces during the year.

Summary of increase in proven and probable gold reserves by mine/project:

Mine	Increase (Decrease) in Contained Ounces 000's)
Fazenda Brasileiro	(26)
Fazenda Nova	(54)
C-1 Santa Luz	556
São Francisco	324
São Vicente	309
Chapada	54
Total Increase	1,163

Cash as at December 31, 2005 was $151.6 million compared to $87.1 million as at December 31, 2004. Significant cash transactions during the year included the full draw down on a $100 million loan facility, $48.1 million in net proceeds received on the early exercise of the Company's publicly traded warrants and $105.3 million received from an equity financing held in October and expenditures relating to construction of the São Francisco and Chapada mines of $55.3 million and $76.7 million, respectively.

Cash flow from operations before changes in non-cash working capital items was $6.4 million for the year compared to $9.3 million for the comparative ten month period ended December 31, 2004 and $5 million for the year ended February 29, 2004. The decrease in cash from operations is primarily due to previously mentioned increases in local operating costs, a strengthening Real and the processing of lower grades at Fazenda Brasileiro.

Working capital as at December 31, 2005 was $139 million compared to $88.9 million as at December 31, 2004 and $35.7 million as at February 29, 2004.

The balance sheet as at December 31, 2005 reflects $13.2 million of Brazilian tax credit receivables recognized in advances and deposits ($4.4 million) and other assets ($8.9 million). A provision in the amount of approximately 15% ($372,900 of which $40,200 was charged to assets under construction) was recorded during the period against certain Brazilian tax credits. Other Brazilian tax credits may be applied against future income taxes payable and taxes payable on eligible local sales. 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 $154.3 million reflect construction of the São Francisco and Chapada mines. Construction costs include cash expenditures, capitalized interest, capitalized amortization of deferred financing charges and capitalized pre-operating net earnings.

Construction of the Chapada mine is being financed by a $100 million debt facility. As at December 31, 2005, the Company owed $100 million in principal plus accrued interest of $6.8 million.

General and administrative expenses were $10.4 million for the year compared to $6.2 million for the comparative ten month period ended December 31, 2004 and $4.6 million for the year ended February 29, 2004. The increase in general and administrative expenses is reflective of the Company's growing infrastructure related to its production growth plans.

Investment income was $4 million for the fiscal year, compared to $0.8 million for the comparative ten month period ended December 31, 2004 and $0.5 million for the year ended February 29, 2004. Investment income for the year mainly represents interest income earned in Brazil at an average rate of 19% as the Company held higher cash balances denominated in Brazilian reais than the previous year in order to help offset the impact of the strengthening Real.

6. Mine Operations

The following chart summarizes commercial production and cash costs per ounce for the year and quarter ended December 31, 2005 with comparative figures for the ten month period and quarter ended December 31, 2004:

	Quarter ended December 31, 2005		**Quarter ended December 31, 2004**	
	Production (oz.)	**Cash costs per oz. (a non-GAAP measure)**	**Production (oz.)**	**Cash costs per oz. (a non-GAAP measure)**
Fazenda Nova	12,740	$ 177	-	$ -
Fazenda Brasileiro	17,810	$ 357	20,854	$ 234
TOTAL COMMERCIAL PRODUCTION	**30,550**	**$ 282**	**20,854**	**$ 234**
Fazenda Nova Pre-operating	-	$ -	2,745	$ -
São Francisco Pilot Plant	1,212	$ -	846	$ -
TOTAL PRODUCTION	**31,762**	**$ -**	**24,445**	**$ -**

	For the twelve months ended December 31, 2005			For the ten months ended December 31, 2004		
	Production) (oz.		**Cash costs per oz. (a non-GAAP measure)**	**Production) (oz.**		**Cash costs per oz. (a non-GAAP measure)**
Fazenda Nova	28,780	$	208	-	$	-
Fazenda Brasileiro	74,570	$	320	78,168	$	218
TOTAL COMMERCIAL PRODUCTION	**103,350**	**$**	**289**	**78,168**	**$**	**218**
Fazenda Nova Pre-operating	7,379	$	-	2,849	$	-
São Francisco Pilot Plant	4,843	$	-	3,214	$	-
TOTAL PRODUCTION	**115,572**	**$**	**-**	**84,231**	**$**	**-**

Mine operating earnings for the year ended December 31, 2005 were $8.6 million, a decrease of 17% from mine operating earnings of $10.4 million for the comparative ten month period ended December 31, 2004. Mine operating earnings for the year ended February 29, 2004 were $6.8 million. Mine operating earnings decreased relative to the prior fiscal year mainly due to the strengthening of the Real vis-à-vis the US dollar, an increase in Real denominated costs at the Fazenda Brasileiro Mine and lower head grades and recovery rates at the Fazenda Brasileiro Mine.

Mine operating earnings for fiscal 2005 consisted of earnings from the Fazenda Nova and Fazenda Brasileiro mines. The Fazenda Nova Mine began commercial production as of May 1, 2005, thus mine operating earnings for the comparative periods reflect earnings solely from the Fazenda Brasileiro Mine.

The following graph depicts mine operating earnings by mine:

A total of 115,572 ounces of gold were produced during the year, including commercial production of 103,350 ounces at combined cash costs of $289 per ounce. This compares to 84,231 ounces of gold produced during the comparative ten month period ended December 31, 2004, including commercial production from the Fazenda Brasileiro Mine of 78,168 ounces at an average cash cost of $205 per ounce produced. A total of 57,077 ounces were produced during the year ended February 29, 2004 of which 56,794 ounces were commercially produced at an average cash cost of $208 per ounce at the Fazenda Brasileiro Mine.

	Dec. 31, 2005				Dec. 31, 2004 (ten months)				Feb. 29, 2004			
	Production		Cash Costs[1]		Production		Cash Costs[1]		Production		Cash Costs[1]	
	oz.	% change	$/oz	% change	oz.	% change	$/oz	% change	oz.	% change	$/oz	% change
Pre-Commercial Production:												
Fazenda Nova	7,379	59%	-	-	2,849	-	-	-	-	-	-	-
São Francisco	4,843	51%	-	-	3,214	1036%	-	-	283	-	-	-
	12,222	102%	-	-	6,063	2042%	-	-	283	-	-	-
Commercial Production:												
Fazenda Nova	28,780	-	$ 208	-	-		-	-	-	-	-	-
Fazenda Brasileiro	74,570	(5%)	$ 320	56%	78,168	38%	$ 205	(1%)	56,794	-	$ 208	-
	103,350	32%	$ 289	41%	78,168	38%	$ 205	(1%)	56,794	-	$ 208	-
	115,572	37%	$ 289	41%	84,231	48%	$ 205	(1%)	57,077	-	$ 208	-

(1) Non GAAP measure - A cautionary note of non-GAAP measures follows this Management's Discussion and Analysis of Operations and Financial Condition.

Of the 103,350 commercially produced gold ounces during the year, 28,780 ounces were from the Fazenda Nova Mine at an average cash cost of $208 per ounce and 74,570 ounces were from the Fazenda Brasileiro Mine at an average cash cost of $320 per ounce. These cost levels compare favourably for the Fazenda Nova Mine from the previous quarter and represents an increase for the Fazenda Brasileiro Mine.

Combined cash costs for the fourth quarter were $282 per ounce, a decrease of 3.1% from cash costs of $291 per ounce for the quarter ended September 30, 2005.

Revenue for the year ended December 31, 2005 was $46 million from the sale of 103,772 ounces of gold compared to revenue of $32.3 million from the sale of 79,822 ounces of gold for the comparative ten month period ended December 31, 2004 and $19.8 million from the sale of 49,989 ounces of gold during the year ended February 29, 2004. Revenue for the year consisted of gold ounces sold from the Fazenda Nova and Fazenda Brasileiro mines. Revenue for the comparative periods consisted only of ounces sold from the Fazenda Brasileiro Mine.

Inventory as at December 31, 2005 was $11.4 million compared to $5.9 million as at December 31, 2004. Inventory increased during the year with the start-up of commercial production at the Fazenda Nova Mine, ore being stockpiled on the heap leach pads at the São Francisco Mine and ore being stockpiled at the Chapada Mine which is currently under construction.

Of the total inventory on hand as at December 31, 2005, $2.5 million consisted of supplies and materials, $8.3 million of in-circuit and gold in-process inventory and $0.5 million of finished product. Inventory as at December 31, 2005 consisted of approximately 6,700 ounces of gold at the Fazenda Brasileiro Mine, 9,600 ounces of contained gold at the Fazenda Nova Mine, 7,300 ounces of gold at the São Francisco Mine and 3.65 million pounds of copper inventories at the Chapada Mine. The contained gold inventory is primarily metal in the processing circuit or production in process. Inventory at the São Francisco Mine consisted of ore on the heap leach pads and inventory at Chapada consisted of ore stockpiled.

Fazenda Nova Mine

Fazenda Nova 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. The Fazenda Nova Mine has operated above expectations with mine operating earnings of $4.7 million for fiscal 2005 (for the period May 1 - December 31, 2005). Operating earnings for 2006 will include a full year of production. Mine operating earnings from the Fazenda Nova Mine represent approximately 54% of total mine operating earnings for 2005. Mine operating earnings for the fourth quarter were $3.7 million.

Construction of the Fazenda Nova Mine was completed during the rainy season of fiscal December 2004. Since then, the Company has undertaken measures to accommodate a heavier than normal rainfall, implemented operational modifications to improve efficiency and reduce costs.

A total of 36,159 ounces of gold were produced during the year at the Fazenda Nova Mine at an average recovery rate of 81% of which 28,780 ounces were commercially produced and the remaining 7,379 ounces were produced prior to achieving commercial production. An aggregate of 2,849 ounces of gold were produced during the comparative ten month period ended December 31, 2004 during pre-commercial activities. There was no production at the Fazenda Nova Mine for the year ended February 29, 2004.

An aggregate of 1.6 million tonnes of ore was stacked on the heap leach pads during the year. During the fourth quarter a total of 506,400 tonnes were stacked, an increase of 5.6% from the previous quarter.

Mining costs at an average of $1.56 per tonne steadily decreased throughout the year. Total mining costs for the quarter were $1.40 per tonne, a decrease of 12.5% from $1.60 per tonne for the September quarter.

With the initiatives that the Company undertook to improve efficiency, US dollar cash costs per ounce steadily declined during fiscal 2005. This occurred despite the strengthening of the Real vis-à-vis the US dollar with an average exchange rate for 2005 of 2.4348 compared to an average exchange rate for 2004 of 2.9319, an increase of 17%. Additionally, cash costs during the fourth quarter of $177 per ounce were 5% lower than that contemplated in the feasibility study of $186 (life of mine). Cash costs for the year at the Fazenda Nova Mine were $208 per ounce. During the month of January 2006, they averaged $196 per ounce.

The following chart summarizes ore stacked, production and cash costs per ounce for the Fazenda Nova Mine by quarter for fiscal 2005:

	Ore Stacked (tonnes)	**Production (oz.)**		**Cash costs/oz. (A non-GAAP Measure)**
Pre-commercial	306,900	7,379		-
Commercial Production:				
Second Quarter (as of May 1, 2005)	272,800	5,676	$	265
Third Quarter	479,600	10,364	$	215
Fourth Quarter	506,400	12,740	$	177
Commercial Production	1,258,800	28,780	$	208
Total Production	1,565,700	36,159		-

The target production for 2006 is 30,000 to 33,000 ounces.

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

	December 31, 2005		
		Cash costs / oz. (A non-GAAP Measure)	**Percentage of cash costs / oz.**
Mining	$	69	33%
Crushing, agglomeration and stacking		63	30%
Leaching and solution neutralization		19	9%
Recovery plant		12	6%
General and administrative		22	11%
Other *(i)*		23	11%

Total	$ 208	100%

(i) Includes by-product revenues

One of the operating efficiency measures implemented during the year at the Fazenda Nova Mine is a coarser grind whereby volume throughput is increased and unit costs decreased. This is intended to maintain the level of total recovered gold ounces at lower unit costs notwithstanding lower recovery rates than in the feasibility study and an increase in the leaching period.

The average ore grade for the year from the Fazenda Nova Mine was 0.87 g/t which is consistent with feasibility study grade expectations.

Inventory at the Fazenda Nova Mine as at December 31, 2005 of $2.1 million consisted of gold in circuit and gold in process in the amount of approximately 9,600 ounces and materials and supplies. 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.

A total of 31,698 ounces of gold were sold during the year from the Fazenda Nova Mine at an average sale price of $458 per ounce for gross sales of $14.5 million. Additionally, 4,694 ounces of gold were sold from pre-commercial production. Sales during the comparative ten month period ended December 31, 2004 from Fazenda Nova production consisted of 1,704 ounces of gold for total gross revenue of $747,100 which was capitalized as part of pre-production activities.

Fazenda Brasileiro Mine

Fazenda Brasileiro 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 resource estimates support an additional 4 to 6 years of mine life at production levels of 80,000 ounces per year.
Operations during the year at the Fazenda Brasileiro Mine were significantly affected by the impact of a strengthened Real vis-à-vis the US dollar, mining of lower grade material, lower recovery rates, and higher prices for consumables.

A total of 74,570 ounces of gold were produced from the Fazenda Brasileiro Mine during the year at an average cash cost of $320 per ounce. This compares to 78,168 ounces of gold produced during the comparative ten month period ended December 31, 2004 at an average cash cost of $205 per ounce, representing a decrease of 4.6% in production and an increase of 56% in cash cost per ounce as reported in U.S. dollars. Average cash costs per ounce in reais increased by 21% from the prior ten month period. A total of 56,794 ounces were produced during the year ended February 29, 2004 at an average cash cost of $208 per ounce.

The Company anticipated processing lower grade ore at the Fazenda Brasileiro Mine prior to gaining access to higher grade orebodies and areas beneath the existing mine workings for further drilling and exploration. Mining of lower grade material will continue throughout 2006 as development work continues in higher grade lower areas at E-Deep.

Mining of the C-Quartz orebody commenced late in the fourth quarter of 2005 and is expected to account for approximately 20% of ore production in 2006 at grades that exceed current levels. The benefits of higher grades are expected after the first quarter of 2006.

The average ore grade at the Fazenda Brasileiro Mine for the year was 2.44 g/t compared to 3.13 g/t during the comparative ten month period ended December 31, 2004, a decrease of 22%.

Cash costs for the year were affected by a 17% increase in the average annual Brazilian Real/US dollar exchange rate during the year. Additionally, Real denominated cash costs per ounce increased by approximately 21% relative to the comparative ten month period ended December 31, 2004. Cash costs were affected by higher prices for consumables and an increase in maintenance costs. Unit costs were further impacted by lower head grade and recovery rates.

Cash costs for the quarter increased by 7.7% from the prior quarter, in US dollar terms. Increases in Real denominated costs for the quarter were most significant in maintenance related expenditures.

In September 2005, the Company implemented cost cutting measures at the Fazenda Brasileiro Mine. Such measures included manpower reductions, a move to Company drilling rather than contract drilling, increasing the proportion of parts purchased in Brazil and an increased focus on cost effective purchasing. The impact of such cost cutting measures was offset by an increase in maintenance costs and higher priced consumables such as fuel and energy during the fourth quarter. The cost cutting measures will continue into 2006.

Target production for 2006 is 80,000 ounces. Fazenda Brasileiro will be operated at a comparatively lower production rate to allow for cost reductions pending development of E-Deep. Moreover, as E-Deep is developed, further reductions are expected to occur in maintenance costs in particular as equipment and trucking fleet are upgraded.

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

	December 31, 2005 (12 months)			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.
Mining	$	170	53%	$	107	49%
Milling		97	30%		63	29%
General and admin		41	13%		37	17%
Other *(i)*		12	4%		11	5%
Total	$	320	100%	$	218	100%

(i) Includes by-product revenues

Mine operating earnings from the Fazenda Brasileiro Mine were $4 million for the year compared with $10.4 million for the ten month period ended December 31, 2004. Mine operating earnings for the fourth quarter were $1.1 million.

The average plant recovery rate during the period was 89.3% compared to an average plant recovery rate of 91.9% during the comparative ten month period ended December 31, 2004 and 95.5% during the year ended February 29, 2004.

Plant recovery rates continued to be affected by mill feed from carbonaceous ore from open pit material during the year. A total of 191,400 tonnes of open pit ore were mined during the year. Mining of carbonaceous open pit material is expected to be concluded in the first quarter 2006. An aggregate of 35,500 tonnes of carbonaceous open pit material was mined during the fourth quarter.

An aggregate of 1.1 million tonnes were milled through the CIP circuit during the year in comparison to 826,400 tonnes milled during the comparative ten month period ended December 31, 2004. An aggregate of 650,000 tonnes were milled during the year ended February 29, 2004.

Inventory as at December 31, 2005 at the Fazenda Brasileiro Mine consisted of approximately 6,800 ounces of gold of which 1,100 ounces were finished product and the remaining 5,700 ounces were in-circuit inventory and gold in process. Inventory and gold in process is not included in production for Fazenda Brasileiro and if accounted for would increase production from Fazenda Brasileiro to 80,270 ounces and total production to 121,272 ounces.

A total of 72,074 ounces of gold were sold from the Fazenda Brasileiro Mine at an average sale price of $444 per ounce for total gross revenue of $32 million compared to 79,822 ounces during the comparative ten month period ended December 31, 2004 at an average sale price of $409 per ounce for total gross proceeds of $32.6 million. Sales for the year ended February 29, 2004 consisted of 49,989 ounces of gold at an average sale price of $396 per ounce from the Fazenda Brasileiro Mine that was acquired on August 15, 2003.

São Francisco Mine

São Francisco is in the normal start up phase of a mine. As at December 31, 2005, ore was being loaded onto the heap leach pads and the crushing circuit was operational. The gravity circuit started operating in January 2006. The Company is on track to exceed capacity and will be approaching full capacity at the gravity plant by the end of March 2006. Heap leaching of ore commenced in March 2006.
Commercial production from the São Francisco Mine is expected to commence during the second quarter of 2006. An aggregate of 572,300 tonnes were stacked on the heap leach pads as of December 31, 2005. This had risen to approximately 800,000 tonnes as of the end of February 2006, consistent with the mine plan.

Total construction expenditures as at December 31, 2005 were $64 million or R$150.7 million (including amounts in payables). Construction expenditures were funded by existing cash resources and cash flow from operations. A total of $60.4 million of costs were incurred during 2005 of which $13.7 million were incurred during the fourth quarter.

Almost all of the capital costs for the construction of São Francisco have been committed to date. Real denominated construction expenditures are forecast to be 14% over budget. This increase of 14% was largely due to higher steel prices, an extension of the power line and an increase in materials related to the intermediate stockpile for the crusher plant which was not contemplated in the feasibility study.

Assets under construction as at December 31, 2005 in respect to the São Francisco Mine were $63 million and include capitalized pre-commercial production operations and the reallocation of inventory.

Average annual production from São Francisco is targeted at 108,000 ounces with an initial mine life of approximately 7.5 years.

7. Liquidity and Capital Resources

Cash and cash equivalents as at December 31, 2005 were $151.6 million compared to $87.1 million as at December 31, 2004, an increase of 74%. 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 expenditure requirements and obligations under the long term debt facility. The Company currently has adequate funding in place or available to fund its development projects. In addition to its ability to generate cash flow from operations, the Company has also demonstrated its ability to enter into the capital markets and it’s ability to obtain debt financing.

Cash on hand as at December 31, 2005 increased from the prior year mainly due to the following corporate activities:

- draw down of the previously announced $100 million loan facility for the construction and development of the Chapada copper-gold project,
- $48.1 million net proceeds received on the early conversion program of its publicly traded warrants which closed in August 2005, and
- $105.3 million in net proceeds from a public share equity issue that closed in October 2005.

Working capital increased to $139 million compared to $88.9 million as at December 31, 2004 and $35.7 million as at February 29, 2004.

Operating Cash Flow

Cash flow generated from operations before changes in non-cash working capital items for the year was $6.4 million compared to $9.3 million for the comparative ten month period ended December 31, 2005 and $5 million for fiscal February 29, 2004. Changes in non-cash working capital items for the year consisted of a reduction of $3 million. 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 periods consists solely of operating cash flow from the Fazenda Brasileiro Mine. A total of $4 million was incurred as capital costs at Fazenda Brasileiro relating to the development of E-Deep.

Financing Activities

Cash inflows from financing activities for the year ended December 31, 2005 were $250.5 million and included the following:

§ $48.1 million of net proceeds received on the issue of common shares related to the warrant early conversion program introduced in June 2005,
§ $105.3 net proceeds received from an equity financing that closed in October 2005,
§ $1.6 million received on the exercise of options and warrants, and
§ $100 million advanced under a loan facility for the construction and development of the Chapada copper-gold Project.

In addition, an outflow of $4.6 million was incurred during the year in respect of expenditures relating to the loan facility (which have been deferred and amortized over the term of the loan).

Cash inflows from financing activities for the fourth quarter consisted mainly of the October 2005 equity financing and were $105.3 million.

Financing activities for the comparative ten month period ended December 31, 2004 included net cash inflows of $68.9 million. These cash inflows included an equity financing of 26.4 million common shares for gross proceeds of $76.1 million.

Cash inflows from financing activities for the comparative year ended February 29, 2004 were $56.3 million.

Equity Financing

In August 2005, the majority of the Company’s publicly traded warrants were exercised in connection with a Company proposal made to warrant holders in June 2005 to exercise their warrants early as described below under the warrant heading.

In October 2005, the Company successfully raised aggregate gross proceeds of $110.9 million (C$130 million) through a share equity issue of 26 million common shares at a price of C$5.00 per share. Issue costs (including underwriter’s fees) incurred on the transaction totaled $5.6 million.

Debt Financing

On April 29, 2005, the Company drew down on a $100 million debt facility for the development of the Chapada copper-gold Project from a private investment fund and the lender advanced the funds. Upon drawdown, the funds were deposited in escrow pending perfection and registration of security interests, and receipt of certain authorizations, approvals and opinions relating to the perfection and registration of such security interests. The period for perfection and registration of security interests varied depending on the collateral class and registration process. To accommodate the applicable registration process, the Company and the lender under the facility provided for a two-staged release from escrow. The first $70 million (Series 1 Note Payable) was released on August 8, 2005 and transferred to Brazil and converted into Brazilian reais at an average rate of R$2.35:US$1.00. The remaining $30 million (Series 2 Note Payable) was released on October 7, 2005 and transferred to Brazil and converted into Brazilian reais at an average rate of R$2.2335:US$1.00.

The secured notes are for a term of six years bearing interest at a rate of 10.95% per annum. Principal is repayable upon maturity of the notes. The Company has elected to defer interest payments for the first two years at a rate of 12.45% per annum, compounded semi-annually. An aggregate of $6.8 million of interest expense was accrued during the deferral period.

The Company may also elect to defer interest payments for the third year at a rate of 13.95% per annum.

Interest on the Series 2 note was payable at a reduced rate of LIBOR plus 1.5% prior to release from escrow. A total of $677,700 of interest expense was paid in this regard.

Interest expense is capitalized as part of the Chapada project construction costs. As at December 31, 2005, a total of $7.5 million had been capitalized. Upon achieving commercial production at Chapada, interest from this point in time will be expensed.

Loan proceeds held in escrow during the period earned interest income of $0.9 million. Interest income earned during the period was netted against Chapada construction costs. Approximately $583,100 of interest income earned on escrow funds were still held in escrow as at December 31, 2005 and subsequently released in January 2006.
In addition to commitment fees and 2.5 million warrants issued during the period ended December 31, 2004, the Company issued an additional 2.5 million warrants to the lender upon funding. These warrants have an exercise price of C$4.70 and expire five years from the date of issue. Deferred financing charges in the amount of $1.4 million have been recorded in connection with the 2.5 million warrants. The warrants were recorded at fair value as calculated using the Black-Scholes pricing model.

In addition to the issuance of 2.5 million warrants, $4.6 million of expenditures were incurred in connection with the debt financing during the year. This includes legal fees, advisory fees and $2.5 million paid to the lender upon funding and release of the $30 million from escrow. These expenditures were recorded as deferred financing charges and are being amortized over the life of the loan.

A total of $1.1 million of amortization has been charged to Chapada construction costs during the year in respect to amortization taken on deferred financing charges.

Investing Activities

Cash flow from investing activities includes expenditures on fixed assets and construction. A cash outflow from investing activities of $192.6 million for the year consisted of construction related expenditures of $132 million, expenditures on mineral properties of $23.2 million, and property, plant and equipment acquisitions of $5.8 million. Additionally, investing cash outflows include $18.9 million advanced to RNC Gold Inc. and $12.6 million expended on other assets. This compares to an outflow of $27.1 million for the comparative ten month period ended December 31, 2004 and $28.1 million for the comparative year ended February 29, 2004 which included the acquisition of the Fazenda Brasileiro Mine for $22.1 million. Capital expenditures were as follows:

(in millions of US$)	**Dec. 31, 2005**	Dec. 31, 2004 (ten months)	Feb 29, 2004
Construction of Chapada (1)	**$ 76.7**	$ 3.2	$ -
Construction of São Francisco (1)	**55.3**	1.9	-
Construction of Fazenda Nova (1)	**-**	6.5	0.1
Acquisition of Fazenda Brasileiro	**-**	-	22.1

Exploration		**15.4**	4.8	2.5
Capital expenditures at Fazenda Brasileiro		**8.3**	8.2	1.7
Capital expenditures at Fazenda Nova		**2.6**	-	
Feasibility studies		**1.1**	1.5	0.3
Mineral rights		**0.9**	-	
Other		**0.7**	0.4	1.4
	$	**161.0**	$ 26.5	28.1

(1) Net of accounts payable and accrued liabilities

Capital expenditures at the Fazenda Brasileiro Mine included $4 million of mine development costs which includes the development of the underground ramp to provide access to E-Deep orebody. The remaining expenditures at the Fazenda Brasileiro Mine are primarily expenditures on equipment. Capital expenditures at the Fazenda Nova Mine primarily include expenditures for the construction and development of the heap leach pad lifts.

The Company has allocated $148.2 million in the fiscal 2006 budget for capital expenditures.

The 2006 capital budget of $148.2 million does not include capital requirements for the construction of São Vicente, Ernesto and C1 Santa Luz as these projects are subject to completion of either feasibility studies or favourable construction decisions. It also excludes capital expenditures relating to RNC and the potential Desert Sun acquisition.

Exploration is budgeted at $9.5 million which includes $1.1 million for near-mine and regional exploration at the Fazenda Brasileiro Mine, $3 million on the Itapicuru Green Stone Belt and $3.4 million on the Santa Elina Gold Belt and São Vicente region.

8. Capitalization

Shareholders' equity as at December 31, 2005 was $315 million compared to $160.3 million as at the fiscal year ended December 31, 2004.

Share Capital

As at December 31, 2005, the Company had 191.3 million (December 31, 2004 - 122.3 million; February 2004 - 95.1 million) common shares outstanding. The weighted average shares outstanding for the fiscal year end December 31, 2005 was 144.9 million common shares.

The Company issued a total of 69.1 million common shares during the year. Of this total, 41.8 common shares were issued in connection with the early exercise of the Company's publicly traded warrants, 26 million common shares were issued in respect to an equity financing and 1.3 million common shares were issued on the exercise of employee stock options and share appreciation rights.

The Company issued a total of 41.3 million common shares for net proceeds of $48.1 million pursuant to the early exercise of its publicly traded warrants. An additional 476,198 common shares were issued pursuant to the automatic exchange of warrants that were not exercised during the early exercise period without payment of the exercise price or any additional consideration.

The Company completed an equity financing in October 2005 resulting in the issuance of 26 million common shares at a price of C$5.00 per share for total gross proceeds of $110.9 million (C$130 million). The Company plans to use the net proceeds of this financing for the advancement of its mineral properties, potential acquisitions and for general corporate purposes.

Warrants

As at December 31, 2005, the Company had a total of 5.3 million (December 31, 2004 - 43.4 million; February 2004 - 41.4 million) share purchase warrants outstanding with an average exercise price of C$4.43 per share. Expiry dates on share purchase warrants range from February 2006 to April 2010, and exercise prices range from C$2.09 to C$5.57. All outstanding warrants were exercisable at an average weighted exercise price of C$4.43 per share (December 31, 2004 - C$1.78 per share; February 29, 2004 - C$1.59 per share). The weighted average remaining life of warrants outstanding was 3.9 years (December 31, 2004 - 3.7 years; February 29, 2004 - 4.4 years).

As of July 29, 2005, the Company effected an amendment of the terms of its 40,567,656 listed common share purchase warrants in order to encourage the early exercise of the warrants, each of which was exercisable to purchase one common share of the Company at a price of C$1.50 until July 31, 2008. An aggregate of 39,866,635 warrants were exercised during a 30 day voluntary early exercise period expiring on August 29, 2005 at a rate of 1.0356 common shares for each warrant exercised at the exercise price of Cdn.$1.50. This represented approximately 98.3% of the total listed warrants outstanding. An aggregate of 41,285,875 common shares were issued pursuant to the early exercise of the warrants. Upon the expiry of the voluntary early exercise period, the remaining 701,021 warrants were automatically exchanged, without payment of the exercise price or any additional consideration, at a rate of 0.6793 of a common share for each warrant exchanged, which in effect provided a premium to the in-the-money value of the warrant. An aggregate of 476,198 common shares were issued pursuant to the automatic exchange of warrants.

This transaction provided total proceeds net of issue costs of approximately $48.1 million that otherwise would not have been available to the Company until July 2008. Proceeds from the early exercise of the warrants are being used for the advancement of the Company's mineral properties and for general corporate purposes.

The Company also issued 2.5 million warrants during the period in connection with its loan facility.

A nominal 11,234 of non-publicly traded warrants were exercised during the period for cash proceeds of $55,400. Additionally, 47,200 warrants expired during the period.

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 2.8 million options to employees, officers and directors during the current fiscal year. A total of 1.3 million stock options were granted during the comparative ten month period ended December 31, 2004 and 5.3 million stock options were granted during the year ended February 29, 2004.

A total of $2.3 million was charged to operations as stock-based compensation in 2005 with an off-setting credit to contributed surplus in respect to the options issued under the Share Incentive Plan during the year.

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 7.95 million (December 31, 2004 - 6.66 million; February 29, 2004 - 5.5 million) stock options were outstanding as at December 31, 2005 of which all were exercisable (December 31, 2004 - 6.5 million; February 29, 2004 - 5.3 million). Stock options outstanding as at December 31, 2005 had a weighted average exercise price of C$2.67 per share (December 31, 2004 - C$2.04 per share; February 29, 2004 - $1.73 per share) and a weighted average life of 8.16 years (December 31, 2004 - 8.28 years; February 29, 2004 - 9.05 years).

9. General and Administrative Expenses

General and administrative expenses were $10.4 million for the year ended December 31, 2005. This compares to $6.2 million for the comparative ten month period ended December 31, 2004 and $4.6 million for fiscal year ended February 29, 2004. General and administrative expenses for the fourth quarter were $4.1 million.

General and administrative expenses have increased as a result of growing operations. The Company continues to build its infrastructure and personnel reflecting the construction of the São Francisco and Chapada mines. This includes an increase in personnel head count and associated facilities and costs. General and administrative expenses are expected to stabilize at approximately $12.4 million for fiscal 2006. This forecast expense level does not assume the construction of our late stage development projects in 2006, the acquisition of RNC Gold Inc. or the potential Desert Sun acquisition. The acquisition of RNC Gold Inc. is expected to add $300,000 - $400,000 in additional general and administrative costs per annum. The acquisition of Desert Sun would add additional general and administrative expenses annually.

Approximately $65,200 of general and administrative costs were incurred in respect to compliance with the SOX 404 during the year. Expenditures relating to compliance are expected to increase significantly in 2006.

The Company has reclassified mine general and administrative expenses from mine operating earnings to general and administrative expenses for the comparative period to conform with the decision to centralize various functions and share services among various properties.

10. Foreign Exchange

A foreign exchange gain of $0.4 million and loss of $3.1 million was recognized during the year ended December 31, 2005 and during the fourth quarter, respectively. This compares to an exchange gain of $1.8 million recognized for the comparative ten month period ended December 31, 2004 and $0.2 million recognized during the year ended February 29, 2004.

The exchange gain of $0.4 million recognized during the year was comprised of an exchange gain in Canada of $1.8 million and an exchange loss in Brazil of $1.4 million.

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, 2005 was 1.163 compared to an exchange rate of 1.202 as at December 31, 2004 and 1.1627 as at September 30, 2005. This represents an increase of 3% during the year and 0.02% during the quarter.

The Real-US dollar exchange rate as at December 31, 2005 was 2.3407 compared to 2.6544 as at December 31, 2004 and 2.222 as at the end of the third quarter ended September 30, 2005. This represents an increase of 11.8% for the year and a decrease of 5.3% for the quarter.

The Company's revenues are denominated in US dollars. However, the Company's expenses are incurred predominantly in Brazilian reais and to a lesser extent in Canadian and US dollars. 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$1.2 million, C$110.4 million and R$131.4 million. During the year, the Company converted excess cash into reais. Monies converted into reais were subsequently used for capital expenditures in Brazil at a higher Real exchange rate at the time of the expenditure than the original conversion. This has resulted in a foreign exchange loss and the recognition of capital expenditures at higher Reais historical exchange rates.

The Company may consider looking into entering into derivative contracts designed to manage its exposure to movements in the Real against the US dollar, thus protect costs against the appreciation in the Real.

11. Investment Income and Currency Hedging

The appreciation of the Real to the US dollar continued to be largely dependent on high interest rates in Brazil which attracted significant inflows of foreign capital. The Company transferred surplus cash balances into Brazil to take advantage of these high local rates as an offset to the impact of the strengthening Real on Real denominated costs. The Company earned interest income at an average rate of 19.1% on surplus cash as of the third quarter. An aggregate of $4 million of investment income was earned during the year of which $3.1 million was earned in Brazil. Cash held in Brazil as at December 31, 2005 was $56.1 million.

12. Income Taxes

The income tax provision recorded on the consolidated financial statements for the year ended December 31, 2005 reflects mainly a Canadian future income tax recovery of $4.3 million. This recovery was booked mainly on the recognition of tax losses available to be used against future income taxes payable. This compares to a tax expense of $1.8 million recognized for the comparative ten month period ended December 31, 2004 and an expense of $0.8 million for the year ended February 29, 2004.

The consolidated balance sheet reflects recoverable tax installments in the amount of $1.3 million in Brazil. Additionally, the balance sheet reflects a future income tax liability of $2.9 million in Brazil and a future income tax asset of $6.6 million recognized in Canada.

The effective tax rate on Brazilian operating results was 6%. This was mainly due to a valuation allowance taken on Brazilian income tax losses available for carry-forward of in Brazil of $1.9 million. This was off-set by the tax effect on the increase in the value of the Real relative to the US dollar on US dollar denominated inter-corporate debt.

As the Real strengthened throughout the year vis-à-vis the US dollar, a future income tax expense of approximately $2.8 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 received from the debt facility were sent to Brazil, thus increasing the US dollar inter-corporate debt and cash on hand in reais. Additionally, the Real increased in value vis-à-vis the US dollar by 12% from a rate of 2.6544 as at December 31, 2004 to 2.3407 as at December 31, 2005. If the Real were to weaken against the US dollar, the Company would recognize a future income tax benefit on its consolidated financial statements on the revaluation of the US dollar denominated inter-corporate debt. The income tax expense will be reported from period to period and 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.

Approximately, a total of R$11.8 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 mine. Additionally, approximately C$28.7 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. A net valuation allowance of $9 million has been provided against Canadian, US and Brazilian income tax losses and credit carry-forwards.

The Company's combined federal and provincial statutory tax rate was 36.12% (December 31, 2004 - 36.12%, February 29, 2004 - 38%). 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 17 to the consolidated financial statements.

13. 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.

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 (based on construction incurred to date) have been recorded in 2005 with a corresponding amount capitalized to mine development costs. These costs will be amortized over the life of each mine on a unit-of-production basis.

During the year, the Company made expenditures in the amount of $309,000 with respect to the Fazenda Brasileiro Mine. Accretion charged to 2005 earnings was $358,000.

Furthermore, based on new information the Company reduced its original estimate for reclamation and closure costs for Fazenda Brasileiro by $999,000. An increase in the liability in the amount of $211,100 was also recorded during the year in respect to Fazenda Nova and Sao Vicente.

The balance as at December 31, 2005 of $8 million also includes the impact of foreign exchange in the amount of $559,000.

14. Contractual Commitments (in thousands)

Year	2006	2007	2008	2009	2010
Office leases	$ 375	$ 402	$ 274	$ 274	$ 274
Fazenda Brasileiro mine operating and service contracts	4,301	399	-	-	-
Fazenda Nova Mine operating and service contracts	3,105	718	-	-	-
Chapada construction service contracts	49,417	1,320	289	-	-
São Francisco construction service contracts	2,936	-	-	-	-
Notes payable (principal and interest)	-	8,651	3,294	3,285	103,726
	$ 60,134	**$ 11,490**	**$ 3,857**	**$ 3,559**	**$ 103,550**

15. Related Party Transactions

The Company paid or accrued directors’ fees of $243,300 during the year and $82,100 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 ten month period were $179,200 and for the year ended February 29, 2004 were $922,000.

16. Contingency

During the year, a sales tax audit was completed by Brazilian state tax authorities which could result in a liability or a potential loss of recoverable Brazilian sales tax credits that have been recorded as receivables as at December 31, 2005 of approximately $1.7 million including penalties. The Company has not recorded an accrual at December 31, 2005 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.

17. Fourth Quarter Analysis

Consolidated net loss for the quarter ended December 31, 2005 was $74,000 compared to net earnings of $0.8 million for the comparative quarter ended December 31, 2004 and net earnings of $0.6 million for the comparative quarter ended February 29, 2004.

Net loss for the quarter included the following non-cash expenses: (1) foreign exchange loss of $3 million, (2) loss on commodity contracts of $8.6 million and (3) future income tax recovery of $8.3 million**.** Adjusted earnings (a non-GAAP measure) for the quarter were $3.3 million. This compares to an adjusted loss for the comparative quarter ended December 31, 2004 of $1.3 million**.** The following table presents adjusted net earnings for the fourth quarter and the comparative quarter ended December 31, 2004:

A non-GAAP Measure		**Dec. 31, 2005 Quarter**		**Dec. 31, 2004 Quarter**
Net earnings (loss) per consolidated financial statements	**$**	**(73)**	$	804
Adjustments:				
Foreign exchange loss (gain)		**3,057**		(519)
Unrealized losses on commodity contracts		**8,615**		-
Future income tax expense (recovery)		**(8,288)**		(1,548)
Adjusted net earnings (loss)	**$**	**3,311**	$	(1,263)
Adjusted earnings per share	**$**	**0.02**	$	(0.01)

Loss per share for the quarter was $0.00. This compares to earnings of $0.01 per share for the comparative quarter ended December 31, 2004 and $0.01 per share for the comparative quarter ended February 29, 2004. Earnings per share adjusted for the above mentioned non-cash items was $0.02 per share.

Revenues for the fourth quarter were $16.7 million from the sale of 19,257 ounces of gold from the Fazenda Brasileiro Mine and 15,463 ounces from the Fazenda Nova Mine. Additionally 1,543 ounces of gold were sold from the São Francisco pilot plant, which have been credited to mineral property development costs. This compares to $10.3 million for the comparative quarter ended December 31, 2004 and $10.5 million for the comparative quarter ended February 29, 2004. These comparative quarters reflect revenues solely from the Fazenda Brasileiro Mine. A total of 23,982 ounces of gold were sold during the comparative quarter ended December 31, 2004 and 26,617 ounces of gold were sold during the quarter ended February 29, 2004. An additional 1,704 ounces from the Fazenda Nova Mine and 739 ounces from the São Francisco pilot plant were sold during the comparative quarter ended December 31, 2004. The average gold price realized during the fourth quarter was $485 per ounce. This compares to an average spot price of $469 per ounce of gold for the same period.

Mine operating earnings for the quarter were $4.8 million, an increase of 227% from the third quarter ended September 30, 2005 and an increase of 64% from the comparative quarter ended December 31, 2004. Mine operating earnings do not reflect inventory of 5,200 ounces at Fazenda Brasileiro which included gold in circuit. Mine operating earnings for the quarter mainly reflected increased earnings from the Fazenda Nova Mine.

Gold production for the fourth quarter totaled 31,762 ounces of gold of which 17,810 ounces were produced at the Fazenda Brasileiro Mine, 12,740 ounces were produced at the Fazenda Nova Mine and 1,212 ounces were produced from the São Francisco pilot plant. During the comparative quarter ended December 31, 2004, an aggregate of 24,445 ounces of gold were produced of which 20,854 were produced from the Fazenda Brasileiro Mine, 2,745 ounces from the Fazenda Nova Mine and 846 ounces from the São Francisco pilot plant. Commercial production for the fourth quarter increased by 2% relative to that of the third quarter ended September 30, 2005. This overall increase is comprised of an increase of 23% in production from the Fazenda Nova Mine. Production for the fourth quarter at the Fazenda Brasileiro Mine decreased as grade decreased from an average of 2.47 g/t during the third quarter to and average of 2.31 g/t for the fourth quarter; a decrease of 6.5%.

Average cash costs for the quarter at the Fazenda Brasileiro Mine increased relative to the third quarter as a result of the decrease in ore grade for the quarter. Real denominated cash costs per ounce increased by 5.6% relative to the third quarter. In US dollar terms, cash costs per ounce at the Fazenda Brasileiro Mine increased by 8% relative to the third quarter.

Cash costs per ounce for the quarter at the Fazenda Nova Mine decreased relative to the third quarter by 18%. Overall average cash costs per ounce decreased by 3% for the fourth quarter at $282 per ounce. These were comprised of cash costs from the Fazenda Nova Mine of $177 per ounce and cash costs from the Fazenda Brasileiro Mine of $357 per ounce. This compares to cash costs for the previous quarter of $291 per ounce, comprised of cash costs from the Fazenda Nova Mine of $215 per ounce and cash costs from the Fazenda Brasileiro Mine of $332 per ounce.

Inventory increased during the fourth quarter as stacking of ore onto the heap leach pads began at the São Francisco Mine and stock piling of ore commenced at Chapada.

Cash flows from financing activities for the quarter included gross proceeds of $110.9 million on an equity issue for 26 million shares at a price of C$5.00 per share. Additionally, the Company received $30.2 million in proceeds from debt funding held in escrow.

Capital expenditures on fixed assets, mineral properties and construction for the fourth quarter were $61.6 million**.**

The table below presents selected quarterly financial and operating data:

		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	**$**	**465,697**	$	345,206	$	289,433	$	177,902
Total long-term liabilities	**$**	**119,281**	$	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

	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005
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	-

	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2005
Financial results *(in thousands of dollars)*				
Revenue *(i)*	$ 10,305	$ 8,827	$ 13,166	$ 10,453
Net earnings (loss) for the period	$ 804	$ 6	$ 1,973	$ 639
Per share financial results				
Basic and diluted earnings (loss) per share	$ 0.01	$ 0.00	$ 0.02	$ 0.01
Financial Position *(in thousands of dollars)*				
Total assets	$ 177,106	$ 101,196	$ 96,363	$ 93,948
Total long-term liabilities	$ 9,572	$ 8,145	$ 7,240	$ 7,657
Gold sales *(ounces): (iii)*				
Fazenda Brasileiro	23,982	22,246	33,594	26,617
Gold production *(ounces):*				
Commercial production:				
Fazenda Brasileiro	20,854	23,214	34,099	25,944
Pre-operating production:				
Fazenda Nova	2,745	104	-	-
São Francisco pilot plant	846	1,157	1,211	283

	3,591	1,261	1,211	283
Total Production	24,445	24,475	35,310	26,227

	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2005
Non-GAAP Measures *(iv)*				
Per ounce data:				
Cash costs per ounce produced: *(ii),(iii)*				
Fazenda Brasileiro	$ 224	$ 215	$ 188	$ 204
Average gold price realized: *(i), (iii)*				
Fazenda Brasileiro	$ 434	$ 401	$ 396	$ 407
Operating statistics *(iii)*				
Gold ore grade *(g/t):*				
Fazenda Brasileiro	2.82	3.07	3.44	3.50
Gold recovery rate *(%):*				
Fazenda Brasileiro	92.5	92.4	95.5	95.3

(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 at the end of 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, 2005 include an unrealized non-cash loss on commodity contracts of $8.6 million.

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18. 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
Depletion and impairment of mineral properties is impacted by estimates of reserves and resources. 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.

•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.

There were no changes in the Company's accounting policies during the fiscal year ended December 31, 2005.

19. Construction Project

Chapada Copper-Gold Project

A formal construction decision on the Chapada copper-gold project was made in December 2004 and construction of Chapada commenced in 2005. Mining and commencement of mining operations is expected to start in the fourth quarter of 2006 as compared to the first quarter of 2007 as contemplated in the original construction schedule. The revised schedule assumes construction progress continues in line with current progress.

The feasibility study for Chapada estimates capital requirements of $178 million before working capital of which $100 million is being financed through a loan facility and the remaining costs will be funded by the Company's own resources.

The mine plan for Chapada contemplates average annual production of approximately 130 million pounds payable copper and 134,000 ounces payable gold per year in concentrate for each of the first five years of operations for a total (life of mine) of 2 billion pounds of recoverable copper and 1.3 million ounces of recoverable gold. Production is expected to commence in the fourth quarter of 2006 and commercial production is expected before the end of the first quarter of 2007.

Construction costs incurred during the year ended December 31, 2005 and during the fourth quarter were $80.3 million and $42.2 million, respectively including amounts in payables. Total construction costs as at December 31, 2005 were $91.3 including capitalized items. Approximately 61% of total budget costs were committed as at December 31, 2005. Additional commitments and expenditures of R$210 million and R$330 million, respectively are expected to completion of the project. Total construction expenditures as at December 31, 2005 were $86 million or R$202 million. Capitalized items charged to assets under construction include capitalized interest on the loan facility and amortization of deferred financing costs. A total of $6.7 million of net interest was capitalized to construction costs and a total of $1.1 million of amortization of deferred financing costs were charged to construction costs during the year.

Total construction costs in reais are expected to be on budget at R$534 million but over budget in U.S. dollar terms due to the strengthening of the Real to the US dollar.

Vendor accounts payable relating to the construction and development of the Chapada project were $4.1 million. Approximately 94% of total payables were under 60 days as at December 31, 2005.

Construction of Chapada is on schedule. An aggregate of 3.7 million tonnes were mined and stockpiled as at December 31, 2005. These were reflected in inventory as at the period end. The most significant costs incurred during the year were as follows:

- Construction of the tailings dam and drainage system (completed)
- Internal power distribution line to the tailings dam and the primary crusher (completed)
- Foundation for the mills (completed)

- Civil construction (80% completed)
- Concrete structure underneath the stockpile area is completed
- Construction of the camps (completed)
- Erection of the temporary power line (completed)
- Construction of the maintenance and administration buildings (completed)
- Site preparation (completed)
- Explosives and solid waste storage buildings and the fuel containment area (completed)
- Purchase of vehicles and machinery: conveyor system, belt feeders, concentrate thickener, cyclones, flotation columns and cells
- Started erection of the structural steel for the concentrate storage building

Most significant construction contracts awarded during the quarter include the main Chapada substation, the high power transmission line, the installation of the mechanical and electrical equipment and fabrication and delivery of structural steel.

The following table summarizes property, plant and equipment for the Chapada copper-gold project as included in the consolidated financial statements as at December 31, 2005:

(in thousands US$)

	Dec. 31, 2005 Cost	Dec. 31, 2005 Accumulated Amortization	Net Book Value	Dec. 31, 2004 Net Book Value
Land	**$ 396**	**$ -**	**$ 396**	$ 396
Machinery And equipment	**33**	**12**	**21**	22
Furniture and office equipment	**13**	**11**	**2**	3
	$ 442	**$ 23**	**$ 419**	$ 421
Assets under construction	**85,348**	**1,811**	**83,537**	3,221
	$ 85,790	**$ 1,834**	**$ 83,956**	$ 3,642

20. Off-take Agreements

The Company has agreed to terms relating to off-take agreements with smelters for up to 150,000 tonnes of copper-gold concentrate 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 130 million pounds payable copper and 134,000 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 700,000 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. Production is expected to commence in the fourth quarter of 2006 and commercial production is expected before the end of the first quarter of 2007.

21. 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. The program provides an average forward price of $1.37 per pound of copper for a total of 50.2 million pounds of copper in 2007, representing about one half of planned copper production for that year. This program includes long call options at an average strike price of approximately $1.67 per pound of copper thereby providing further upside in the event that copper prices exceed that threshold level. This synthetic put was designed to limit the Company's exposure to $15 million which will occur if copper prices at the date of the contract maturity exceed $1.67 per pound. The Company has unlimited upside on the copper price greater than $1.67 level. No cash has been paid for the call options as the price has been deducted from the hedge price, providing a net hedge price of $1.27 per pound. The program requires no cash margin, collateral or other security from the Company. Moreover, the remaining 55 million pounds of copper production forecast for 2007 and all gold production remain unhedged.

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.

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. As accounting rules preclude the Company from reflecting the economic substance of these transactions, mark-to-market values on these financial instruments will be recognized period to period. As such, the recognition of unrealized gains and losses on the fair value of these financial instruments will cause net earnings to fluctuate period to period. The Company has recorded an unrealized loss of $8.6 million in current earnings in this regard and the balance sheet reflects a liability of the same amount. This unrealized loss represents the loss the Company would have realized had it closed out its contracts on December 31, 2005 under metal price assumptions prevailing at that time. It does not represent an estimate of future losses or gains nor does it represent an economic obligation for the Company. It should be noted that the forward copper price used to value the hedge program at the year end was $1.62. If copper prices are at this level in 2007, then the unhedged portion of planned production for that year would generate additional gross revenue of $34 million as compared to the price assumption used in the feasibility study for the Chapada project.

The Company continues to evaluate the benefit of further hedging a portion of 2008 forecast production.

22. Off-Balance Sheet Arrangements

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

23. Reserve Estimates

The figures for reserves and resources are determined in accordance with National Instrument 43-101, issued by the Canadian Securities Administrators. This standard 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, 2005, the Company had proven and probable reserves of 5.2 million contained ounces of gold, an increase of 1.2 million contained ounces from the previous year end despite a depletion through production during the year of 116,000 gold ounces. The primary changes in proven and probable reserves were:

Increase in contained ounces (000;s)	
C-1 Santa Luz	556
São Francisco	324
São Vicente	309

Successful exploration efforts and the impact of a higher gold price assumption used in 2004 resulted in an increase in reserves. Reserves as at December 31, 2005 were estimated using a gold price of $425 per ounce compared to $325-$350 used to calculate reserve estimates as at December 31, 2004.

Mine/Project	Gold price per oz./price per lb.			
		2005		2004
Fazenda Brasileiro	$	421	$	350
Chapada	$	425/$1.00	$	325/$0.85
São Francisco	$	425	$	350
São Vicente	$	425	$	325
Fazenda Nova	$	500	$	345
C1 Santa Luz	$	425	$	-
Ernesto	$	425	$	-

Proven and probable reserves for the São Francisco Mine of 1.4 million contained ounces have increased by 324,000 ounces over the last year. This increase is a result of the exploration activities during the year. Such increase in reserves extends the mine life of São Francisco to approximately 10 years, representing a 2.5 year increase over the initial mine life at estimated production rates contemplated in the feasibility study and mine plan. Current resource estimates include 1.7 million ounces of measured and indicated resources plus an addition of 0.9 million ounces of inferred resources. This compares to 1.4 million ounces of measured and indicated resources plus an addition of 0.8 million ounces of inferred resources as at December 31, 2004. Furthermore, bulk samples at ã 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, 2005 were 206,700 ounces of gold (December 31, 2004 - 233,000 ounces; February 29, 2004 - 257,000 ounces). Reserves have decreased by 26,300 contained ounces despite having produced 75,000 ounces during the year. Total measured and indicated resources at year end were 444,000 contained ounces, representing a net increase of 34,000 ounces for 2005. The Company plans to continue an exploration program to expand the resources and reserves and increase the mine life.

As at December 31, 2005, Fazenda Nova had proven and probable reserves of 92,300 ounces compared to 146,600 ounces as at December 31, 2004. The Fazenda Nova Mine continues to have a three year mine life based on probable reserves.

Proven and probable reserves as at December 31, 2005 for São Vicente are 470,000 ounces of contained gold, an increase of approximately 300,000 contained ounces from the prior year. Total measured and indicated resources are 660,000 contained ounces as at December 31, 2005. In May 2005, the Company completed a positive feasibility study in respect to São Vicente. The results of the feasibility study confirmed an increase in mineral reserves at São Vicente, with an increase in forecast production. The initial plan for São Vicente contemplated treating São Vicente and São Francisco on a combined basis, however, based on positive exploration results to date, 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. As such, the Company decided to defer a formal construction decision pending a feasibility study by April 2006 as further discussed under the Exploration and Development section of this Management’s Discussion and Analysis.

Proven and probable reserves at Chapada are 2.55 million ounces of contained gold and 2.35 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 3.05 million gold ounces of measured and indicated resources and 2.81 billion pounds of copper measured and indicated resources.

The current reserve estimate includes the addition of the C1 Santa Luz Project. An aggregate of 556,000 contained ounces of proven and probable reserves were added from the C1 Santa Luz Project. 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 982,400 ounces of measured and indicated resources plus 199,700 ounces of inferred resources. Our new project Ernesto added 141,800 ounces of measured and indicated resources and 71,400 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.

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 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.

24. Exploration and Development

The Corporation's exploration efforts in Brazil included: (i) further drilling at Ernesto, and (ii) further drilling and bulk sampling at São Vicente Deep South; (iii) further drilling and at C-1 Santa Luz. The Company has allocated approximately $9.5 million in 2006 for exploration focusing on these areas. The Company is also preparing an exploration program for the properties acquired from RNC Gold Inc which includes the Hemco concessions.

The Company spent $4.8 million and $15.4 million during the fourth quarter and the year ended December 31, 2005, respectively. This compares to $6.8 spent during the comparative ten month period ended December 31, 2004 on exploration.

São Vicente

At São Vicente, the 2005 exploration program included (i)a program of surface drilling; (ii)drift excavation and bulk sampling; (iii) and 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. In addition, drilling and bulk sampling results continue to support the view of a larger open pit operation than contemplated in the original feasibility study completed in May 2005. There is also the possibility for a new concurrent underground operation. The initial plan for São Vicente contemplated treating São Vicente and São Francisco on a combined basis; however, the results of the Feasibility Study support the Company's later conclusion that São Vicente can be constructed as a stand-alone project. Based on positive results to date from continuing exploration at São Vicente, the Corporation has decided to defer a formal construction decision pending further exploration results and further feasibility evaluation to optimize the project. The development plan for São Vicente contemplates a feasibility study (including a new reserve estimate) in 2006 and (assuming a positive feasibility study) the potential commencement of construction in early to mid 2007.

C-1 Santa Luz

C-1 Santa Luz is one of eight (and the most advanced) of the priority targets on the Corporation's 180,000 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. 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 mind. Measured and indicated resources were 18.4 million tonnes grading 1.66g/t for 982,400 ounces and inferred resources were 2.0 million tonnes grading 3.09g/t for 199,700 ounces. The Company is continuing to drill project and believes that it can add to the current resource base and ultimately prove the feasibility of an open pit and underground operation.

The development plan for C1 Santa Luz contemplates a feasibility study in 2006 and (assuming a positive feasibility study) potential commencement of construction in 2007.

São Vicente, Ernesto and C1 Santa Luz are subject to completion of either feasibility studies or favourable construction decisions. Development of these projects is anticipated to be sequential, however, whether or not they are developed, or are developed in sequence, will depend on results from continuing exploration efforts and scoping and feasibility studies.

Current internal estimates and completed scoping studies suggest that these projects could contribute in excess of an additional 225,000 ounces of gold production beginning in 2008. However, there is no assurance that all or any of them will be developed nor that they will be developed within the periods contemplated herein.

Ernesto

Ernesto is a priority target on the Company's 450,000 hectares of mineral claims on the 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 late 2006 and, assuming a positive result, a feasibility study will be placed in 2006 to 2007 and potential commencement of construction in 2007 or 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. Six high-priority targets will be followed up this year including: Vereda Grande, Mansinha, Riacho do Miguel, Cubango, Mari and C1 Santa Luz extension.

The Company has allocated $9.5 million in the 2006 budget for exploration as follows:

	2006
Itapicaru Greenstone Belt/Fazenda Brasileiro	43%
Santa Elina Gold Belt	51%
Fazenda Nova	2%
Chapada	3%
Generative	1%
	100%

25. Sale of Argentine Assets

Subsequent to the year end, the Company closed the sale of its Argentine assets. Consideration comprised 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. The purchaser will provide additional consideration in late 2006. Deferred consideration will consist of either of the following at the option of the purchase: (i)$1.6 million, (ii) 10 million common shares and 5 million share purchase warrants of the purchaser or (iii) $800,000 plus 5 million common shares and 2.5 million share purchase warrants of the purchaser. Consideration also includes a royalty of any and all ounces mined, produced or otherwise recovered from the properties, limited to an aggregate of $2 million. As at December 31, 2005, the Argentine assets were reflected as assets held for sale on the balance sheet. The Company did not recognize a significant gain or a loss on the transaction.

26. 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 priory targets.

The focus for 2006 and 2007 will continue to include the following:

- Advance exploration and development projects
- Complete construction of the Chapada copper-gold mine
- Pursue acquisition targets
- Continue an extensive exploration program in Brazil and Central America

With the acquisition of RNC Gold Inc., the Company acquired an additional two operating mines. The additional two operating mines are La Libertad in Nicaragua and San Andrés in Honduras. The Company will have five mines in operation with Chapada operations beginning late 2006. 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 750,000 ounces of gold per year beginning in 2008. In addition, the Company will have significant copper production by 2007. Subsequent to the year end, the Company also announced the potential acquisition of Desert Sun Mining Corp.

Production

During the year ended December 31, 2006, it is estimated that the Company will produce gold in the range of 340,000 to 373,000 ounces at average cash costs of $260-$275 per ounce. The completion of the acquisition of Desert Sun Mining Corp. will increase these levels.

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

Gold Production Estimates		2006E
Fazenda Brasileiro		80-85,000
Fazenda Nova		30-33,000
São Francisco		120-126,000
Chapada		15-19,000
San Andrés		50-60,000
La Libertad		45-50,000
Total		340-373,000
Average Projected Total Cash Costs/Ounce	$	260-275

Information relating to production ounces includes ounces produced before a mine is considered to be in commercial production. Commercial production is a convention for determining the point at which a mine is producing at a sustainable commercial level, after which costs are no longer capitalized and are treated as operating costs. Commercial production will vary from mine to mine and differs amongst various companies. Cash costs shown above reflect operating costs after declaration of commercial production.

Production estimates stated above do not include the potential gold production from advanced projects including São Vicente, Ernesto, C1 Santa Luz or from RNC's Cerro Quema property. These projects are subject to completion of feasibility studies or favorable construction decisions. However, current internal estimates and completed scoping studies suggest that these properties could contribute in excess of an additional 225,000 ounces of gold production beginning 2008.

Production in 2006 includes the first year of operations for São Francisco and assumes commercial production during the second quarter of 2006. There are considerable ordinary course start-up adjustments of a heap leach mine operation such as São Francisco which may affect production levels in 2006. Actual production for 2006 may also be affected by rainfalls which could delay the start-up of operations.

Gold production in 2006 at Chapada will mainly depend on whether or not mine construction is completed in September 2006. Commercial production is assumed during the first quarter of 2007. Copper production from the Chapada Mine is expected to be 15 million pounds and 128 million pounds for 2006 and 2007, respectively. Gold production from the Chapada Mine is expected to be 15,000 to 19,000 ounces for 2006.

Production estimates for Fazenda Brasileiro incorporate only limited production in 2006 and 2007 resulting from access to the higher grade C Quartz and E-Deep areas. Mining of lower grade material at Fazenda Brasileiro will continue throughout 2006 and part of 2007 to permit access to higher grade lower areas at E-Deep.

Gold production information for San Andrés and La Libertad has been provided by RNC and adjusted to reflect Yamana's current view of the respective mine plans. The Company continues to evaluate these mines as part of its transition plan relating to the integration of these operations.

RNC gold production is shown effective as of the acquisition date of March 2006.

Forecast information is based on the opinions and estimates of management under current circumstances and are 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 2.43 to 1.0 in 2006 and 2.6 to 1.0 in 2007 and 2008. These exchange rate assumptions are more favorable than the current rate, but in line with Brazilian consensus estimates for these years.

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 $425 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. 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. The Company does not currently hedge foreign currency exposures.

The Company holds mining properties mainly in Brazil and as such is exposed to the laws governing the mining industry in that country. The Brazilian government is 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 that country.

The Company will require an operating license from the Brazilian Departmento Nacional da Produçaõ Mineral (the "DNPM") to operate a mine in Brazil. An operating license will only be issued by the DNPM to the Company after construction of each mine is completed. In some cases, the DNPM will grant a temporary operating license during the period in which an application for an operating license is pending. However, there is no assurance that permanent operating licenses will be issued to the Company in connection with the São Francisco gold mine or the Chapada copper gold mine.

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, 2005. 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. Disclosure Controls and Procedures

The Company’s Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Company’s disclosure controls and procedures as of December 31, 2005 and have concluded that these controls and procedures are effective in providing reasonable assurance that material information relating to the Company is made known to them by others within the Company.

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, 2005 and December 31, 2004 and results of operations for the period ended December 31, 2005, for the ten month period ended December 31, 2004 and for the period ended February 29, 2004. This Management's Discussion and Analysis has been prepared as of March 20, 2006. 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, 2005 (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, 2005 and the most recent Annual Information Form for the period ended December 31, 2005 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 document contains "forward-looking statements" 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, 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 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, 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: the business of Yamana and its strategic acquisitions not being integrated or such integration providing more difficult, time consuming or costly than expected; unexpected events during construction, expansion and start-up; the actual results of current exploration activities; actual results of current reclamation activities; conclusions of economic evaluations; changes in project parameters as plans to continue to be refined; future prices of gold; possible variations in ore grade tones mined, crushed or milled 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 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.

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.

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 and (d) unrealized gains (losses) on commodity contracts. 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.

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 outside 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, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Deloitte & Touche LLP has full and free access to the Audit Committee.

/s/ Peter Marrone

Peter Marrone
President and Chief Executive Officer

/s/ Charles B. Main

Charles B. Main
Chief Financial Officer

March 20, 2006

Report of Independent Registered Chartered Accountants

To the Shareholders of Yamana Gold Inc.

We have audited the consolidated balance sheets of Yamana Gold Inc. as at December 31, 2005 and 2004 and the consolidated statements of operations, deficit and cash flows for the year ended December 31, 2005, the ten month period ended December 31, 2004 and the year ended February 29, 2004. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Yamana Gold Inc. as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005, the ten month period ended December 31, 2004 and the year ended February 29, 2004 in accordance with Canadian generally accepted accounting principles.

The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

/s/ Deloitte & Touche LLP

Independent Registered Chartered Accountants

Vancouver, British Columbia, Canada
March 20, 2006

Yamana Gold Inc.

As at the Periods Ended
(In thousands of U.S. Dollars)

		December 31, 2005		December 31, 2004
Assets				
Current				
Cash and cash equivalents	**$**	**151,633**	$	87,054
Receivables, advances and deposits		**6,160**		3,245
Inventory *(Note 5)*		**11,353**		5,862
Income taxes recoverable		**1,261**		-
		170,407		96,161
Capital				
Property, plant and equipment *(Note 6)*		**24,992**		17,938
Assets under construction *(Note 7)*		**154,345**		12,085
Mineral properties *(Note 8)*		**61,506**		38,256
Assets held for sale *(Note 4)*		**5,667**		5,413
		246,510		73,692
Other				
Investments *(Note 9)*		**2,259**		-
Loan receivable *(Note 10)*		**18,986**		-
Other assets *(Note 11)*		**20,974**		5,797
Future income tax assets *(Note 17)*		**6,561**		1,456
	$	**465,697**	$	177,106
Liabilities				
Current				
Accounts payable and accrued liabilities	**$**	**22,827**	$	7,225
Derivative related liabilities *(Note 22i)*		**8,615**		-
		31,442		7,225
Long term				
Notes payable *(Note 12)*		**106,847**		-
Asset retirement obligations *(Note 13)*		**8,012**		4,972
Future income tax liabilities *(Note 17ii)*		**2,922**		3,100
Liabilities associated with assets held for sale (Note 4)		**1,500**		1,500
		150,723		16,797

		December 31, 2005		December 31, 2004
Shareholders' Equity				
Capital Stock				
Authorized Unlimited number of first preference shares without par value issuable in seriesn Ulimited number of common shares without par				
value *Issued and outstanding* 191,341,932 common shares (December 31, 2004-122,286,716 shares(Note 14i)		**310,409**		147,407
Share purchase warrants *(Note 15)*		**3,737**		10,864
Contributed surplus *(Note 14ii)*		**4,676**		1,775
(Deficit) retained earnings		**(3,848)**		263
		314,974		160,309
	$	**465,697**	$	177,106

Contingencies and commitments (Notes 21, 24)

Yamana Gold Inc.
For the Periods Ended
(In thousands of U.S. Dollars)

		December 31, 2005		December 31, 2004 (10 months)		February 29, 2004
Sales	**$**	**46,038**	$	32,298	$	19,811
Cost of sales		**(30,371)**		(17,016)		(10,465)
Depreciation, amortization and depletion		**(6,740)**		(4,541)		(2,430)
Accretion of asset retirement obligations (Note 13)		**(358)**		(364)		(162)
Mine Operating Earnings		**8,569**		10,377		6,754
Expenses						
General and administrative		**(10,415)**		(6,226)		(4,599)
Foreign exchange gain		**369**		1,848		75
Stock-based compensation *(Note 16)*		**(2,298)**		(2,191)		(612)
Operating (Loss) Earnings		**(3,775)**		3,808		1,618
Investment and other business income		**4,049**		792		483
Interest and financing expense		**(94)**		-		(255)
Unrealized loss on commodity contracts (Note 22i)		**(8,615)**		-		-

(Loss) Earnings Before Income Taxes		**(8,435)**		4,600		1,846
Income Tax Recovery (Expense) *(Note 17i)*		**4,324**		(1,817)		(838)
Net (Loss) Earnings		**(4,111)**		2,783		1,008
Retained earnings (deficit), beginning of period		**263**		(2,520)		(3,491)
Interest on Convertible Notes		**-**		-		(37)
(Deficit) retained earnings, end of Period	**$**	**(3,848)**	$	263	$	(2,520)
(Loss) Basic Earnings per Share	**$**	**(0.03)**	$	0.03	$	0.02
Diluted (loss) Earnings per Share						
Weighted average number of Shares (Note 14iii)	**$**	**(0.03)**	$	0.02	$	0.02
		144,888		100,036		43,674

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Yamana Gold Inc.

For the Periods Ended
(In thousands of U.S. Dollars)

		December 31, 2005		*December 31, 2004 (10 months)*		*February 29 2004*
Operating Activities						
Net earnings (loss) for the year	**$**	**(4,111)**	$	2,783	$	1,008
Asset retirement obligations realized *(Note 13)*		**(309)**		(237)		-
Items not involving cash						
Depreciation, amortization and depletion		**6,740**		4,541		2,430
Stock-based compensation *(Note 16)*		**2,298**		2,191		612
Future income taxes *(Note 17)*		**(4,447)**		430		(324)
Accretion of asset retirement obligations *(Note 13)*		**358**		364		162
Unrealized foreign exchange		**(3,252)**		(1,792)		(100)
Unrealized loss on commodity contracts *(Note 22i)*		**8,615**		-		-
Other		**553**		1,013		1,165
Net change in non-cash working capital *(Note 18)*		**(3,035)**		(757)		538
		3,410		8,536		5,491
Financing Activities						
Issue of common shares and warrants for cash (net of issue costs)		**155,099**		71,931		56,349
Deferred financing charges *(Note 11)*		**(4,630)**		(3,049)		-
Loan proceeds		**100,000**		-		-
		250,469		68,882		56,349
Investing Activities						
Business acquisition of Fazenda Brasileiro		**-**		-		(22,098)
Expenditures on mineral properties		**(23,199)**		(11,512)		(4,191)
Acquisition of property, plant and equipment		**(5,752)**		(3,079)		(1,770)
Expenditures on assets under construction		**(132,031)**		(11,965)		-

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