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# Management's Discussion and Analysis of Operations and Financial Condition

*(United States Dollars unless otherwise specified, in accordance with Canadian generally accepted accounting principles ("GAAP"))*

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

## 1. CORE BUSINESS

Yamana Gold Inc. (the "Company" or "Yamana") is a Canadian-based gold producer engaged in gold mining and related activities, including exploration, extraction, processing and reclamation. The Company has significant properties involved in gold and other precious metal production, development, exploration and land positions throughout the Americas including Brazil, Chile, Argentina, Mexico and Colombia.

The Company plans to continue to build on its production base through existing operating mine expansions and

throughput increases, development of new mines, the advancement of its exploration properties and by targeting other gold consolidation opportunities with a primary focus in the Americas.

The Company's shares are listed on the Toronto Stock Exchange (Symbol: YRI), the New York Stock Exchange (Symbol: AUJ) and the London Stock Exchange (Symbol: YAU).

## 2. HIGHLIGHTS

### Financial

#### Third Quarter

- Record revenue of \$454.0 million, more than 36% higher than the same quarter of 2009.
- Record mine operating earnings of \$201.2 million representing an increase of 48% from the third quarter of 2009.
- Net earnings of \$120.7 million or \$0.17 basic earnings per share, almost double the third quarter net earnings of 2009.
- Adjusted Earnings of \$118.9 million or \$0.16 per share, an increase of 35% from the third quarter of 2009, as shown in the following table:

For the three months ended September 30, (In millions of United States Dollars, except per share amounts)	2010	2009
<b>Net earnings</b>	<b>\$ 120.7</b>	<b>\$ 60.8</b>
Non-cash foreign exchange gains	(15.9)	(6.7)
Non-cash unrealized losses on derivatives	1.5	21.0
Non-recurring tax adjustment	3.2	–
Future income tax expense on translation of intercompany debt	6.9	18.9
Other non-recurring losses and adjustments	2.9	1.8
<b>Adjusted Earnings before income tax effects</b>	<b>119.3</b>	<b>95.8</b>
Income tax effect of adjustments	(0.4)	(7.5)
<b>Adjusted Earnings (i)</b>	<b>\$ 118.9</b>	<b>\$ 88.3</b>
<b>Adjusted Earnings per share (i)</b>	<b>\$ 0.16</b>	<b>\$ 0.12</b>

(i) Non-GAAP measure—see Section 6.

- Record cash flows of \$208.8 million from continuing operations before changes in non-cash working capital (a non-GAAP measure) and cash flows of \$153.3 million from continuing operations after changes in non-cash working capital representing increases of 24% and 6%, respectively from the comparable quarter in 2009.
- Cash and cash equivalents at September 30, 2010 of \$279.7 million. Subsequent to the quarter ended September 30, 2010, the Company repaid \$20.0 million of its debt facility.
- Increase in the Company's dividend to \$0.08 per share on an annualized basis, representing a 100% increase over the dividend level paid in 2009.

#### Nine Months

- Total revenue of \$1.2 billion, more than 45% higher than the same period of 2009.
- Mine operating earnings of \$476.6 million, representing an increase of 68% from the same period of 2009.
- Net earnings of \$291.0 million or \$0.39 basic earnings per share, an increase of over 85% compared to the nine months of 2009.

- Adjusted Earnings of \$277.9 million or \$0.38 per share, an increase of 12% from the first nine months of 2009, are shown below:

For the nine months ended September 30, (In millions of United States Dollars, except per share amounts)	2010	2009
<b>Net earnings</b>	<b>\$ 291.0</b>	<b>\$ 156.5</b>
Non-cash foreign exchange gains	(36.6)	(57.0)
Non-cash unrealized gains on derivatives	(2.5)	102.8
Write-off of mineral interests and other assets	3.3	–
Non-recurring tax adjustment	3.2	–
Future income tax expense on translation of intercompany debt	1.9	54.0
Other non-recurring losses and adjustments	18.7	27.6
<b>Adjusted Earnings before income tax effects</b>	<b>279.0</b>	<b>283.9</b>
Income tax effect of adjustments	(1.1)	(35.5)
<b>Adjusted Earnings (i)</b>	<b>\$ 277.9</b>	<b>\$ 248.4</b>
<b>Adjusted Earnings per share (i)</b>	<b>\$ 0.38</b>	<b>\$ 0.34</b>

(i) Non-GAAP measure—see Section 6.

- Cash flows of \$485.3 million from continuing operations before changes in non-cash working capital (a non-GAAP measure) and cash flows of \$380.2 million from continuing operations after changes in non-cash working capital representing increases of 42% and 20% respectively in comparison to the same period in 2009.

## Operational

### Third Quarter

- Production from continuing operations of 267,409 gold equivalent ounces (“GEO”) (gold and silver production from continuing operations of 222,299 ounces and 2.5 million ounces, respectively). GEO production on a mine-by-mine basis is broken down as follows:

For the three months ended September 30, (In ounces)	2010
Chapada	40,405
El Peñón (GEO)	105,212
Gualcamayo	31,972
Jacobina	33,637
Minera Florida (GEO)	27,652
Fazenda Brasileiro	17,161

- By-product cash costs of \$58 per GEO from continuing operations (\$104 per GEO excluding Alumbraera).
- GEO sold of 271,942 (gold and silver sold from continuing operations of 227,189 ounces and 2.5 million ounces, respectively) and 43.5 million payable pounds of copper sold from Chapada.

- Co-product cash costs from continuing operations of \$439 per GEO (\$444 per GEO excluding Alumbraera). Co-product cash costs from wholly owned mines are as follows:

For the three months ended September 30, (In United States Dollars per GEO)	2010
Chapada	\$ 301
El Peñón	\$ 461
Gualcamayo	\$ 480
Jacobina	\$ 463
Minera Florida	\$ 425
Fazenda Brasileiro	\$ 620

### Nine Months

- Production from continuing operations of 760,509 GEO (gold and silver production from continuing operations of 621,361 ounces and 7.7 million ounces, respectively). GEO production on a mine-by-mine basis is broken down as follows:

For the nine months ended September 30, (In Ounces)	2010
Chapada	98,648
El Peñón (GEO)	314,134
Gualcamayo	98,901
Jacobina	88,443
Minera Florida (GEO)	73,556
Fazenda Brasileiro	50,232

- Record copper production from Chapada of 109.5 million pounds.
- Production from Gualcamayo of 98,901 ounces of gold, a 17% increase compared with total commercial and commissioning production in the first nine months of 2009.
- By-product cash cost of \$82 per GEO from continuing operations (\$154 per GEO excluding Alumbraera).

- GEO sold of 768,033 (gold and silver sold from continuing operations of 627,350 ounces and 7.7 million ounces, respectively) and 104.2 million payable pounds of copper sold from Chapada.
- Co-product cash costs from continuing operations of \$433 per GEO (\$440 per GEO excluding Alumbreira) with co-product cash costs from wholly owned mines as follows:

For the nine months ended September 30, (In United States Dollars per GEO)		2010
Chapada	\$	329
El Peñón	\$	431
Gualcamayo	\$	449
Jacobina	\$	550
Minera Florida	\$	389
Fazenda Brasileiro	\$	598

### Development and Exploration

- At Mercedes, construction is advancing with start-up of production commencing in 2012. Continuing exploration shows significant potential for resource increases before start-up.
- At C1 Santa Luz, engineering work is progressing on schedule with construction and environmental licenses expected to be issued in late 2010. C1 Santa Luz is expected to commence production in late 2012.
- At Ernesto Pau-a-Pique, technical analysis for the mine development has been completed; construction and environmental licenses expected to be issued in late 2010 with start-up expected in late 2012.
- Drilling of higher grade areas discovered at Jacobina provides expectations of a significant contribution to resources supporting an expansion study now underway.
- At Pilar, a construction decision has been made. Total mineral resources increased by 32% from the published estimate as at the end of 2009. The new mineral reserves at Pilar increases the Company's total proven and probable mineral reserves by 7%. Continuing exploration shows significant potential for resource increases before start-up.
- The Company's Jeronimo project in Chile continues to advance. Yamana has made significant advancements in metallurgical test work and intends to deliver a feasibility study in late 2011.
- The newly discovered Suruca gold deposit near the Chapada mine continues to advance with additional drilling expected to expand the deposit substantially. A feasibility level study is expected to be completed in late 2010.

### 3. OUTLOOK AND STRATEGY

The Company continues to adhere to its key commitments, which underlie Yamana's success in the past year. These include sustainable production, stability of jurisdictions, disciplined growth and industry-low cash costs.

The Company is committed to a sustainable production platform base of approximately 1.1 million GEO mainly from its six producing mines: Chapada, Jacobina and Fazenda Brasileiro in Brazil, El Peñón and Minera Florida in Chile, and Gualcamayo in Argentina. The Company has previously provided production guidance in the range of 1.03 million GEO to 1.145 million GEO for 2010. Annual production is still expected to be in line with this guidance. Copper production is expected to be in excess of 150 million pounds in 2010, also consistent with previous guidance.

The Company's approach to sustainability, which is broader than simply maintaining production levels, includes the adherence to best practices and international policies for health and safety, environment and community relations. The Company's focus on and initiatives in creating strong community relations and support systems, energy management, improvement of water quality and availability, in addition to quality of life, are all important elements of its commitment to sustainability.

The Company remains committed to operating in comparatively stable jurisdictions, preferably where there is an established mining culture and tradition. Yamana remains focused on the Americas, with production coming from operating mines in Brazil, Chile and Argentina, and developments in Mexico where construction is ongoing at the Mercedes project. The Company is also active on the exploration front in Colombia.

The Company's well-defined development stage and exploration projects, in addition to further value-enhancing opportunities, provide the Company with a strong organic growth profile and value proposition. Near-term production growth will come from the Company's construction stage projects: Mercedes, C1 Santa Luz, Ernesto/Pau-a-Pique, and from a tailings reprocessing project at the Minera Florida mine. Production is expected to increase by approximately 400,000 GEO annually from these projects at cash costs consistent with the current cost levels. Production is expected to start ramping up in 2012 as these projects commence operations to an annual run rate of approximately 1.5 million GEO in 2013, representing a 46% increase in production from 2009 levels.

Additional production growth is expected from the Gualcamayo mine in Argentina with the inclusion of the QDD Lower West underground zone, and from the Pilar project in Brazil where construction decisions have been made.

Exploration successes and value-enhancing projects such as Agua Rica are expected to further supplement long-term growth and add value to shareholders.

The Company is committed to low cash costs (see Section 6, *Non-GAAP measures*) and focuses on cost containment with the goal of remaining one of the lowest cost producers in the industry. Cash costs for 2010 are expected to be below \$175 per GEO on a by-product basis. In an effort to reduce volatility in costs due to fluctuating currency

exchange rates, the Company has hedged its local operating currency exposure at three of its mines in Brazil for a total of approximately 695.0 million Reais over the next three years at an average rate of approximately 2.14 Reais to the United States Dollar. In the third quarter, the spot exchange rate averaged 1.76 Reais to the United States Dollar. In Chile, given the strong correlation between the Chilean Peso and copper prices, rising copper prices serve as a natural hedge

to a strengthening in the currency. The Company believes that by-product cash costs are a better representation of the Company's cost structure as any erosion in costs due to the appreciation of the Chilean Peso will be offset by increases in the copper price.

The consolidated production guidance for 2010 above is in line with previous guidance issued by the Company.

#### 4. OVERVIEW OF FINANCIAL RESULTS

The following table presents a summarized Statement of Operations for the three-month and nine-month periods ended September 30, 2010 with comparatives for the three- and nine-month periods ended September 30, 2009:

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<i>(In thousands of United States Dollars, except for shares and per share amounts; unaudited)</i>				
<b>Revenues</b>	<b>\$ 453,965</b>	<b>\$ 333,179</b>	<b>\$ 1,151,681</b>	<b>\$ 783,489</b>
Cost of sales excluding depletion, depreciation and amortization	(171,913)	(131,357)	(452,722)	(338,152)
Depletion, depreciation and amortization	(79,219)	(64,792)	(217,420)	(160,579)
Accretion of asset retirement obligations	(1,618)	(611)	(4,957)	(1,601)
<b>Mine operating earnings</b>	<b>201,215</b>	<b>136,419</b>	<b>476,582</b>	<b>283,157</b>
<b>Expenses</b>				
General and administrative	(25,109)	(17,029)	(79,137)	(58,823)
Exploration	(12,249)	(9,035)	(29,699)	(18,224)
Other	(5,966)	(5,890)	(14,697)	1,415
<b>Operating earnings</b>	<b>157,891</b>	<b>104,465</b>	<b>353,049</b>	<b>207,525</b>
Investment and other business income	1,740	8,978	3,012	22,227
Interest and financing expenses	(13,743)	(5,970)	(42,198)	(14,879)
Foreign exchange gain	15,894	15,126	36,089	87,820
Realized (loss) gain on derivatives	(246)	(3,562)	(5,476)	27,849
Unrealized (loss) gain on derivatives	(1,534)	(16,853)	2,454	(96,950)
<b>Earnings from continuing operations before income taxes and equity earnings</b>	<b>160,002</b>	<b>102,184</b>	<b>346,930</b>	<b>233,592</b>
Income tax expense	(47,510)	(55,799)	(97,388)	(94,144)
Equity earnings from Minera Alumbreira	10,689	8,061	30,140	18,865
<b>Earnings from continuing operations</b>	<b>123,181</b>	<b>54,446</b>	<b>279,682</b>	<b>158,313</b>
(Loss) earnings from discontinued operations (i)	(2,496)	6,377	11,329	(1,857)
<b>Net earnings</b>	<b>\$ 120,685</b>	<b>\$ 60,823</b>	<b>\$ 291,011</b>	<b>\$ 156,456</b>
<b>Earnings Adjustments (ii):</b>				
Non-cash foreign exchange (gains) losses	(15,894)	(6,726)	(36,588)	(56,986)
Non-cash unrealized losses (gains) on derivatives	1,534	21,013	(2,454)	102,853
Write-off of mineral interests and other assets	-	-	3,279	-
Non-recurring tax adjustment (iii)	3,173	-	3,173	-
Future income tax expense on translation of intercompany debt	6,942	18,933	1,929	54,020
Other non-recurring losses and adjustments	2,901	1,838	18,705	27,611
<b>Adjusted Earnings before income tax effects</b>	<b>119,341</b>	<b>95,881</b>	<b>279,055</b>	<b>283,954</b>
Income tax effect of adjustments	(475)	(7,541)	(1,157)	(35,545)
<b>Adjusted Earnings (ii)</b>	<b>\$ 118,866</b>	<b>\$ 88,340</b>	<b>\$ 277,898</b>	<b>\$ 248,409</b>
<b>Basic earnings per share</b>	<b>\$ 0.17</b>	<b>\$ 0.08</b>	<b>\$ 0.39</b>	<b>\$ 0.22</b>
<b>Diluted earnings per share</b>	<b>\$ 0.17</b>	<b>\$ 0.08</b>	<b>\$ 0.39</b>	<b>\$ 0.22</b>
<b>Adjusted Earnings per share (ii)</b>	<b>\$ 0.16</b>	<b>\$ 0.12</b>	<b>\$ 0.38</b>	<b>\$ 0.34</b>

(i) Results of San Andrés, São Vicente and São Francisco mines have been reclassified as discontinued operations (in accordance with GAAP) with restatement of prior period comparatives. The sale of San Andrés closed in 2009; the sale of São Vicente and São Francisco closed April 30, 2010.

(ii) A cautionary note regarding non-GAAP measures is included in Section 6 providing a discussion on Adjusted Earnings and its definition. Adjusted Earnings or Loss and Adjusted Earnings or Loss per share are calculated as net earnings excluding (a) stock-based compensation, (b) foreign exchange (gains) losses, (c) unrealized (gains) losses on commodity derivatives, (d) impairment losses, (e) future income tax expense (recovery) on the translation of foreign currency inter-corporate debt, (f) write-down of investments and other assets, and (g) any other non-recurring adjustments. Non-recurring adjustments from unusual and extraordinary events or circumstances are reviewed from time to time based on materiality and the nature of the event or circumstance. Earnings adjustments reflect both continuing and discontinued operations.

(iii) Adjustment represents the change in future tax liability that is expected to be realized during 2011 and 2012 as a result of a temporary change in the income tax rate/legislation in Chile which was enacted in July, 2010 and is scheduled to end by the end of fiscal 2012.

Gold prices continued to remain strong, establishing new record highs in the third quarter of 2010 spurred from continuing global economic uncertainties, increased demand and the devaluation of the United States Dollar. Average market prices in the third quarter for gold, copper and silver were 28%, 24% and 19% higher than the same quarter of 2009, and 3%, 3% and 4% higher than the second quarter of this year, respectively. Stronger metal prices, augmented by a 6.5% increase in gold sales from continuing operations compared to the third quarter of 2009, led to an increase of \$120.8 million in revenues to a record \$454.0 million in the third quarter compared with \$333.2 million in the same quarter of 2009. Higher revenues also contributed to an increase of \$53.4 million in mine operating earnings to \$201.2 million in the quarter compared with \$136.4 million in the third quarter of 2009.

The average prices of gold, copper and silver for the third quarter of 2010 and 2009 are summarized below:

For the quarter ended September 30,	Realized Prices (i)		Market Prices	
	2010	2009	2010	2009
Gold (per oz.)	\$ 1,235	\$ 962	\$ 1,228	\$ 961
Copper (per lb.)	\$ 3.27	\$ 2.74	\$ 3.29	\$ 2.65
Silver (per oz.)	\$ 19.73	\$ 14.97	\$ 18.98	\$ 14.74

(i) Realized prices based on gross sales compared to market prices for metals may vary due to infrequent shipments and depending on timing of the sales. Realized prices reflect continuing operations.

Revenues for the quarter are composed of the following:

For the quarter ended September 30, 2010	Quantity Sold	Realized Price	Revenues (in 000's)
Gold (i)	217,094 oz.	\$ 1,235	\$ 268,138
Copper (i)	43,450,887 lbs.	\$ 3.27	141,982
Silver	2,461,449 oz.	\$ 19.73	48,565
Gross revenues			\$ 458,685
Add (deduct):			
Treatment and refining charges of gold and copper concentrate			\$ (8,897)
Sales taxes			(7,288)
Mark-to-market, metal price adjustments, and other			11,465
<b>Revenues</b>			<b>\$ 453,965</b>

(i) Excludes 12.5% interest of Alumbra which is accounted for as an equity investment; Metal sold including the Company's attributable portion from Alumbra are 202,564 ounces of gold and 2.6 million pounds of copper; includes payable copper and gold contained in concentrate.

Cost of sales excluding depletion, depreciation and amortization and accretion of asset retirement obligation for the quarter was \$171.9 million compared with \$131.4 million in the third quarter of 2009. The following table provides a reconciliation of the co-product cash costs to the cost of sales from continuing operations of the quarter:

For the quarter ended September 30, 2010	Gold Ounces or Pounds of Copper Produced	Co-product Cash Cost per unit (iii)	Total (000's)
<b>Brazil</b>			
Chapada—Gold	40,405 oz.	\$ 301	\$ 12,162
Chapada—Copper	42,769,121 lbs.	1.14	48,736
Jacobina	33,637 oz.	463	15,565
Fazenda Brasileiro	17,161 oz.	620	10,634
<b>Chile</b>			
El Peñón (GEO) (i)	105,212 oz.	461	48,480
Minera Florida (GEO) (i)	27,652 oz.	425	11,751
<b>Argentina</b>			
Gualcamayo	31,972 oz.	480	15,342
		\$	162,670
Add (deduct):			
Inventory and other non-cash adjustments			9,908
Chapada concentrate treatment and refining charges			(8,897)
Other commercial costs			4,240
Overseas freight for Chapada concentrate			3,992
<b>Cost of sales excluding depletion, depreciation and amortization (ii)</b>		<b>\$</b>	<b>171,913</b>

(i) Gold ounces reported are gold equivalent ounces for El Peñón and Minera Florida. Gold equivalent ounce calculations are based on an assumed gold to silver ratio (55:1), which is a long-term historical average of prices.

(ii) Excludes 12.5% interest of Alumbra which is accounted for as an equity investment.

(iii) A cautionary note regarding non-GAAP measures is included in Section 6.

Earnings from continuing operations for the third quarter were \$123.2 million compared with \$54.4 million in the same quarter in 2009, representing an increase of 126%. Net earnings were \$120.7 million compared with \$60.8 million in the same quarter of 2009, representing an increase of 98%. Earnings per share were \$0.17 on a basic and diluted basis for the third quarter of 2010, compared with basic and diluted earnings per share of \$0.08 for the same quarter in 2009. Earnings were higher due to an increase of \$53.4 million in operating earnings largely due to higher precious metal prices during the quarter and lower unrealized losses on derivatives vis-à-vis the comparative quarter in 2009. Adjusted Earnings were \$118.9 million compared with \$88.3 million in the same quarter of 2009, representing a 35% increase.

Cost of sales excluding depletion, depreciation and amortization was \$171.9 million compared with \$131.4 million in the third quarter of 2009. The appreciation of the Brazilian Real and Chilean Peso, higher electricity rates and maintenance costs were the main contributing factors to higher cost of sales.

Depletion, depreciation and amortization (“DDA”) expense for the quarter was \$79.2 million, a 22% increase from \$64.8 million in the third quarter of 2009. The increase in DDA is driven by higher capital expenditures increasing the depletion/depreciation base and an increase in metal quantities sold. The increased depletion/depreciation base is mainly

related to the addition of the Chapada expansion, which was completed in the third quarter of 2009.

General and administrative expenses increased to \$25.1 million, compared with \$17.0 million in the third quarter of 2009, reflecting additional expenditures due to the Company’s growth from operations and the growing infrastructure to support it.

Interest and financing expenses for the quarter was \$13.7 million, compared with \$6.0 million in the third quarter of 2009 largely reflecting the additional financial expenses incurred in Brazil as a result of taxes on financial transactions. Higher interest expense was also due to lower amount of interest capitalized in the third quarter compared with the same quarter of last year. The Company continues to capitalize interest expense on construction expenditures at Mercedes and other projects and it is anticipated that the amount capitalized will increase in the future as construction expenditures for the current organic growth phase increase.

Compared with the same quarter in 2009, exploration expense of \$12.2 million increased by 36% due to higher exploration activities in Chile and Argentina and a higher proportion of grass-roots exploration.

Foreign exchange gains were \$15.9 million for the third quarter of 2010 compared with \$15.1 million in the third quarter of 2009. Unrealized losses on derivatives were \$1.5 million in respect to the ineffective portion of foreign

exchange derivatives in the quarter versus unrealized derivative losses of \$16.9 million in the same quarter of 2009, which was attributable to copper forward contracts driven by the volatility of copper prices in 2009.

Income tax expense decreased in spite of higher earnings before tax mainly due to effective tax planning implemented and effective in the third quarter of 2010. However, the Company expects the normalized effective tax rate to be in the range of 30% to 32% going forward.

Cash flows from continuing operations before changes in non-cash working capital of a record \$208.8 million compares to \$167.9 million for the comparative quarter of 2009 representing a 24% increase. Cash flows from continuing operations after changes in non-cash working capital were a \$153.3 million inflow compared with a \$144.4 million inflow for the same quarter in 2009. The increase in cash flows from continuing operations before changes in non-cash working capital was primarily due to production increases and increases in metal prices resulting in higher margins. Cash and cash equivalents as at September 30, 2010 were \$279.7 million, an increase of \$17.5 million from the second quarter cash and cash equivalents and an increase of \$109.6 million from the cash balance at the beginning of the year.

Capital expenditures for the quarter were \$126.8 million compared with \$144.7 million in the third quarter of 2009. The decrease in capital expenditures during the quarter in comparison to the same quarter of 2009 is due to timing of expenditures on capital projects. This mainly reflects the absence of capital expenditures related to the Chapada throughput expansion and Gualcamayo construction in 2009 and offset by the ramp-up of construction activities at Mercedes in 2010.

#### For the nine months ended September 30, 2010

Net earnings for the nine months ended September 30, 2010 were \$291.0 million or \$0.39 basic earnings per share, representing an increase of more than 85% from the net earnings of \$156.5 million or \$0.22 basic earnings per share for the same period in 2009. Operating earnings for the nine months ended September 30, 2010 were \$353.0 million or 70% higher than that of the comparative period. The increase in operating earnings from the comparative nine-month period resulted in higher income tax expense recognized for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. Adjusted Earnings were \$0.38 per share or \$277.9 million for the nine months ended September 30, 2010 versus \$0.34 per share or \$248.4 million for the comparative period ended in 2009.

Cost of sales excluding depletion, depreciation and amortization was \$452.7 million compared with \$338.2 million in the first nine months of 2009. Higher cost of sales was mainly due to the appreciation of the Brazilian Real and Chilean Peso,

higher electricity rates and a maintenance program which resulted in costs that are anticipated to drive operational efficiencies in the long-term.

DD&A expense for the nine months was \$217.4 million, a 35% increase from \$160.6 million in 2009. The increase in DDA is driven by higher capital expenditures increasing the depletion/depreciation base and an increase in metal quantities sold. The increased depletion/depreciation base is mainly related to the addition of Gualcamayo and the Chapada Expansion.

Mine operating earnings were \$476.6 million for the period, compared with \$283.2 million in the first nine months of 2009. Revenues were \$1.2 billion compared with \$783.5 million for the nine months ended September 30, 2009. The increase in revenues and mine operating earnings was mainly driven by an increase in production and higher metal prices in the nine months of 2010 compared to the same period in 2009.

General and administrative expenses increased to \$79.1 million, compared with \$58.8 million in the nine months of 2009, reflecting additional expenditures due to the Company's growth from operations and the growing infrastructure to support it as well as general and administrative expenses in respect of Gualcamayo that were capitalized during the commissioning period of 2009.

Interest and financing expenses were \$42.2 million, compared with \$14.9 million in the nine months of 2009 largely reflecting the increase in borrowing and financing costs in 2010 and the reduced amount of interest capitalized as the result of the completion of the Gualcamayo mine in mid-2009.

Foreign exchange gains of \$36.1 million for the nine months of 2010 compared with \$87.8 million in the same period of 2009. Unrealized gains on derivatives were \$2.5 million in the nine months versus unrealized derivative losses of \$97.0 million in the same period of 2009, which was attributable to copper forward contracts driven by the volatility of copper prices.

Cash flows of \$380.2 million from continuing operations after changes in non-cash working capital, represent an increase of 20%, compared with \$317.0 million of nine months ended September 30, 2009. Cash flows of \$485.3 million from continuing operations before changes in non-cash working capital (a non-GAAP measure), represent an increase of 42%, in comparison to \$340.6 million of the same period in 2009.

Capital expenditures for the nine months ended September 30, 2010 of \$362.7 million compared with \$359.9 million of the comparative nine-month period. This mainly reflects the absence of capital expenditures related to the Chapada throughput expansion and Gualcamayo construction in 2009, offset by the increase in capital expenditures at El Peñón in the early quarters of this year and the ramp-up of construction activities at Mercedes and Pilar.

The table below presents selected quarterly financial and operating data:

<i>(In thousands of United States Dollars, except per share amounts)</i>	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
<b>Financial results</b>				
Revenues (ii)	\$ 453,965	\$ 351,374	\$ 346,341	\$ 399,825
Mine operating earnings	\$ 201,215	\$ 145,454	\$ 129,911	\$ 184,341
Earnings from continuing operations	\$ 123,181	\$ 84,314	\$ 72,187	\$ 53,458
Net Earnings for the period	\$ 120,685	\$ 90,788	\$ 79,539	\$ 36,175
Adjusted Earnings (iv)	\$ 118,866	\$ 85,818	\$ 73,206	\$ 100,863
Cash flows from operating activities of continuing operations	\$ 153,320	\$ 100,915	\$ 125,671	\$ 211,206
Cash flows from operating activities of continuing operations (before changes in non-cash working capital items) (iv)	\$ 208,815	\$ 134,556	\$ 137,830	\$ 155,225
Cash flows to investing activities of continuing operations	\$ (133,181)	\$ (46,878)	\$ (116,891)	\$ (90,532)
Cash flows (to) from financing activities of continuing operations	\$ (10,572)	\$ (11,144)	\$ 41,465	\$ (10,578)
<b>Per share financial results</b>				
<i>Earnings per share from continuing operations</i>				
Basic	\$ 0.17	\$ 0.11	\$ 0.10	\$ 0.07
Diluted	\$ 0.17	\$ 0.11	\$ 0.10	\$ 0.07
<i>Earnings per share</i>				
Basic	\$ 0.17	\$ 0.12	\$ 0.11	\$ 0.05
Diluted	\$ 0.17	\$ 0.12	\$ 0.11	\$ 0.05
<i>Adjusted Earnings per share</i>				
Basic	\$ 0.16	\$ 0.12	\$ 0.10	\$ 0.14
Diluted	\$ 0.16	\$ 0.12	\$ 0.10	\$ 0.14
<b>Financial Position</b>				
Cash and cash equivalents	\$ 279,691	\$ 262,223	\$ 221,983	\$ 170,070
Total assets	\$ 10,047,376	\$ 9,828,490	\$ 9,761,649	\$ 9,707,260
Total long-term liabilities	\$ 2,601,621	\$ 2,810,831	\$ 2,823,719	\$ 2,589,460
<b>Production</b>				
Commercial GEO—continuing operations (v)	267,409	253,264	239,836	289,456
GEO—discontinued operations (i)	–	10,052	33,236	35,796
Total GEO produced	267,409	263,316	273,072	325,252
Commercial GEO—continuing operations excluding 12.5% equity interest in Alumbra (v)	256,039	241,794	226,081	277,912
Co-product cash costs per GEO produced—continuing operations, including 12.5% equity interest in Alumbra (iv)(v)	\$ 439	\$ 434	\$ 423	\$ 366
Chapada concentrate production (tonnes)	76,808	65,859	51,659	63,990
Chapada copper contained in concentrate production (millions of lbs.)	42.8	37.0	29.7	37.0
Chapada co-product cash costs per pound of copper (iv)	\$ 1.14	\$ 1.13	\$ 1.24	\$ 1.05
Alumbra (12.5% interest) concentrate production (tonnes)	15,487	16,480	19,961	18,711
Alumbra (12.5% interest) attributable copper contained in concentrate production (millions of lbs.)	8.3	9.3	11.8	10.8
Alumbra co-product cash costs per lb. of copper (iv)	\$ 1.53	\$ 1.52	\$ 0.89	\$ 1.23
<b>Gold Equivalent Ounces Breakdown—Continuing Operations</b>				
Total gold ounces produced	222,299	208,399	190,663	238,438
Silver ounces produced (millions of ounces)	2.5	2.5	2.7	2.8
<b>Sales</b>				
Commercial gold sales—continuing operations (ounces)	227,189	202,564	197,598	232,923
Gold sales—discontinued operations (ounces)	–	11,268	36,664	35,941
Total gold sales (ounces)	227,189	213,832	234,262	268,864
Commercial gold sales—continuing operations excluding Alumbra (ounces)	217,094	186,926	187,342	222,008
Chapada concentrate sales (tonnes)	81,127	57,895	51,795	63,646
Chapada payable copper contained in concentrate sales (millions of lbs.)	43.5	31.6	29.1	34.6
Silver sales (millions of ounces)	2.5	2.6	2.7	2.9
Average realized gold price per ounce (ii)	\$ 1,235	\$ 1,201	\$ 1,114	\$ 1,095
Average realized copper price per pound (excluding derivative contracts) (ii)	\$ 3.27	\$ 3.07	\$ 3.25	\$ 3.18
Average realized silver price per ounce (ii)	\$ 19.73	\$ 18.45	\$ 17.07	\$ 17.47

<i>(In thousands of United States Dollars, except per share amounts)</i>	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
<b>Financial results</b>				
Revenues (ii)	\$ 333,179	\$ 236,710	\$ 213,600	\$ 87,831
Mine operating earnings	\$ 136,419	\$ 81,558	\$ 65,180	\$ (59,056)
Earnings from continuing operations	\$ 54,446	\$ 21,400	\$ 82,466	\$ 219,974
Net earnings for the period	\$ 60,823	\$ 9,641	\$ 85,993	\$ 179,367
Adjusted Earnings (iv)	\$ 88,340	\$ 95,814	\$ 64,257	\$ 12,350
Cash flows from operating activities of continuing operations	\$ 144,439	\$ 112,967	\$ 59,604	\$ 79,769
Cash flows from operating activities of continuing operations (before changes in non-cash working capital items) (iv)	\$ 167,930	\$ 101,778	\$ 70,876	\$ 34,801
Cash flows to investing activities of continuing operations	\$ (152,161)	\$ (120,143)	\$ (107,081)	\$ (122,968)
Cash flows (to) from financing activities of continuing operations	\$ (28,212)	\$ 2,559	\$ (28,726)	\$ 93,754
<b>Per share financial results</b>				
<i>Earnings per share from continuing operations</i>				
Basic	\$ 0.07	\$ 0.03	\$ 0.11	\$ 0.31
Diluted	\$ 0.07	\$ 0.03	\$ 0.11	\$ 0.31
<i>Earnings per share</i>				
Basic	\$ 0.08	\$ 0.01	\$ 0.12	\$ 0.25
Diluted	\$ 0.08	\$ 0.01	\$ 0.12	\$ 0.25
<i>Adjusted Earnings per share</i>				
Basic	\$ 0.12	\$ 0.13	\$ 0.09	\$ 0.02
Diluted	\$ 0.12	\$ 0.13	\$ 0.09	\$ 0.02
<b>Financial position</b>				
Cash and cash equivalents	\$ 97,498	\$ 93,102	\$ 91,816	\$ 167,765
Total assets	\$ 9,550,270	\$ 9,421,659	\$ 9,323,552	\$ 9,337,353
Total long-term liabilities	\$ 2,445,613	\$ 2,368,298	\$ 2,347,353	\$ 2,419,639
<b>Production</b>				
Commercial GEO—continuing operations (v)	269,191	217,162	205,038	218,069
Commissioning GEO produced (iii)	–	24,347	20,483	–
GEO—discontinued operations (i)	45,516	48,065	45,961	36,705
Total GEO produced	314,707	289,574	271,482	254,774
Commercial GEO—continuing operations excluding 12.5% equity interest in Alumbra (v)	259,359	201,533	189,293	197,155
Co-product cash costs per GEO produced—continuing operations, including 12.5% equity interest in Alumbra (iv)(v)	\$ 350	\$ 362	\$ 347	\$ 364
Chapada concentrate production (tonnes)	62,783	61,785	60,382	\$ 65,728
Chapada copper contained in concentrate production (millions of lbs.)	36.3	35.6	35.0	36.8
Chapada co-product cash costs per pound of copper (iv)	\$ 1.07	\$ 0.91	\$ 0.93	\$ 0.90
Alumbra (12.5% interest) concentrate production (tonnes)	13,414	18,733	18,010	18,024
Alumbra (12.5% interest) attributable copper contained in concentrate production (millions of lbs.)	7.6	10.9	10.2	15.6
Alumbra co-product cash costs per lb. of copper (iv)	\$ 1.52	\$ 1.83	\$ 1.44	\$ 1.10
<b>Gold Equivalent Ounces Breakdown—Continuing Operations</b>				
Total gold ounces produced	216,273	196,096	184,458	173,915
Commercial gold ounces produced	216,273	171,749	163,975	173,915
Silver ounces produced (millions of ounces)	2.9	2.5	2.3	2.4
<b>Sales</b>				
Commercial gold sales—continuing operations (ounces)	215,138	161,388	160,187	152,634
Gold sales—discontinued operations (ounces)	40,601	44,187	43,922	34,018
Commissioning gold sales (ounces)	–	24,698	16,600	–
Total gold sales (ounces)	255,739	230,273	220,709	186,652
Commercial gold sales—continuing operations excluding Alumbra (ounces)	203,947	145,695	145,368	131,991
Chapada concentrate sales (tonnes)	65,693	67,291	65,211	59,233
Chapada payable copper contained in concentrate sales (millions of lbs.)	36.2	34.2	32.4	30.1
Silver sales (millions of ounces)	2.8	2.4	2.4	2.2
Average realized gold price per ounce (ii)	\$ 962	\$ 922	\$ 906	\$ 789
Average realized copper price per pound (excluding derivative contracts) (ii)	\$ 2.74	\$ 2.06	\$ 1.53	\$ 1.59
Average realized silver price per ounce (ii)	\$ 14.97	\$ 14.03	\$ 12.59	\$ 10.20

(i) Results of San Andrés, São Vicente and São Francisco mines have been reclassified as discontinued operations (in accordance with GAAP) with restatement of prior period comparatives. The sale of San Andrés closed in 2009; São Vicente and São Francisco sale closed April 30, 2010.

- (ii) Revenues consist of sales net of sales taxes. Revenue per ounce data is calculated based on gross sales. Realized prices reflect continuing operations.
- (iii) Including commissioning gold ounces from Gualcamayo produced or sold.
- (iv) A cautionary note regarding non-GAAP measures is included in Section 6 of this Management's Discussion and Analysis of Operations and Financial Condition.
- (v) Silver production is treated as a gold equivalent. Gold equivalent ounce calculations are based on an assumed gold to silver ratio (55:1) which is a long-term historical average of prices and is used and presented solely for quarter-over-quarter comparative purposes.

## 5. OPERATING MINES

### Overview of Operating Results

#### For the three months ended September 30

Production from continuing operations was 267,409 GEO for the quarter, including the Company's proportionate interest in production from the Alumbra Mine of 11,370 gold ounces. This compares with production from continuing operations of 269,191 GEO for the quarter ended September 30, 2009.

By-product cash costs (a non-GAAP measure, see Section 6) from continuing operations including Alumbra averaged \$58 per GEO and excluding Alumbra were \$104 per GEO, compared with \$46 per GEO and \$79 per GEO, respectively, for the third quarter of 2009. Co-product cash costs (a non-GAAP measure, see Section 6) from continuing operations were \$439 per GEO for the third quarter of 2010 compared to \$350 per GEO for the comparative period in 2009. Appreciation of the Brazilian Real and Chilean Peso,

higher electricity rates and maintenance costs were the main contributing factors to higher cash costs for the quarter compared to last year.

Copper production for the quarter ended September 30, 2010 was a record 42.8 million pounds contained in concentrate from the Chapada Mine, compared with 36.3 million pounds for the third quarter of 2009. Additionally, 8.3 million pounds of copper were produced from Alumbra attributable to the Company, compared with 7.6 million pounds for the quarter ended September 30, 2009. Total copper production for the third quarter was 51.1 million pounds. Co-product cash costs per pound of copper were \$1.14 for the quarter from the Chapada Mine compared to \$1.09 per pound for the comparative quarter. Co-product cash costs per pound of copper for the quarter including the Company's interest in the Alumbra Mine were \$1.20 per pound.

Total production of GEO for the third quarter of 2010 with comparatives is summarized below:

For the three months ended (In GEO)	September 30, 2010	September 30, 2009
<b>Production from:</b>		
Commercial—continuing operations excluding Alumbra	256,039	259,359
Alumbra (12.5% interest)	11,370	9,832
<b>Total production from continuing operations</b>	<b>267,409</b>	<b>269,191</b>
Discontinued operations	–	45,516
<b>Total production</b>	<b>267,409</b>	<b>314,707</b>

The following table summarizes the production by mine for the third quarter of 2010 with comparatives:

For the three months ended	September 30, 2010		September 30, 2009	
	Gold Equivalent Ounce (GEO) (iv)	Co-product Cash Costs per GEO (\$) (i)	Gold Equivalent Ounce (GEO) (iv)	Co-product Cash Costs per GEO (\$) (i)
<b>BRAZIL</b>				
Chapada	40,405	301	34,929	271
Jacobina	33,637	463	30,978	473
Fazenda Brasileiro	17,161	620	20,464	486
<b>CHILE</b>				
El Peñón (ii)	105,212	461	108,054	324
Minera Florida (ii)	27,652	425	25,411	353
<b>ARGENTINA</b>				
Gualcamayo (iii)	31,972	480	39,523	316
<b>Total commercial production from continuing operations excluding Alumbreira</b>	<b>256,039</b>	<b>444</b>	<b>259,359</b>	<b>349</b>
<b>Alumbreira (12.5% interest)</b>	<b>11,370</b>	<b>309</b>	<b>9,832</b>	<b>381</b>
<b>Total commercial production from continuing operations</b>	<b>267,409</b>	<b>439</b>	<b>269,191</b>	<b>350</b>

(i) A cautionary note regarding non-GAAP measures is included in Section 6 of this Management's Discussion and Analysis.

(ii) Third quarter 2010 gold production: El Peñón—63,417 ounces (Q3 2009—58,357 ounces), Minera Florida—24,337 ounces (Q3 2009—22,190 ounces). Silver production: El Peñón—2.3 million ounces (Q3 2009—2.7 million ounces), Minera Florida—0.2 million ounces (Q3 2009—0.2 million ounces).

(iii) The Company commissioned Gualcamayo on July 1, 2009 and only included production after that date.

(iv) Silver production is treated as a gold equivalent. Gold equivalent ounce calculations are based on an average long-term historical gold to silver ratio (55:1), which is used and presented solely for quarter-over-quarter comparative purposes.

#### For the nine months ended September 30

During the first nine months of 2010, the continuing operations of the Company produced 760,509 gold equivalent ounces, an increase of 3% over the total production from continuing operations of 736,221 gold equivalent ounces in 2009.

Copper production was 109.5 million pounds contained in concentrate from Chapada for the nine months. Including the attributed production from Alumbreira, total production of copper was 138.9 million pounds compared with 135.6 million pounds of copper in the nine months ended September 30, 2009.

Average co-product cash costs for the nine-month period ended September 30, 2010 were \$433 per GEO

from continuing operations, and average co-product cash costs from continuing operations excluding Alumbreira were \$440 per GEO, compared with \$353 and \$350 per GEO, respectively, for the same period in 2009.

Co-product cash costs per pound of copper were \$1.16 per pound for the period from Chapada, compared with \$0.97 per pound for the period ended September 30, 2009. Co-product cash costs for the nine-month period including the Company's interest in Alumbreira were \$1.19 per pound, compared with \$1.10 per pound in 2009.

The production of GEO for the first nine months of 2010 with comparatives is summarized below:

For the nine months ended (In GEO)	September 30, 2010	September 30, 2009
<b>Production from:</b>		
Commercial—continuing operations excluding Alumbreira	723,914	650,185
Discontinued operations	43,287	139,542
Alumbreira (12.5% interest)	36,595	41,206
<b>Total production from continuing operations</b>	<b>803,796</b>	<b>830,933</b>
Commissioning of Gualcamayo	–	44,830
<b>Total production</b>	<b>803,796</b>	<b>875,763</b>

The following table summarizes the production by mine for the first nine months of 2010 with comparatives:

For the nine months ended	September 30, 2010		September 30, 2009	
	Gold Equivalent Ounce (GEO) (iv)	Co-product Cash Costs per GEO (\$) (i)	Gold Equivalent Ounce (GEO) (iv)	Co-product Cash Costs per GEO (\$) (i)
<b>BRAZIL</b>				
Chapada	98,648	329	114,035	269
Jacobina	88,443	550	85,649	441
Fazenda Brasileiro	50,232	598	58,878	416
<b>CHILE</b>				
El Peñón (ii)	314,134	431	284,421	341
Minera Florida (ii)	73,556	389	67,679	375
<b>ARGENTINA</b>				
Gualcamayo (iii)	98,901	449	39,523	316
<b>Total commercial production from continuing operations excluding Alumbraera Alumbraera (12.5% interest)</b>	<b>723,914</b>	<b>440</b>	<b>650,185</b>	<b>350</b>
<b>Total commercial production from continuing operations</b>	<b>760,509</b>	<b>433</b>	<b>691,391</b>	<b>353</b>

(i) A cautionary note regarding non-GAAP measures is included in Section 6 of this Management's Discussion and Analysis.

(ii) Nine-month 2010 gold production: El Peñón—181,745 ounces (2009—153,648 ounces), Minera Florida—66,798 ounces (2009—59,059 ounces), and silver production: El Peñón—7.3 million ounces (2009—7.2 million ounces), Minera Florida—0.4 million ounces (2009—0.5 million ounces).

(iii) The Company commissioned Gualcamayo on July 1, 2009 and only included production after that date.

(iv) Silver production is treated as a gold equivalent. Gold equivalent ounce calculations are based on an average long-term historical gold to silver ratio (55:1), which is used and presented solely for quarter-over-quarter comparative purposes.

## CHAPADA MINE

Operating Statistics	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<b>Production</b>				
Concentrate (tonnes)	76,808	62,783	194,326	184,950
Gold contained in concentrate production (ounces)	40,405	34,929	98,648	114,035
Copper contained in concentrate (millions of pounds)	42.8	36.3	109.5	106.9
Co-product cash costs per oz. of gold produced (i)	\$ 301	\$ 271	\$ 329	\$ 269
Co-product cash costs per lb. of copper produced (i)	\$ 1.14	\$ 1.07	\$ 1.16	\$ 0.97
By-product cash costs per oz. of gold produced (i)	\$ (1,856)	\$ (1,731)	\$ (1,777)	\$ (604)
Ore mined (tonnes)	6,539,658	3,836,492	16,254,468	12,541,655
Ore processed (tonnes)	5,246,202	4,043,103	14,437,899	12,697,576
Gold ore grade (g/t)	0.38	0.40	0.35	0.40
Copper ore grade (%)	0.43	0.47	0.40	0.43
Concentrate grade—gold (g/t)	16.4	17.5	15.8	19.3
Concentrate grade—copper (%)	25.3	26.3	25.5	26.2
Gold recovery rate (%)	63.4	67.3	61.5	69.6
Copper recovery rate (%)	86.8	87.1	86.5	88.1
<b>Sales (ii)</b>				
Concentrate (tonnes)	81,127	65,693	190,816	198,195
Payable gold contained in concentrate (ounces)	35,591	43,412	96,029	94,484
Payable copper contained in concentrate (millions of pounds)	43.5	36.0	104.2	102.5
<b>Depletion, depreciation and amortization per gold ounce sold</b>	<b>\$ 67</b>	<b>\$ 38</b>	<b>\$ 64</b>	<b>\$ 53</b>
<b>Depletion, depreciation and amortization per copper pound sold</b>	<b>\$ 0.17</b>	<b>\$ 0.11</b>	<b>\$ 0.18</b>	<b>\$ 0.09</b>

(i) A cautionary note regarding non-GAAP measures is included in Section 6 of this Management's Discussion and Analysis.

(ii) Quantities sold include quantity adjustment on provisional and final invoice settlements

Chapada produced a total of 40,405 ounces of gold contained in concentrate in the quarter, compared with 34,929 ounces of gold in concentrate in the third quarter of 2009. Production of copper contained in concentrate at Chapada was 42.8 million pounds in the third quarter, compared with 36.3 million pounds of copper contained in concentrate during the comparable period in 2009. Chapada is expected to perform as well in the fourth quarter as it did in the third quarter.

Increased production of gold and copper was mainly due to higher tonnage of ore mined and processed compared with the same quarter of 2009. Recovery was impacted by oxide material and action plans are in place to improve the gold recovery rate.

Co-product cash costs for the quarter were \$301 per gold ounce and \$1.14 per pound of copper which compares to \$271 per gold ounce and \$1.07 per pound of copper for the same quarter of 2009. Higher co-product costs are mostly due to lower ore grades mined and a strong Brazilian Real. Associated overseas transportation costs were approximately \$4.0 million for third quarter of 2010 on increased volume of

concentrate sales, compared to \$2.5 million for the comparative period in 2009. The Company has hedged approximately 60% to 65% of currency exposure related to operating expenses of 2010 to 2012 at Chapada.

Total revenue from Chapada for the quarter net of sales taxes and treatment and refining costs was \$184.6 million. Revenue includes positive sales mark-to-market adjustments of \$6.2 million. Final and provisional pricing-quantity settlements in the quarter were negative \$1.4 million (negative \$5.3 million—metal quantity adjustment, positive \$3.9 million—metal price adjustment).

Optimizations continued in the third quarter and are scheduled to increase throughput to up to 22 million tonnes per year before 2012. The Company continues to focus on the newly discovered gold-only area of mineralization, Suruca, with the expectation of delivering a feasibility-level study before the end of the year. The Company believes Suruca will contribute gold production growth at this already robust and long-life mine. The Company contemplates a shallow open-pit operation with ore hauled to the Chapada plant for processing.

## EL PEÑÓN MINE

Operating Statistics	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<b>Production</b>				
Gold equivalent (ounces)	105,212	108,054	314,134	284,421
Gold production (ounces)	63,417	58,357	181,745	153,647
Silver production (ounces)	2,298,731	2,733,338	7,281,400	7,192,582
Cash costs per gold equivalent ounce produced (i)	\$ 461	\$ 324	\$ 431	\$ 341
Ore mined (tonnes)	329,435	336,822	968,634	965,024
Ore processed (tonnes)	396,209	322,223	1,155,942	940,964
Gold ore grade (g/t)	5.48	6.17	5.36	5.54
Silver ore grade (g/t)	216.76	300.70	228.23	272.00
Gold recovery rate (%)	90.8	92.5	91.1	91.5
Silver recovery rate (%)	83.3	88.3	85.6	87.6
<b>Sales</b>				
Gold sales (ounces)	64,840	57,195	183,087	156,814
Silver sales (ounces)	2,385,013	2,724,959	7,379,899	7,329,542
<b>Depletion, depreciation and amortization per gold equivalent ounce sold</b>	<b>\$ 316</b>	<b>\$ 284</b>	<b>\$ 311</b>	<b>\$ 277</b>

(i) A cautionary note regarding non-GAAP measures is included in Section 6 of this Management's Discussion and Analysis.

El Peñón produced 105,212 GEO during the third quarter, consisting of 63,417 ounces of gold and 2.3 million ounces of silver, compared with 108,054 GEO, which consisted of 58,357 ounces of gold and 2.7 million ounces of silver produced in the third quarter of 2009. Despite a decrease in GEO production, gold production increased on higher throughput processed from a stock pile while silver production decreased due to lower silver ore grades. Head grades from mined ore averaged 5.48 g/t gold and 216.76 g/t silver for the quarter.

The Company continues to take measures to optimize synergies, improve grade control and dilution, increase capacity and develop newer higher-grade veins including Bonanza, which is part of the North Block area in El Peñón. Production contribution from Bonanza started in early 2010 and is expected to ramp up with an impact in 2011.

Expansion of the El Peñón plant has allowed the Company to increase throughput by 23% compared to the third quarter of 2009. Plant expansions included the installation of a new

grinding mill in the fourth quarter of 2009 to increase plant throughput. Upgrades are also being performed in the plant in order to maintain high sustainable future recoveries.

Cash costs for the quarter ended September 30, 2010 were \$461 per GEO. Cash costs were higher in the third quarter compared to the same period of 2009 mainly because of the appreciation of the Chilean Peso and due to lower ore grades processed. Costs are expected to decrease in the fourth quarter as synergies continue to be achieved from the transition to owner mining including economies of scale in procurement, spare parts, reduction in planned maintenance schedules for trucks and equipment, and reduced headcount

in the mine. The Company believes that by-product cash costs are more representative of the cost structure of its portfolio of mines as any appreciation of the Chilean peso will be offset by increases in copper price impacting copper by-product credits from outside of Chile.

The Company continues to evaluate further optimization strategies at El Peñón. Recent plant expansions and resource contributions from the newly discovered high grade vein systems, Pampa Augusta Victoria, will further support this objective. The Company plans to maximize production as it looks longer term at cost reduction measures which are planned to take effect in late 2010.

## GUALCAMAYO MINE

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<b>Operating Statistics</b>				
<b>Production</b>				
Commercial gold production (ounces)	31,972	39,523	98,901	39,523
Commissioning gold production (ounces)	–	–	–	44,830
Cash costs per ounce produced (i)	\$ 480	\$ 316	\$ 449	\$ 316
Ore mined (tonnes)	2,485,386	1,480,514	6,562,415	1,480,514
Ore processed (tonnes)	1,982,929	1,532,045	5,710,119	1,532,045
Gold grade (g/t)	0.87	1.25	0.80	1.25
Gold recovery rate (%)	57.8	63.3	73.0	63.3
<b>Sales</b>				
Gold sales (ounces)	38,660	31,861	105,085	31,861
<b>Depletion, depreciation and amortization per gold ounce sold</b>	<b>\$ 264</b>	<b>\$ 271</b>	<b>\$ 265</b>	<b>\$ 271</b>

(i) A cautionary note regarding non-GAAP measures is included in Section 6 of this Management's Discussion and Analysis.

Gualcamayo produced 31,972 ounces of gold in the third quarter, compared with 39,523 ounces in the third quarter of 2009. During the quarter, the mine commenced an upgrade of the current plant capacity by increasing throughput to 1,500 tonnes per hour. The expansion is ahead of schedule, although the necessary stoppage of conveyor belts and plant for the upgrade delayed ore processing in August and September. This expansion was accelerated in order to improve production beginning in 2011 and to accommodate the further expansion relating to QDD Lower West into 2012. In addition, the Company undertook a scheduled upgrade and maintenance of the entire conveyor system in the third quarter. Tonnage throughput is expected to continue to increase in the fourth quarter. The Company expects annual production to normalize at approximately 160,000 ounces which is consistent with production for the last 12 months.

During the quarter, there was also increased inventory on heap leach pads. The Company experienced longer percolation time for gold recovery which is mostly expected to be recovered in future quarters. Gold-in-circuit of approximately 13,000 ounces is excluded from year-to-date production of approximately 99,000 ounces. The recovery rate from start of commercial production averaged 74%.

Cash costs were \$480 per ounce of gold for the third quarter compared with \$316 per ounce in the third quarter of 2009. Higher cash costs were attributable to lower planned ore grade and inflationary pressures impacting labour and contractor costs.

The mine has commenced the mobilization of contractors, including the excavation contract for the 2.3 kilometre tunnel, for the construction of QDD Lower West as announced in the second quarter. Detailed engineering has also commenced and orders for critical equipment have been placed.

## JACOBINA MINE

Operating Statistics	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<b>Production</b>				
Gold production (ounces)	33,637	30,978	88,443	85,649
Cash costs per ounce produced (i)	\$ 463	\$ 473	\$ 550	\$ 441
Ore mined (tonnes)	570,800	527,852	1,616,041	1,483,601
Ore processed (tonnes)	570,799	527,852	1,616,041	1,475,654
Gold Grade (g/t)	1.95	1.96	1.83	1.96
Gold Recovery rate (%)	93.8	93.1	92.9	92.0
<b>Sales</b>				
Gold sales (ounces)	32,517	29,962	87,875	85,738
<b>Depletion, depreciation and amortization per gold ounce sold</b>	<b>\$ 319</b>	<b>\$ 313</b>	<b>\$ 335</b>	<b>\$ 302</b>

(i) A cautionary note regarding non-GAAP measures is included in Section 6 of this Management's Discussion and Analysis.

Production at Jacobina was 33,637 ounces of gold in the third quarter, representing an 8.6% increase, compared with production of 30,978 ounces of gold in the third quarter of 2009. Continuous improvement in mine planning, expansion and optimization of the processing plant and milling capacity, increased development work and increased the number of working stopes which improved the mine's performance. Cash costs have improved in each consecutive quarter since the beginning of the year. Cash costs averaged \$463 per ounce of gold for the third quarter compared with \$473 per ounce of gold in the third quarter of 2009.

The Company remains focused on improving recovery and dilution as well as exploring, discovering and developing higher grade areas including Canavieiras. Exploration efforts are also focused on new discoveries in higher grade areas. The Company continues to modify the leaching cycle in order to improve recoveries, which have trended upwards since the start-up of higher throughput levels and upgrades on the plant. An expansion evaluation is now underway at Jacobina with respect to sustainable higher production levels.

## MINERA FLORIDA MINE

Operating Statistics	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<b>Production</b>				
Gold equivalent (ounces)	27,652	25,411	73,556	67,679
Gold production (ounces)	24,337	22,190	66,798	59,059
Silver production (ounces)	182,332	177,166	371,732	474,117
Cash costs per gold equivalent ounce produced (i)	\$ 425	\$ 353	\$ 389	\$ 375
Ore mined (tonnes)	214,171	180,556	561,280	533,754
Ore processed (tonnes)	207,834	188,671	564,977	534,813
Gold grade (g/t)	4.30	4.43	4.31	4.16
Silver ore grade (g/t)	39.17	42.32	28.90	40.35
Gold recovery rate (%)	84.2	82.7	83.3	82.5
Silver recovery rate (%)	67.0	69.5	66.7	68.7
<b>Sales</b>				
Gold sales (ounces)	26,277	21,407	65,791	56,119
Silver sales (ounces)	76,436	74,142	357,688	287,127
<b>Depletion, depreciation and amortization per gold equivalent ounce sold</b>	<b>\$ 413</b>	<b>\$ 343</b>	<b>\$ 378</b>	<b>\$ 307</b>

(i) A cautionary note regarding non-GAAP measures is included in Section 6 of this Management's Discussion and Analysis.

Minera Florida produced 27,652 GEO in the current quarter compared with 25,411 GEO in the third quarter of 2009. Production has been increasing steadily, except for the first quarter 2010, with higher tonnage of ore mined and processed since the completion of the expansion project in early 2009. Operations at the mine were interrupted in the first quarter due to the February 27, 2010 earthquake in Chile.

Cash costs for the third quarter were \$425 per GEO, compared with \$353 per GEO in the same quarter of 2009. Cash costs were higher in the third quarter mainly from the impact

of the appreciation of the Chilean Peso and higher electricity rates compared to the same quarter of 2009.

In addition, the mine produced 1,746 tonnes of zinc in the quarter compared with 1,256 tonnes of zinc in the three-month period ended September 30, 2009. Zinc revenue is accounted for as a by-product credit.

The Company continues to advance its tailings reprocessing expansion at Minera Florida which is expected to add an additional 40,000 GEO beginning in 2012.

## OTHER MINES

The following table presents key operating data for the other continuing mining operations:

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<b>Operating Statistics</b>				
<b>FAZENDA BRASILEIRO</b>				
<b>Production</b>				
Gold production (ounces)	17,161	20,464	50,232	58,878
Cash costs per ounce produced (i)	\$ 620	\$ 486	\$ 598	\$ 416
Ore mined (tonnes)	280,181	292,438	845,508	873,451
Ore processed (tonnes)	279,734	302,931	835,020	882,965
Gold grade (g/t)	2.14	2.27	2.11	2.26
Gold recovery rate (%)	89.0	92.3	88.3	91.5
<b>Sales</b>				
Gold sales (ounces)	19,208	20,124	53,494	60,517
<b>Depletion, depreciation and amortization per gold ounce sold</b>	<b>\$ 179</b>	<b>\$ 157</b>	<b>\$ 175</b>	<b>\$ 143</b>
<b>ALUMBRERA (12.5% interest)</b>				
<b>Production</b>				
Concentrate (tonnes)	15,487	13,414	51,929	50,157
Gold production (ounces)	933	1,345	4,305	5,782
Gold production in concentrate (ounces)	10,437	8,488	32,290	35,424
Total gold (ounces)	11,370	9,832	36,595	41,206
Copper contained in concentrate (millions of pounds)	8.3	7.6	29.4	28.6
Co-product cash costs per ounce of gold produced (i)	\$ 309	\$ 381	\$ 263	\$ 400
Co-product cash costs per pound of copper produced (i)	\$ 1.53	\$ 1.52	\$ 1.27	\$ 1.59
By-product cash costs per ounce produced (i)	\$ (993)	\$ (830)	\$ (1,345)	\$ (408)
Ore mined (tonnes)	748,037	767,273	2,481,137	2,477,210
Gold ore grade (g/t)	0.42	0.39	0.45	0.51
Copper ore grade (%)	0.40	0.38	0.46	0.45
Gold recovery rate (%)	72.8	68.7	71.7	71.7
Copper recovery rate (%)	82.2	79.3	82.7	81.5
<b>Sales</b>				
Gold sales (ounces)	9,073	9,845	31,509	35,423
Gold doré sales (ounces)	1,022	1,346	4,480	6,280
Total gold sales (ounces)	10,095	11,191	35,989	41,703
<b>Payable copper contained in concentrate (millions of pounds)</b>	<b>7.7</b>	<b>8.1</b>	<b>28.0</b>	<b>27.8</b>

(i) A cautionary note regarding non-GAAP measures is included in Section 6 of this Management's Discussion and Analysis.

The Fazenda Brasileiro Mine produced 17,161 ounces of gold in the quarter compared with 20,464 ounces of gold in the quarter ended September 30, 2009. Production decreased due to crushing time lost as a result of higher maintenance on equipment during the quarter, compounded by the effect of dilution of the ore veins at the mine's current stage of life cycle.

Exploration efforts continue to focus on the two newly discovered areas, CLX<sub>2</sub> and Lagoa do Gato, which the Company believes represent significant potential to extend the mine life with higher grade ore from these areas.

The Company recorded earnings from its 12.5% equity interest in the Alubrera Mine of \$10.7 million and \$30.1 million for the three-month and nine-month periods ended September 30, 2010, respectively, compared with earnings of \$8.1 million and \$18.9 million for the same periods of 2009. The Company received \$6.6 million in cash distribution for the three-month period and \$37.3 million for the nine-month period ended September 30, 2010, compared to \$25.4 million and \$32.4 million for the comparative periods in 2009.

## 6. NON-GAAP MEASURES

The Company has included certain non-GAAP measures including "Co-product cash costs per gold equivalent ounce", "Co-product cash costs per pound of copper," "By-product cash costs per gold equivalent ounce," "Adjusted Earnings or Loss and Adjusted Earnings or Loss per share," "Cash flows from operations before changes in non-cash working capital" or "Cash flows from operating activities before changes in non-cash working capital" and "Gross margin" to supplement its financial statements, which are presented in accordance with Canadian GAAP.

The Company believes that these measures, together with measures determined in accordance with Canadian GAAP, provide investors with an improved ability to evaluate the underlying performance of the Company. 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.

### **Co-product and By-product Cash Costs**

The Company has included cash costs per GEO and cash costs per pound of copper information because it understands that certain investors use this information to determine the Company's ability to generate earnings and cash flows 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 mines to generate cash flows. The measures are not necessarily indicative of operating profit or cash flows from operations as determined under Canadian GAAP. Cash costs per GEO are calculated on a co-product and by-product basis. Cash costs on a co-product basis are computed by allocating operating cash costs separately to metals (gold and copper) based on an estimated or assumed ratio. Cash costs on a by-product basis are computed by deducting copper by-product revenues from the calculation of cash costs of production per GEO. Cash costs per GEO and per pound of copper are calculated on a weighted average basis.

### Per Gold Equivalent Ounce (“GEO”)

The following tables provide a reconciliation of cost of sales per the financial statements to (i) Co-product Cash Costs per GEO, (ii) Co-product Cash Costs per pound of Copper and (iii) By-product Cash Costs per GEO.

#### Reconciliation of cost of sales per the financial statements to co-product cash costs per GEO produced from continuing operations

GEO	In thousands of United States Dollars		United States Dollars per gold equivalent ounce	
	2010	2009	2010	2009
<b>For the three months ended September 30,</b>				
<b>Cost of sales (i) (iii)</b>	\$ 171,913	\$ 131,357	\$ 671	\$ 506
<b>Adjustments:</b>				
Costs attributable to copper contained in concentrate-related cash costs (excluding related TCRCs) (ii)	(41,414)	(32,278)	(162)	(124)
Treatment and refining costs (“TCRC”) related to Chapada gold	1,575	1,452	6	6
Inventory movements and adjustments	(11,908)	(528)	(47)	(2)
Overseas freight and other commercial selling costs	(6,231)	(9,599)	(24)	(37)
Total GEO co-product cash costs (excluding Alumbraera)	\$ 113,935	\$ 90,404	\$ 444	\$ 349
Minera Alumbraera (12.5% interest) GEO cash costs	3,517	3,745	309	381
<b>Total GEO co-product cash costs (iii)</b>	<b>\$ 117,452</b>	<b>\$ 94,149</b>	<b>\$ 439</b>	<b>\$ 350</b>
<b>GEO produced excluding Alumbraera</b>	<b>256,039</b>	<b>259,359</b>		
<b>Commercial GEO produced including Alumbraera</b>	<b>267,409</b>	<b>269,191</b>		

GEO	In thousands of United States Dollars		United States Dollars per gold equivalent ounce	
	2010	2009	2010	2009
<b>For the nine months ended September 30,</b>				
<b>Cost of sales (i) (iii)</b>	\$ 452,722	\$ 338,152	\$ 625	\$ 520
<b>Adjustments:</b>				
Copper contained in concentrate-related cash costs (excluding related TCRCs) (ii)	(109,091)	(85,029)	(151)	(131)
Treatment and refining costs (“TCRC”) related to Chapada gold	3,901	4,601	5	7
Inventory movements and adjustments	(11,123)	(9,064)	(15)	(14)
Overseas freight and other commercial selling costs	(17,040)	(21,033)	(24)	(32)
Total GEO co-product cash costs (excluding Alumbraera)	\$ 319,369	\$ 227,627	\$ 440	\$ 350
Minera Alumbraera (12.5% interest) GEO cash costs	9,612	16,504	263	400
<b>Total GEO co-product cash costs (iii)</b>	<b>\$ 328,981</b>	<b>\$ 244,131</b>	<b>\$ 433</b>	<b>\$ 353</b>
<b>GEO produced excluding Alumbraera</b>	<b>723,914</b>	<b>650,185</b>		
<b>Commercial GEO produced including Alumbraera</b>	<b>760,509</b>	<b>691,391</b>		

(i) Cost of sales includes non-cash items including the impact of the movement in inventory.

(ii) Costs directly attributed to a specific metal are allocated to that metal. Costs not directly attributed to a specific metal are allocated based on relative value. As a rule of thumb, the relative value has been 70-75% copper and 25-30% gold. TCRCs are defined as treatment and refining charges.

(iii) Depletion, depreciation and amortization are excluded from both total cash costs and cost of sales from continuing operations.

Reconciliation of cost of sales per the financial statements to co-product cash costs per pound of copper produced from continuing operations

Copper	In thousands of United States Dollars		United States Dollars per pound of copper	
	2010	2009	2010	2009
<b>For the three months ended September 30,</b>				
<b>Cost of sales (i) (iii)</b>	\$ 171,913	\$ 131,357	\$ 4.02	\$ 3.62
<b>Adjustments:</b>				
GEO-related cash costs (excluding related TCRCs) (ii)	(112,360)	(88,952)	(2.62)	(2.45)
Treatment and refining costs (TCRC) related to Chapada copper	7,323	6,772	0.17	0.19
Inventory movements and adjustments	(11,908)	(528)	(0.28)	(0.01)
Overseas freight and other commercial selling costs	(6,231)	(9,599)	(0.15)	(0.26)
Total copper co-product cash costs (excluding Alumbreira)	\$ 48,737	\$ 39,050	\$ 1.14	\$ 1.09
Minera Alumbreira (12.5% interest) copper cash costs	12,722	11,474	1.53	1.52
<b>Total copper co-product cash costs (iii)</b>	<b>\$ 61,459</b>	<b>\$ 50,524</b>	<b>\$ 1.20</b>	<b>\$ 1.15</b>
<b>Copper produced excluding Alumbreira (millions of lbs.)</b>	<b>42.8</b>	<b>36.3</b>		
<b>Copper produced including Alumbreira (millions of lbs.)</b>	<b>51.1</b>	<b>43.9</b>		

Copper	In thousands of United States Dollars		United States Dollars per pound of copper	
	2010	2009	2010	2009
<b>For the nine months ended September 30,</b>				
<b>Cost of sales (i) (iii)</b>	\$ 452,722	\$ 338,152	\$ 4.14	\$ 3.16
<b>Adjustments:</b>				
GEO-related cash costs (excluding related TCRCs) (ii)	(315,469)	(223,026)	(2.89)	(2.08)
Treatment and refining costs (TCRC) related to Chapada copper	18,312	18,693	0.17	0.17
Inventory movements and adjustments	(11,123)	(9,064)	(0.10)	(0.08)
Overseas freight and other commercial selling costs	(17,040)	(21,033)	(0.16)	(0.20)
Total copper co-product cash costs (excluding Alumbreira)	\$ 127,402	\$ 103,722	\$ 1.16	\$ 0.97
Minera Alumbreira (12.5% interest) copper cash costs	37,363	46,062	1.27	1.59
<b>Total copper co-product cash costs (iii)</b>	<b>\$ 164,765</b>	<b>\$ 149,784</b>	<b>\$ 1.19</b>	<b>\$ 1.10</b>
<b>Copper produced excluding Alumbreira (millions of lbs.)</b>	<b>109.5</b>	<b>106.9</b>		
<b>Copper produced including Alumbreira (millions of lbs.)</b>	<b>138.9</b>	<b>135.6</b>		

(i) Cost of sales includes non-cash items, including the impact of the movement in inventory.

(ii) Costs directly attributed to a specific metal are allocated to that metal. Costs not directly attributed to a specific metal are allocated based on relative value. As a rule of thumb, the relative value has been 70-75% copper and 25-30% gold. TCRCs are defined as treatment and refining charges.

(iii) Depletion, depreciation and amortization are excluded from both total cash costs and cost of sales from continuing operations.

## Reconciliation of cost of sales per the financial statements to by-product cash costs per GEO produced from continuing operations

GEO	In thousands of United States Dollars		United States Dollars per gold equivalent ounce	
	2010	2009	2010	2009
<b>For the three months ended September 30,</b>				
<b>Cost of sales (i)</b>	\$ 171,913	\$ 131,357	\$ 671	\$ 506
<b>Adjustments:</b>				
Chapada treatment and refining costs related to gold and copper	8,898	8,224	35	32
Inventory movements and adjustments	(11,908)	(528)	(47)	(2)
Overseas freight and other commercial selling costs	(6,231)	(9,599)	(24)	(37)
Chapada copper revenue including copper pricing adjustment	(135,876)	(109,057)	(531)	(420)
Total GEO by-product cash costs (excluding Alumbraera)	\$ 26,796	\$ 20,397	\$ 104	\$ 79
Minera Alumbraera (12.5% interest) by-product cash costs	(11,295)	(7,971)	(993)	(811)
<b>Total GEO by-product cash costs (i)</b>	<b>\$ 15,501</b>	<b>\$ 12,426</b>	<b>\$ 58</b>	<b>\$ 46</b>
<b>Commercial GEO produced excluding Alumbraera</b>	<b>256,039</b>	<b>259,359</b>		
<b>Commercial GEO produced including Alumbraera</b>	<b>267,409</b>	<b>269,191</b>		

GEO	In thousands of United States Dollars		United States Dollars per gold equivalent ounce	
	2010	2009	2010	2009
<b>For the nine months ended September 30,</b>				
<b>Cost of sales (i)</b>	\$ 452,722	\$ 338,152	\$ 625	\$ 520
<b>Adjustments:</b>				
Chapada treatment and refining costs related to gold and copper	22,213	23,294	31	35
Inventory movements and adjustments	(11,123)	(9,064)	(15)	(14)
Overseas freight and other commercial selling costs	(17,039)	(21,033)	(24)	(32)
Chapada copper revenue including copper pricing adjustment	(335,172)	(204,707)	(463)	(314)
Total GEO by-product cash costs (excluding Alumbraera)	\$ 111,601	\$ 126,642	\$ 154	\$ 195
Minera Alumbraera (12.5% interest) by-product cash costs	(49,224)	(17,087)	(1,345)	(415)
<b>Total GEO by-product cash costs (i)</b>	<b>\$ 62,377</b>	<b>\$ 109,555</b>	<b>\$ 82</b>	<b>\$ 158</b>
<b>Commercial GEO produced excluding Alumbraera</b>	<b>723,914</b>	<b>650,185</b>		
<b>Commercial GEO produced including Alumbraera</b>	<b>760,509</b>	<b>691,391</b>		

(i) Depletion, depreciation and amortization are excluded from both total cash costs and cost of sales from continuing operations.

### Adjusted Earnings or Loss and Adjusted Earnings or Loss per share

The Company uses the financial measures “Adjusted Earnings or Loss” and “Adjusted Earnings or Loss per share” to supplement information in its consolidated financial statements. The Company believes that in addition to conventional measures prepared in accordance with Canadian GAAP, the Company and certain investors and analysts use this information to evaluate the Company’s performance. The presentation of adjusted measures are not meant to be a substitute for net earnings or loss or net earnings or loss per share presented in accordance with Canadian GAAP, but rather should be evaluated in conjunction with such GAAP measures.

Adjusted Earnings or Loss and Adjusted Earnings or Loss per share are defined as Canadian GAAP net earnings adjusted for items that are non-recurring, one-time occurrences or anomalies whereby management believes that the exclusion of the item is more representative of the underlying performance of the Company including profitability and its ability to generate cash flows. Management uses judgment in the determination of what items should be included or excluded in calculating

adjusted earnings by looking at the nature of the occurrence, materiality, probability of re-occurrence, historical information on the occurrence and their future predictive value.

Adjusted Earnings or Loss and Adjusted Earnings or Loss per share are calculated as net earnings excluding (a) stock-based compensation, (b) foreign exchange (gains) losses, (c) unrealized (gains) losses on commodity derivatives, (d) impairment losses, (e) future income tax expense (recovery) on the translation of foreign currency inter-corporate debt, (f) write-down of investments and other assets and (g) any other non-recurring adjustments. Non-recurring adjustments from unusual and extraordinary events or circumstances, such as the unprecedented volatility of copper prices in the fourth quarter of 2008, are reviewed from time to time based on materiality and the nature of the event or circumstance. Earnings adjustments reflect both continuing and discontinued operations.

The terms “Adjusted Earnings (Loss)” and “Adjusted 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. Management believes that the presentation of Adjusted Earnings or Loss and Adjusted Earnings or Loss per share provide useful information to investors because they exclude non-recurring items and are a better indication of the Company's profitability. The items excluded from the computation of Adjusted Earnings or Loss and Adjusted Earnings or Loss per share, which are otherwise included in the determination of net earnings or loss and net earnings or 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 future prospects and may hinder a comparison of its period-to-period profitability. A reconciliation of Adjusted Earnings to net earnings as well as a discussion of the adjusting items is provided in *Section 4, Overview of Financial Results*, for both the yearly and quarterly reconciliations.

#### ***Cash Flows From Continuing Operations Before Changes in Non-Cash Working Capital***

The Company uses the financial measure "cash flows from operations before changes in non-cash working capital" or "cash flows from operating activities before changes in non-cash working capital" to supplement its consolidated financial statements. The presentation of cash flows from operations before changes in non-cash working capital is not meant to be

a substitute for cash flows from operations or cash flows from operating activities presented in accordance with Canadian GAAP, but rather should be evaluated in conjunction with such Canadian GAAP measures. Cash flows from operations before changes in non-cash working capital excludes the non-cash movement from period to period in working capital items including accounts receivable, advances and deposits, inventory, accounts payable and accrued liabilities.

The terms "cash flows from operations before changes in non-cash working capital" or "cash flows from operating activities before changes in non-cash working capital" 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 cash flows from operations before changes in non-cash working capital provides useful information to investors because it excludes the non-cash movement in working capital items and is a better indication of the Company's cash flows from operations and considered to be meaningful in evaluating the Company's past financial performance or the future prospects. The Company believes that a conventional measure of performance prepared in accordance with Canadian GAAP does not fully illustrate the ability of its operating mines to generate cash flows.

The following table provides a reconciliation of cash flows from operating activities of continuing operations before changes in non-cash working capital:

	Three months ended	
	September 30, 2010	September 30, 2009
<b>Cash flows from operating activities of continuing operations</b>	\$ 153,320	\$ 144,439
<b>Adjustments:</b>		
Net change in non-cash working capital	55,495	23,491
<b>Cash flows from operating activities of continuing operations before changes in non-cash working capital</b>	<b>\$ 208,815</b>	<b>\$ 167,930</b>

	Nine months ended	
	September 30, 2010	September 30, 2009
<b>Cash flows from operating activities of continuing operations</b>	\$ 380,231	\$ 317,009
<b>Adjustments:</b>		
Net change in non-cash working capital	105,035	23,574
<b>Cash flows from operating activities of continuing operations before changes in non-cash working capital</b>	<b>\$ 485,266</b>	<b>\$ 340,583</b>

### Gross Margin

The Company uses the financial measure “gross margin” to supplement its consolidated financial statements. The presentation of gross margin is not meant to be a substitute for net earnings presented in accordance with Canadian GAAP, but rather should be evaluated in conjunction with such Canadian GAAP measures. Gross margin represents the amount of revenues in excess of cost of sales excluding depletion, depreciation and amortization. It may be expressed in terms of percentage of revenues, both in total amount or on a per-GEO basis.

The term “gross margin” does not have a standardized meaning prescribed by Canadian GAAP, and therefore the

Company’s definition is unlikely to be comparable to similar measures presented by other companies. The Company’s management believes that the presentation of gross margin provides useful information to investors because it excludes the non-cash operating cost items such as depreciation, depletion and amortization and accretion for asset retirement obligations, and considers this non-GAAP measure meaningful in evaluating the Company’s past financial performance or future prospects. The Company believes that a conventional measure of performance prepared in accordance with Canadian GAAP does not fully illustrate the ability of its operating mines to generate cash flows.

The following table provides a reconciliation of gross margin:

	Three months ended	
	September 30, 2010	September 30, 2009
<b>Revenues</b>	\$ 453,965	\$ 333,179
Cost of sales excluding depletion, depreciation and amortization	(171,913)	(131,357)
<b>Gross margin</b>	\$ 282,052	\$ 201,822
<b>Gross margin as % of revenues from continuing operations</b>	62%	61%
<b>GEO sold (excluding Alumbraera)</b>	261,847	254,853
<b>Gross margin per GEO Sold</b>	\$ 1,077	\$ 792

	Nine months ended	
	September 30, 2010	September 30, 2009
<b>Revenues</b>	\$ 1,151,681	\$ 783,489
Cost of sales excluding depletion, depreciation and amortization	(452,722)	(338,152)
<b>Gross margin</b>	\$ 698,959	\$ 445,337
<b>Gross margin as % of revenues from continuing operations</b>	61%	57%
<b>GEO sold (excluding Alumbraera)</b>	732,044	633,508
<b>Gross margin per GEO Sold</b>	\$ 955	\$ 703

## 7. LIQUIDITY AND CAPITAL RESOURCES

In the near term, the Company expects its liquidity to be positively impacted by continued strong gold, silver and copper prices. The Company anticipates being able to meet all its obligations and is committed to fund its growth through sustaining and expansionary projects.

The following is a summary of liquidity and capital resources balances from continuing operations:

	As at	
	September 30, 2010	December 31, 2009
<i>(In thousands of United States Dollars)</i>		
Cash	\$ 279,691	\$ 170,070
Working capital	\$ 465,072	\$ 260,337

	Three months ended	
	September 30, 2010	September 30, 2009
<i>(In thousands of United States Dollars)</i>		
<b>Cash flows</b>		
Cash flows from operating activities of continuing operations	\$ 153,320	\$ 144,439
Cash flows from operating activities of continuing operations before changes in working capital items (a non-GAAP measure)	208,815	167,930
Cash flows (to) from financing activities of continuing operations	(10,572)	(28,212)
Cash flows to investing activities of continuing operations	\$ (133,181)	\$ (152,161)

	Nine months ended	
	September 30, 2010	September 30, 2009
<i>(In thousands of United States Dollars)</i>		
<b>Cash flows</b>		
Cash flows from operating activities of continuing operations	\$ 380,231	\$ 317,009
Cash flows from operating activities of continuing operations before changes in working capital items (a non-GAAP measure)	485,266	340,583
Cash flows from (to) financing activities of continuing operations	23,486	(54,379)
Cash flows to investing activities of continuing operations	\$ (301,012)	\$ (379,385)

Cash and cash equivalents as at September 30, 2010 were \$279.7 million compared to \$170.1 million as at December 31, 2009. Factors that could impact on the Company's liquidity are monitored regularly as part of the Company's overall Capital Management Strategy. Factors that are monitored include, but are not limited to, the market price of gold and copper, production levels, operating cash costs, capital costs, exploration and discretionary expenditures. Working capital was \$465.1 million as at September 30, 2010 compared to \$260.3 million as at December 31, 2009.

Receivables at the end of the period were \$150.7 million compared with \$102.1 million as at December 31, 2009. Copper concentrate sales are made in accordance with certain smelter off-take agreements whereby provisional payments of approximately 90% are received within one to four weeks after shipping. Final assays and payment related to these sales are received approximately two to three months thereafter.

Gold sales are made at spot prices and receivables are settled within less than a month.

### Operating Cash Flows of Continuing Operations

In the third quarter of 2010, cash flows from operating activities before changes in non-cash working capital (a non-GAAP

measure, see *Section 6*) were \$208.8 million representing a 24% increase compared with \$167.9 million in the same quarter of 2009. Cash inflows from continuing operations after taking into effect changes in working capital items for the quarter were \$153.3 million, compared to inflows of \$144.4 million for the comparative quarter ended 2009. Cash flows from operating activities were higher during the quarter mainly due to a 51% increase in operating earnings as a result of higher metal prices and a 6.5% increase in gold quantities sold.

### Financing Activities of Continuing Operations

Cash outflows to financing activities of continuing operations for the three-month period ended September 30, 2010 were \$10.6 million compared to cash outflows of \$28.2 million in 2009 which was 63% lower than in the same quarter of 2009 due to a repayment of debt in the comparative period with no current period comparative. Subsequent to the quarter ended September 30, 2010, the Company repaid \$20.0 million of its revolving debt facility.

As at September 30, 2010, the Company has met all of the externally imposed capital requirements relating to the credit facilities.

### Investing Activities of Continuing Operations

Capital expenditures for the quarter were \$126.8 million which included \$28.1 million on property, plant and equipment, \$70.1 million on mineral properties and \$28.6 million on assets under construction, compared with \$144.7 million in the third quarter of 2009. The decrease in capital expenditures during the quarter in comparison to prior year was mainly due to timing of expenditures on capital projects. This mainly reflects the absence of capital expenditures related to the Chapada throughput expansion and Gualcamayo construction in 2009 and offset by the ramp-up of construction activities at Mercedes in 2010. Capital expenditures for the nine months

ended September 30, 2010 were \$362.7 million compared to \$359.9 million in the comparative nine-month period, reflecting the absence of capital expenditures related to the Chapada throughput expansion and Gualcamayo construction in 2009, offset by the increase in capital expenditures at El Peñón in the early quarters of this year and the ramp-up of construction activities at Mercedes and Pilar.

Further capital will be required in 2011 for Pilar and the QDD Lower West ore body at Gualcamayo where construction decisions have been made. The Company continues to evaluate the capital required in 2011 to 2013 for these and other new projects.

The following is a summary of capital expenditures by mine:

(In thousands of United States Dollars)	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<b>ARGENTINA</b>				
Gualcamayo	\$ 10,485	\$ 41,611	\$ 32,375	\$ 106,930
Agua Rica	2,217	593	4,872	2,541
<b>BRAZIL</b>				
Chapada	17,257	36,455	43,579	83,095
Jacobina	13,893	14,527	37,485	40,990
Fazenda Brasileiro	4,811	3,650	16,803	9,163
Ernesto/Pau-a-Pique	4,905	–	7,419	437
C1 Santa Luz	3,462	350	5,477	1,304
Pilar	2,661	3,075	23,600	7,921
<b>CHILE</b>				
El Peñón (i)	28,916	29,689	116,125	66,273
Minera Florida	15,927	9,581	34,489	28,614
<b>MEXICO AND OTHER</b>				
Mercedes (ii)	21,051	3,781	39,439	11,939
Other	1,164	1,342	1,025	734
<b>Total capital expenditures on continuing operations</b>	<b>\$ 126,749</b>	<b>\$ 144,654</b>	<b>\$ 362,688</b>	<b>\$ 359,941</b>

(i) Nine-month period balance includes purchase price of \$48.9 million for the business acquisition of the service contract from the previous contractor (Gardilic) in transition to owner mining.

(ii) Includes capitalized exploration expenditures of \$2.1 million for both the third quarter and 9 months of 2010.

## 8. CAPITALIZATION

Shareholders' equity as at September 30, 2010 was \$7.1 billion compared to \$6.7 billion as at December 31, 2009 and \$6.7 billion as at September 30, 2009.

The following table sets out the common shares, warrants and options outstanding as at September 30, 2010:

(In thousands)	Actual outstanding as at September 30, 2010	Weighted average third quarter	Weighted average year-to-date (i)
Common shares	741,110	741,028	739,510
Warrants	4,886	–	5
Options	5,749	767	820
<b>Total</b>	<b>751,745</b>	<b>741,795</b>	<b>740,335</b>

(i) The weighted average number of shares excludes anti-dilutive options and warrants.

## Share Capital

As at September 30, 2010, the Company had 741.1 million (September 30, 2009—733.2 million) common shares outstanding. The basic weighted average number of common shares outstanding was 741.0 million (September 30, 2009—733.2 million) shares for the quarter ended September 30, 2010.

As of October 31, 2010, the total number of shares outstanding was 741.1 million.

## Warrants

There were no warrants issued during the quarter. As at September 30, 2010, the Company had a total of 4.9 million (September 30, 2009—14.5 million) share purchase warrants outstanding with a weighted average exercise price of Cdn\$19.08 per share (September 30, 2009—Cdn\$13.73). The expiry date on share purchase warrants is May 2011, with an exercise price of Cdn\$19.08. All outstanding warrants were exercisable as at September 30, 2010. The weighted average remaining life of warrants outstanding is 0.59 years (September 30, 2009—0.79 years).

## 9. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were \$25.1 million for the quarter ended September 30, 2010 compared with \$17.0 million in 2009. General and administrative expenses were higher for the third quarter of 2010 reflecting additional expenditures due to the Company's growth from operations and the growing infrastructure to support it.

General and administrative expenses were \$79.1 million for the nine-month period ended September 30, 2010 compared with \$58.8 million in 2009. In addition to the higher expenditures spurred by the growth of operations, the increase during the period is mainly from accruals of contributions into employee benefit plans and the general and administrative

expenses incurred at Gualcamayo that were capitalized up to the second quarter of 2009 during its commissioning period.

Most of the general and administrative expenses are incurred in currencies other than the United States Dollar, and therefore will vary period-to-period according to the exchange rate movements relative to the United States Dollar resulting in increased volatility on the Company's earnings.

## 10. FOREIGN EXCHANGE

The Company's revenues are denominated in United States Dollars (USD). However, the Company's operating expenses are incurred predominantly in Brazilian Reals (BRL), Chilean Pesos (CLP), Argentine Pesos (ARG) and to a lesser extent in Canadian Dollars (CAD), United States Dollars (USD) and Mexican Pesos (MXN). Accordingly, fluctuations in the exchange rates can significantly impact the results of operations.

During the third quarter of 2010, the Company recognized foreign exchange gains of \$15.9 million. This compares to a foreign exchange gain of \$15.1 million for the comparative quarter ended September 30, 2009. The gains arose mainly from the effects of foreign exchange movements on future income tax liabilities recognized on business acquisitions.

For the nine-month period ended September 30, 2010, the Company recognized foreign exchange gains of \$36.1 million. This compares to a foreign exchange gain of \$87.8 million for the comparative period ended September 30, 2009. The gains, although decreasing from prior year, arose mainly from foreign exchange movements on future income tax liabilities recognized on previously completed business acquisitions.

The Company entered into certain hedge contracts where the value of the Real has been fixed against the United States Dollar. These hedges are further described in *Section 13*.

The following table summarizes the movement in key currencies vis-à-vis the United States Dollar:

For the periods ended	Three months ended				
	September 30, 2010	September 30, 2009	Variance	December 31, 2009	Variance
<b>Average Exchange Rate</b>					
USD—CAD	1.0400	1.0999	-5.4%	1.0579	-1.7%
USD—BRL	1.7595	1.8773	-6.3%	1.7476	0.7%
USD—ARG	3.9501	3.8406	2.9%	3.8261	3.2%
USD—CLP	521.9876	554.9670	-5.9%	529.1082	-1.3%

For the periods ended	Nine months ended				
	September 30, 2010	September 30, 2009	Variance	December 31, 2009	Variance
<b>Average Exchange Rate</b>					
USD—CAD	1.0366	1.17	-11.4%	1.0789	-3.9%
USD—BRL	1.7895	2.0964	-14.6%	1.8124	-1.3%
USD—ARG	3.9033	3.7090	5.2%	3.8334	1.8%
USD—CLP	530.5750	583.6310	-9.1%	542.0373	-2.1%

As at	September 30, 2010	September 30, 2009	Variance	December 31, 2009	Variance
<b>Closing Exchange Rate</b>					
USD—CAD	1.0290	1.0861	-5.3%	1.0491	-1.9%
USD—BRL	1.7032	1.7949	-5.1%	1.7343	-1.8%
USD—ARG	3.9681	3.8484	3.1%	3.8142	4.0%
USD—CLP	481.8010	555.3030	-13.2%	499.7680	-3.6%

## 11. INVESTMENTS

Investments include \$96.5 million (December 31, 2009—\$46.2 million) in available-for-sale securities which includes the share consideration received on the sale of São Francisco and São Vicente mines and \$2.8 million (December 31, 2009—\$10.1 million) in other investments.

The net change in fair value for available-for-sale financial instruments for the period ended September 30, 2010 is an unrealized loss of \$5.4 million (December 31, 2009—\$21.3 million, gain) reflected in other comprehensive income.

Subsequent to the period ended September 30, 2010, the Company sold all its Auction Rate Securities with a net book value of \$2.8 million and does not expect to record a material gain or loss on this transaction.

## 12. INCOME TAXES

The Company recorded an income tax expense of \$47.5 million for the quarter (\$55.8 million for the third quarter of 2009). The tax provision reflects a current tax expense of \$21.6 million (\$15.5 million for the third quarter of 2009) and a future tax expense of \$26.0 million (\$40.3 million for the third quarter of 2009). The income tax expense for the third quarter as a percentage of net earnings is 29.7% (54.6% for the third quarter of 2009). The expense reflects current taxes in the Company's Brazilian, Chilean and Argentinean mines. The fluctuation in the tax rate is the result of items such as the mark-to-market on derivatives and foreign exchange. Going forward, the Company expects the normalized effective tax rate to be in the range of 30% to 32%.

The tax provision for the quarter reflects future tax on a foreign exchange gain of \$6.9 million (\$17.4 million for the third quarter of 2009) in Brazil on United States Dollar-denominated intercompany debt. This is due to the increase in the Brazilian Real exchange rate against the United States Dollar. The debt is eliminated on consolidation.

The income tax expense reported from period to period will vary depending on the foreign currency exchange rate in effect in the period. The income tax on intercompany debt is payable when the debt is repaid. The actual amount of taxes payable will depend on the foreign exchange rate in effect at the time that the inter-corporate debt is repaid.

During the quarter, the future tax liability was impacted by a temporary increase in the income tax rate/legislation in Chile

which was enacted in July 2010 and is scheduled to end by the end of fiscal 2012. The future tax liability is expected to be realized during 2011 and 2012. Subsequent to the period, a new mining royalty tax was passed in Chile. The tax is a voluntary tax for companies that have entered into a stability agreement with the government. We are currently analyzing whether we will amend our stability agreements and be subject to the new mining tax regime.

In December 2009, the Brazilian government introduced rules that prevented a company from deducting interest expense on foreign loans with related parties where the debt-to-equity ratio was less than 2:1 (the "Thin Cap Rules"). During the quarter, steps were taken to increase our debt-to-equity ratio so that the Thin Cap Rules ceased to apply. There is some discussion in Brazil as to what year the Thin Cap Rules are effective. Under the Brazilian constitution, any law that increases the income tax is effective the year following the year that it becomes law, whereas any law that affects the social contribution tax takes effect the third month after the law is introduced. Since the law affecting the income tax was enacted in 2010, it is questionable as to whether this law is effective in 2010 or 2011. We are still analyzing this issue and have applied the law in our current income tax provision. This may have an impact on the next quarter's position if we can determine that the Thin Cap Rules have increased the taxes.

A reconciliation of the Company's statutory rate to the actual provision is provided in *Note 14* to the consolidated interim financial statements.

The majority of the future tax liabilities arise on the allocation of the purchase price of acquisitions to the underlying assets as the tax basis of these assets did not increase. Future tax liabilities relating to the operating mines will reverse as the assets are depreciated or depleted. The future tax liabilities relating to exploration potential will not reverse until the property becomes a mine and begins to be depleted, is written off or is sold.

The largest components of the future tax liabilities relate to:

<i>(in millions of United States Dollars)</i>	
Gualcamayo	\$ 201
Agua Rica	\$ 316
El Peñón	\$ 253
Exploration potential	\$ 648

### 13. DERIVATIVES

#### Currency Hedging

As at September 30, 2010, the Company held forward contracts to hedge against the risk of an increase in the value of the Real versus the United States Dollar with respect to a portion of the expected Real expenditures.

The currency hedge has been accounted for as a cash flow hedge with the effective portion of \$25.2 million gain and \$26.7 million gain for the three- and nine-month periods

ended September 30, 2010, respectively, taken to other comprehensive income and the ineffective portion of losses of \$1.7 million and \$3.3 million taken to income for the three- and nine-month periods ended 2010, respectively. Included in cost of sales are currency derivative contracts realized gains in the amount of \$6.5 million and \$18.6 million for the three- and nine-month periods ended September 30, 2010, respectively (2009—\$4.0 million gain).

The following table summarizes the details of the currency hedging program as at September 30, 2010:

<i>(Quantities in thousands)</i>										
	Jacobina		Fazenda Brasileiro		Chapada		Total			
Year of Settlement	Brazilian Real Notional Amount	Contract Fixed Rate	Brazilian Real Notional Amount	Contract Fixed Rate	Brazilian Real Notional Amount	Contract Fixed Rate	Brazilian Real Notional Amount	Weighted Average Contract Rate	Market Rate as at September 30, 2010	
2010	21,614	2.3226	3,420	2.3900	38,541	1.9676	63,575	2.0965	1.7032	
2011	87,050	2.0880	47,562	2.0635	147,169	2.0626	281,781	2.0705	1.7032	
2012	77,651	2.2128	47,964	2.2282	148,028	2.2350	273,643	2.2275	1.7032	
2013	76,032	2.1387	–	–	–	–	76,032	2.1387	1.7032	
	<b>262,347</b>	<b>2.1568</b>	<b>98,946</b>	<b>2.1507</b>	<b>333,738</b>	<b>2.1234</b>	<b>695,031</b>	<b>2.1393</b>	<b>1.7032</b>	

#### Interest Rate Hedging

The Company is exposed to interest rate risk on its variable rate debt. As at September 30, 2010, the Company has a total of \$168.4 million in interest rate swap agreements to convert floating rate financing to fixed rate financing effective until 2012. These contracts fix the rate of interest on the Company's long-term debt at 4.36%. The effective portion of changes in the fair value of the interest rate swaps has been recorded in Other Comprehensive Income ("OCI") until the forecast interest expense impacts earnings. The ineffective portion of changes in the fair value of the interest rate swaps have been recorded in current earnings.

The interest rate hedge has been accounted for as cash flow hedge with the effective portion of the hedge of \$0.6 million gain and \$3.1 million gain for the three- and nine-month periods ended September 30, 2010, respectively,

recorded in OCI. The ineffective portion of gains of \$0.2 million and \$0.6 million were taken to income for the three- and nine-month periods ended September 30, 2010, respectively. Included in interest and financing expenses for the three- and nine-month periods ended September 30, 2010 are realized losses in the amount of \$2.0 million and \$6.5 million, respectively (2009—losses of \$4.3 million and \$12.1 million, respectively) in respect to the interest rate swaps.

### 14. CONTRACTUAL COMMITMENTS

Day-to-day mining and administrative operations give rise to contracts requiring agreed-upon future minimum payments. The Company is of the view that such commitments will be sufficiently funded by current working capital, available credit facilities that provide access to additional funds, and future operating cash flows.

As at September 30, 2010, the Company is contractually committed to the following amounts in the calendar years:

<i>(in thousands of United States Dollars)</i>	2010	2011	2012	2013	2014	Thereafter	Total
Mine operating/construction and service contracts and other	\$ 94,391	\$ 200,220	\$ 117,485	\$ 87,147	\$ 81,675	\$ 52,038	\$ 632,956
Long-term debt principal repayments (i)	–	–	242,632	–	15,000	255,000	512,632
	<b>\$ 94,391</b>	<b>\$ 200,220</b>	<b>\$ 360,117</b>	<b>\$ 87,147</b>	<b>\$ 96,675</b>	<b>\$ 307,038</b>	<b>\$ 1,145,588</b>

(i) Excludes interest expense.

## 15. CONTINGENCIES

Due to the size, complexity and nature of the Company's operations, various legal and tax matters arise in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. In the opinion of management, these matters will not have a material effect on the consolidated financial statements of the Company.

There has been no material change to contingencies since the end of 2009. Readers are encouraged to read the contingencies more particularly described in the Company's Annual Information Form, Audited Consolidated Financial Statements and Management's Discussion and Analysis for the year ended December 31, 2009.

## 16. OFF-BALANCE SHEET ARRANGEMENTS

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

## 17. GOLD AND COPPER MARKETS

For the quarter ended September 30, 2010, spot gold prices averaged \$1,228 per ounce, representing an increase of 28% from the comparative period of 2009.

The Company's revenue and profitability are highly dependent on spot gold prices as its principal product is sold at spot prices in world markets. Gold prices continue to be driven by positive market fundamentals. Declining long-term

mine supply, strong investment demand and steady physical demand for small bars and coins have all been supportive of a rising gold price. More recently, the Federal Reserve has been contemplating a second round of quantitative easing to help boost the United States economy. This led to a weakening of the United States Dollar and offered support to gold prices. Due to these factors, the Company expects gold prices to remain well supported in the near to mid-term, although with a high degree of market volatility.

For the quarter ended September 30, 2010, spot copper prices averaged \$3.29 per pound, representing an increase of 24% compared with the same period in 2009. Average copper prices during the second quarter of 2010 were \$3.18 per pound.

Copper prices are on an upward trend and they are approaching record levels attained in 2008. The copper market has been moving higher on the back of a weaker USD, supportive investment demand and declining physical stocks. The Company expects that copper prices will remain well above long-term averages as the global supply demand balance in copper is expected to remain relatively tight by historical standards.

## 18. EXPLORATION AND DEVELOPMENT PROJECTS

The Company continues to actively explore its exploration targets around existing mines and its efforts to look for new opportunities and on-the-ground purchases elsewhere in the Americas. The Company is largely focused on developing its future based on its exploration successes and organic growth.

The following is a summary of the exploration and development expenditures:

(in millions of United States Dollars)	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Exploration capitalized	\$ 17.7	\$ 10.8	\$ 43.2	\$ 26.0
Exploration expensed	12.2	9.0	29.7	18.2
<b>Total Exploration</b>	<b>\$ 29.9</b>	<b>\$ 19.8</b>	<b>\$ 72.9</b>	<b>\$ 44.2</b>

The Company has capitalized additional expenditures than expected as a result of more expansion on infill drilling and other brownfield project costs versus greenfield project costs.

The following summary highlights key quarterly updates from the exploration and development program.

### **Brazil**

#### **Chapada**

The Company is currently advancing a feasibility-level study for Suruca, the new gold mineralized area at Chapada, which the Company expects to complete by the end of 2010. A total of 84 extension and infill diamond drill holes were completed in the first nine months and the results have extended Suruca from 500 metres along strike to 1,800 metres along strike and showed that the mineralization remains open to the northeast

and to the south. An 800-metre section of the northeast part of the deposit has been drilled on 100-metre spacing. The Company believes Suruca will provide substantial gold-only production growth at this already robust and long-life mine.

#### **Jacobina**

Exploration and infill drilling commenced in February and is concentrated at the Morro do Vento and Canaveiras ore deposits and the newly discovered Lagartixa. The goal in 2010 is to upgrade higher-grade inferred resources to indicated resources for reserve conversion at the Morro do Vento and Canaveiras deposits and complete enough drilling at Lagartixa to define its potential. The Company remains focused on exploring, discovering and developing higher grade with exploration efforts focused on Lagartixa, which exhibits

substantially higher grade than the current mineral reserve grade at Jacobina. Expansion resulting from drilling results planned resources increases.

#### C1 Santa Luz

The Company has received the preliminary environmental permit and continues to progress development work at C1 Santa Luz. Basic engineering has been completed and detailed engineering is advancing. Production is expected to commence in late 2012. During the permitting period, Yamana has undertaken a program to conduct pilot plant tests on metallurgy and recoveries to ensure operational reliability once operations begin.

#### Ernesto/Pau-a-Pique

The Company previously made a construction decision for the development of Ernesto/Pau-a-Pique based on positive feasibility results. Yamana continues to progress basic engineering and conduct additional tests on metallurgy and recoveries. Permitting is underway and construction is expected to begin in 2010 with production targeted for late 2012.

#### Pilar

The Company made a construction decision on its Pilar project based on a recently completed positive feasibility study, which delivered the first mineral reserve estimate. During the permitting period which is expected to continue into the first quarter of 2011, the Company will continue to do exploration and development work to upgrade mineral resources and reserves. The vein structure of the orebody varies in width, therefore additional delineation work will allow for more reliability once production begins in mid-2013. Earth work is expected to begin in early to mid-2011 after the rainy season. Following the completion of permitting, construction is expected to take 24–30 months.

Total mineral resources including reserves for the Jordino near Pilar deposit increased by 32% from the published estimate as at the end of 2009. Based on production, mineral reserves and mineral resources, and anticipated further exploration successes, Pilar now represents one of the more significant projects for the Company. In addition, the Company has provided an exploration update on its extension drilling program to date with results that further confirm the Company's belief that there is potential to continue to increase mineral reserves and mineral resources as they demonstrate the deposit is open in all directions. The new mineral reserves at Pilar increases the Company's total proven and probable mineral reserves by 7% to 18.7 million ounces of gold. The Company is also evaluating potential ore feed sources from neighbouring satellite deposits including Caimar.

### Argentina

#### Gualcamayo

The Company has made a construction decision on QDD Lower West and updated its production plan upon completion of an update to a prior feasibility study. The updated feasibility study demonstrated increased mineral reserves and mineral resources as well as an increase in planned average annual production beginning in 2013. QDD Lower West is an orebody below the current open-pit operations at Gualcamayo and one of several identified areas of mineralization at the mine. Capital requirements for QDD Lower West are approximately \$85.0 million and relate only to mine development work as ore is expected to be processed through existing operations and facilities at Gualcamayo.

Production from QDD Lower West is expected to begin in 2013 ahead of the originally planned 2015. While recovery will be lower from QDD Lower West ore than the main open-pit ore, gold will be recovered from the heap leaching processing facilities already in operation at Gualcamayo, thereby reducing the need for additional capital investment. The Company plans to monitor the option of adding a milling facility which would increase recoveries and production. The prospect of a mill is dependent on continued exploration successes and the delineation of additional mineral reserves and this initiative will be further evaluated in late 2011.

Given the significant additional exploration opportunity at QDD Lower West, the Company will continue its exploration efforts as it progresses with mine development. In addition, ore from QDD Lower West increases the overall grade at Gualcamayo, thereby contributing to an increase in overall production.

#### Agua Rica

The Company continues to advance its Agua Rica project in Argentina including the advancement of discussions relating to a strategic partnership. Agua Rica is a large-scale copper, gold, molybdenum and silver porphyry deposit located in the province of Catamarca in an area with superior infrastructure for mining projects. A feasibility study was completed in 2006 and the initial environmental license for the project was issued in 2009. The Company has undertaken several optimization initiatives, and as part of these initiatives the Company received an updated mine plan for Agua Rica prepared by an independent engineering consulting firm. Under the revised plan, the project would deliver 870 million tonnes of ore over an estimated mine life of 26.5 years.

The new estimate for mineral reserves which forms the basis for the new mine plan, is summarized as follows:

	Tonnes (000's)	Copper Grade (%)	Gold Grade (g/t)	Molybdenum Grade (%)	Silver Grade (g/t)
Proven	380,236	0.569	0.257	0.032	3.91
Probable	489,301	0.440	0.213	0.030	3.52
<b>Total</b>	<b>869,537</b>	<b>0.496</b>	<b>0.232</b>	<b>0.031</b>	<b>3.69</b>

This reserve estimate is based on \$2.25/lb. copper, \$825/oz. gold, \$12/lb. molybdenum and \$14/oz. silver and contains 9.5 billion pounds of copper, 6.5 million ounces of gold, 595 million pounds of molybdenum and 103 million ounces of silver. Average annual production over the project mine life is summarized as follows:

	Time Frame		
	5 Years	10 Years	Life of Mine
Copper (millions of pounds/year)	419	370	306
Gold (thousands of ounces/year)	140	148	129
Molybdenum (millions of pounds/year)	15.2	13.9	15.3
Silver (thousands of ounces/year)	1,987	2,605	2,513

The new mine plan incorporates a more favourable strip ratio of 1.53:1 on an operating basis, or 1.68:1 including 131 million tonnes of pre-strip or pre-production waste removal. Total waste has been reduced by upwards of 100 million tonnes from previous levels provided for in the 2006 feasibility study. Mining costs are projected at less than \$1.15 per tonne of material moved excluding the cost of crushing and conveying.

The Company is in the process of updating capital cost estimates and other optimization initiatives remain under review. These include but are not limited to the following:

- Alternative concentrate transport logistics (e.g. trucking and rail vs. pipeline);
- Paste vs. filtered tailings disposal;
- Alternative waste disposal logistics and scheduling;
- Two tunnels—one for ore and one for waste vs. one large tunnel for both;
- Alternative access routes to the mine;
- Rhenium as a source of by-product credits; and
- Optimization of the Semi-Autogenous Grinding (“SAG”) mill to reduce energy costs by 10%.

In addition, the Company is investigating improvements in the originally assumed gold and molybdenum recoveries. Actual gold recoveries at comparable porphyry operations are significantly in excess of the assumed gold recoveries for Agua Rica. Metallurgical recovery test work for copper had been significantly more advanced than test work for recoveries of other metals in the prior feasibility study and the Company intends to conduct further metallurgical test work to increase gold and molybdenum recoveries. Any additional gold production from these tests is not yet included in the mine plan.

The Company continues to believe that Agua Rica is an exceptional stand-alone project offering significant value and is

working toward a formal construction decision for the project. Work continues on the preparation of a full update to the prior feasibility study which will incorporate the recently completed mine plan update, revised capital cost estimates and all other optimization initiatives as appropriate.

## Chile

### Jeronimo

The Company holds a 57% controlling and operating interest in the Jeronimo project, which is located in Region II of northern Chile. The Company continues to advance Jeronimo and have made significant advancements in metallurgical test work and support for reserve increases. The Company intends to deliver a feasibility study in late 2011.

## Mexico

### Mercedes

The Company continues development work at Mercedes. Drilling has been focused on the eastern extension of the Lupita vein and the central part of the Barrancas Vein. Favourable drill results were received and resource increases are expected at both areas. By year-end, 45,000 metres of drilling will be completed at Mercedes with the objective of increasing resources and reserves. Basic engineering and advanced mine development has been completed and exploration results continue to confirm Mercedes' high geological potential. The Company has received all the permits required for construction and commenced construction in May 2010. Production is expected to start in 2012 with an initial production of 120,000 GEO per year for a period of ten years. The Company will further evaluate the potential to increase annual production as it advances its exploration program.

## 19. RISKS AND UNCERTAINTIES

Exploration, development and mining of precious metals involve numerous inherent risks as a result of the economic conditions in the various geographical areas of operation. As such, the Company is subject to several 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 metal prices (such as gold, silver and copper), the activity in the mining sector, uncertainties inherent in estimating mineral reserves and mineral resources and fluctuations in local currency against the United States Dollar.

Readers are encouraged to read and consider the risk factors more specifically described in the Company's Annual Information Form for the year ended December 31, 2009. 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.

## 20. 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 the Company's financial statements. Management reviews its estimates and assumptions on an ongoing basis using the most current information available.

There has been no change to the Company's critical accounting policies and estimates since the end of 2009. Readers are encouraged to read the critical accounting policies and estimates more particularly described in the Company's Audited Consolidated Financial Statements and Management's Discussion and Analysis for the year ended December 31, 2009.

## 21. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) CHANGEOVER PLAN

The Company continues to monitor the deliberations and progress on plans to adopt International Financial Reporting Standards ("IFRS") by accounting standard-setting bodies and securities regulators in Canada, Brazil, Chile, Argentina, Mexico, the United States and other countries where the Company has operating and other interests.

Differences between Canadian GAAP and IFRS will impact the Company's accounting activities to varying degrees, some of which are dependent on policy choice decisions. The Company's main objective in the selection of IFRS policies and transition elections is to ensure that meaningful and transparent information is provided to stakeholders.

The major differences between the current accounting policies of the Company and those that the Company expects to apply in preparing IFRS financial statements as well as some of the most significant adjustments expected are included below. These differences do not represent a complete list of expected changes under IFRS. As the Company's transition project is impacted by changes to IFRS that may occur prior to the changeover date, the analysis below may be subject to change. Future disclosures will continue to report updated progress as well as any additional impacts identified on the Company's financial reporting, and changes to systems and processes, as they are determined.

### *First-time adoption of IFRS*

IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), which provides guidance for the initial adoption of IFRS. IFRS 1 requires an entity to apply IFRS effective at the end of its first IFRS annual reporting period on a full retrospective basis subject to specific mandatory and optional exemptions. Significant optional IFRS 1 exemptions the Company may expect to apply in its first IFRS financial statements have not changed from those previously disclosed.

### *Changes to accounting policies and financial statement elements*

The following discussion relates to key differences identified in significant accounting policies and the expected effect on the Company's financial statements, certain of which are expected to have an impact on the opening balance sheet and/or be an ongoing difference between Canadian GAAP and IFRS:

#### **Income taxes**

The carrying value of non-monetary assets is recorded in the functional currency at the time of the original acquisition. If the related tax value is calculated in a foreign currency, the tax value is translated to the functional currency at the rate in effect at each balance sheet date. Any change in the tax value measure in the functional currency creates a foreign exchange difference in the deferred tax calculation. Under Canadian GAAP, the initial deferred tax liability on the fair value adjustments on acquisition of non-monetary assets was calculated in the foreign currency and subsequently translated into the functional currency at the rate in effect at each balance sheet date. Under IFRS, the deferred tax liability relating to the fair value adjustments on acquisition of non-monetary assets will

always be calculated with reference to the functional currency at the time of the original acquisition. IFRS has the impact of removing previously recognized foreign exchange gains/losses on the foreign currency-denominated deferred tax liability from the date of acquisition. The opening adjustment on the balance sheet is less than \$165.0 million reduction to opening retained earnings which represents the difference between accounting value at historical foreign exchange rate and accounting value at current foreign exchange rate multiplied by the tax rate. The Company is in the process of determining the actual opening balance sheet impact. Going forward, no unrealized foreign exchange gains/losses related to deferred income tax liability arising from purchase price adjustments will be recognized.

The Company continues to evaluate the impact between IFRS 1, *First-time Adoption of IFRS*, and IAS 12, *Income Taxes*, including the potential impact on calculation of deferred taxes with respect to the Company's past acquisitions.

#### Impairment of assets

Under Canadian GAAP, a two-step approach to impairment testing is performed: firstly, the asset carrying value is compared with its undiscounted future cash flow to determine whether impairment exists. The impairment is then measured by comparing the asset's carrying value with its fair value. IAS 36, *Impairment of Assets* ("IAS 36"), requires the application of a one-step approach for both testing for and measuring impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use and includes the use of discounted cash flows when a cash flow model is used. Management will determine its best estimates on assumptions applicable to such discounted cash flows, which may give rise to different results under different circumstances. Applying IAS 36 may result in additional impairments in cases where the carrying values of assets may have previously been recoverable under Canadian GAAP on an undiscounted cash flow basis but could not be supported on a discounted cash flow basis. IFRS also allows the reversal of impairments for long-lived assets if conditions that gave rise to those impairments no longer exist. It is expected that there may be increased volatility in impairment recognition due to the possibility of more frequent impairments and the reversal of impairments. Financial statements elements that may be impacted as a result of impairment include the Company's mineral interests composed of depletable and non-depletable mineral properties and its equity investment. The opening adjustment on the balance sheet as a result of using a discounted cash flow approach required under IFRS is approximately in the range of \$30.0 to \$50.0 million resulting in a reduction to opening retained earnings.

#### Warrants

Under Canadian GAAP, the Company accounts for its Canadian dollar-denominated warrants, primarily acquired in its business combinations, as equity instruments. IFRS requires that warrants denominated in a currency other than the functional currency of the issuer (United States Dollars for the Company) be classified as liabilities unless they are issued pro rata to all existing shareholders. Therefore, the Company's outstanding Canadian dollar-denominated warrants will need to be reclassified as liabilities and recognized at fair value, with changes in value being recorded in the statement of operations and the opening adjustment to be recorded as an adjustment to opening retained earnings. Quantification of this impact results in a total reclassification of liability value of approximately \$9.0 million and an increase to retained earnings of approximately \$35.0 million.

#### Asset retirement obligations

Differences in this area between Canadian GAAP and IFRS that are being assessed include the recognition of provisions based on the concept of legal and constructive obligations, when probable ("more likely than not" or greater than 50%) and the measurement requirements for discounting using a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the liability. The opening adjustment on the balance sheet as a result of using discount rates that are country-specific required under IFRS is less than \$5.0 million resulting in a reduction of opening retained earnings.

#### Share-based compensation

The Company recognizes share-based compensation as a single pool with a fair value based on the specified vesting period for the overall arrangement. This treatment is applied for all arrangements under Canadian GAAP, including those which include tranches that vest in installments over the vesting period. Under IFRS, the Company will treat each installment as a separate arrangement with its own distinct fair value measurement. Compensation cost for each tranche will be recognized over its own distinct vesting period. The opening adjustment on the balance sheet as a result of using the above treatment required under IFRS is approximately \$4.0 million resulting in a reduction of opening retained earnings.

#### Property, plant and equipment ("PPE")

Key differences between Canadian GAAP and IFRS with respect to PPE include component accounting which must be applied to physical and non-physical components which are significant and have a useful life which differs to that of the overall asset, the mandatory capitalization of interest costs and requirements for the annual review of estimates of useful life, residual

value and the depreciation method. The Company will continue to account for its PPE using the cost model. At this point, the Company does not expect to record a material adjustment relating to this difference.

#### Provisions, contingent liabilities and contingent assets

Differences that are being assessed include the recognition of provisions which introduce the concept of legal and constructive obligations when probable (“more likely than not” or greater than 50%) and the requirements for discounting when material. At this time, the Company does not expect to record a material adjustment relating to this difference.

The Company has not identified any material differences for any other financial statement elements. Additional impacts and developments, if any, will be disclosed as they are determined.

#### Project update

A project steering committee was established at the inception of the project and is providing overall guidance to the conversion project. The audit committee of the Company is kept informed of management’s decisions on accounting policy choices under IFRS, project status and significant IFRS developments. The Company completed a detailed work plan for the design and implementation phases of the project which are well underway. The project is progressing according to plan, is on budget and there has been no significant change to the plan.

Some of the key activities that have commenced and will continue in 2010 include:

Activities	Progress report
Information technology and data systems	The Company’s IFRS project team liaises with IT system teams to ensure alignment with other projects impacting the IT environment. The Company continues to make good progress as it is revising its IT systems to incorporate IFRS requirements after the changeover date.
Internal controls	A process has been designed and implemented to provide reasonable assurance on the controls in place relating to the conversion process. At this point in the IFRS project, the Company does not anticipate any significant changes to key internal controls.
Training programs	All major company personnel impacted by the IFRS changeover from site staff to all levels of executive and directors have undergone various levels of training and have an understanding of IFRS. Specific training to key personnel has begun and will continue to be implemented in the year.
Communication programs	The Audit Committee receives quarterly updates on the project’s progress status. It met in August with the project team to review the effect of conversion to IFRS on the opening balance sheet and the template of financial statements and notes proposed for interim and annual reporting in 2011. The Company’s project team continues to communicate project status and significant impacts of transition to affected parties.
Revision of accounting policy and procedures manual	Differences arising from IFRS adoption have been identified and decisions have been documented in accounting papers addressing specific policies. Revisions and approval of the Company’s documented accounting policies under IFRS is underway.
Preparation of draft IFRS financial statements templates, disclosures and related decisions	Draft IFRS financial statements are undergoing a thorough review and approval with the involvement of the Company’s auditors. Some of the key changes expected include, but are not limited to, the following: <ul style="list-style-type: none"> <li>• The statement of operations will be presented by “function” of the line items with additional note disclosures on the “nature” of the item to be included in supporting notes.</li> <li>• Unrealized and realized gain/loss on financial instruments as well as foreign exchange gain/loss will be presented within net finance expenses.</li> <li>• Foreign exchange gain/loss, interest and penalties related to tax to be reported in the tax expense line,</li> <li>• Deferred tax asset and liability balances to be presented as non-current on the balance sheet.</li> <li>• Cash flow statement to begin with earnings before taxation and present dividends received and taxes paid as operating activities.</li> <li>• Additional reconciliations/disclosures to be provided for several financial statement elements such as property, plant and equipment, equity investment, goodwill and intangible assets, dividends paid and proposed, share-based payments, cost of sales excluding depreciation, depletion and amortization, other operating income and expenses, finance income and expenses, environmental rehabilitation and provisions, employee compensation and benefit expenses, financial instruments, equity and its components, related party transactions, etc.</li> </ul>
Preparation and auditor procedures on the IFRS opening balance sheet for January 1, 2010	Significant differences between Canadian GAAP and IFRS impacting the Company’s opening balance sheet for January 1, 2010 are in the process of being finalized. The Company’s auditors have performed procedures on the IFRS opening balance sheet and are expected to provide a report early in 2011. Significant adjustments to the opening balance sheet to date have been disclosed above.
Other business impacts	During the transition year, IFRS figures are being tracked in parallel with Canadian GAAP figures for comparative purposes.

The above is not considered a complete and final list of all the impacts that will result from the transition to IFRS. The Company will maintain disclosures as current as possible as changes in circumstances may impact the final determination of adjustments and application.

### ***Future Expected Changes to IFRS***

Continuous monitoring of current IFRS developments is an imperative consideration in the design and implementation phase as multiple changes are expected to come into effect from projects delineated by the timetable of the International Accounting Standard Board (“IASB”) as the Company transitions to IFRS.

#### **Joint Arrangements**

The International Accounting Standards Board has issued Exposure Draft (“ED 9”), Joint Arrangements, which proposes to require that all jointly controlled entities be accounted for using the equity method of accounting. ED 9 would replace the current IFRS standard which allows for a policy choice to account for jointly controlled entities using either proportionate consolidation, which is consistent with Canadian GAAP, or the equity method of accounting. ED 9 is expected to result in the issue of a final IFRS standard in 2010, which the Company will be required to adopt during a period subsequent to its transition to IFRS. The Company is currently evaluating the impact that ED 9 is expected to have on its consolidated financial statements.

#### **Revenue Recognition**

In June 2010, the IASB and FASB have jointly issued an ED on Revenue from contracts with customers. If adopted, the proposals would supersede IAS 11, *Construction Contracts*, and IAS 18, *Revenue* and related interpretations. The core principle proposed in the ED would require an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to receive in exchange for those goods or services. The ED also specifies the accounting for contract costs. The Discussion Paper (“DP”) proposes a single revenue recognition model based on changes in the contract asset or liability with a customer, i.e., the net asset or liability arising from the remaining rights and obligations in a contract. The Company is currently evaluating the impact that ED is expected to have on its consolidated financial statements.

#### **Leases**

In July 2006, the IASB announced a project to reconsider the accounting requirement for leasing arrangements. The project is being conducted jointly with the FASB. In March 2009, the IASB and the FASB published a DP Leases—Preliminary Views. The DP proposes, for lessees, to eliminate the requirement to classify a lease contract as an operating or finance lease, and to require a single accounting model to be applied to all leases. The DP proposes that a lessee recognize in its financial statements a “right-of-use” asset representing its right to use the leased asset, and a liability representing its obligation to pay

lease rentals. The DP includes a high-level discussion of lessor accounting issues, but expresses no preliminary views on lessor accounting. An ED is expected in 2010 and a final standard in the second quarter of 2011. The Company is currently monitoring the impact that proposed changes are expected to have on its consolidated financial statements.

## **22. DISCLOSURES AND INTERNAL CONTROLS AND PROCEDURES**

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

As at the end of the period covered by this Management’s Discussion and Analysis, the Company’s management, with the participation of the Chairman and Chief Executive Officer and the Executive Vice President, Finance and Chief Financial Officer, evaluated the effectiveness of the Company’s disclosure controls and procedures as required by applicable rules of the Securities and Exchange Commission (“SEC”) and the Canadian Securities Administrators (or Canadian securities regulatory authorities). The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances. Based on that evaluation, the Chairman and Chief Executive Officer and the Executive Vice President, Finance and Chief Financial Officer have concluded that, as of the end of the period covered by this Management’s Discussion and Analysis, the disclosure controls and procedures (as defined in Rule 13(a)-15(e) under the *Securities Exchange Act of 1934*) were effective to provide reasonable assurance that information required to be disclosed in the Company’s annual filings and interim filings and other reports filed or submitted under applicable securities laws, is recorded, processed, summarized and reported within time periods specified by those laws and that material information is accumulated and communicated to the Company’s management, including the Chairman and Chief Executive Officer and the Executive Vice President, Finance and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### ***Management's Report on Internal Control over Financial Reporting***

The Company's management is responsible for establishing and maintaining effective internal control over financial reporting as such term is defined in the rules of the United States Securities and Exchange Commission and the Canadian Securities Administrators. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting for external purposes in accordance with accounting principles generally accepted in Canada and the United States of America for external purposes. The Company's internal control over financial reporting includes:

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

The Company's internal control over financial reporting may not prevent or detect all misstatements because of inherent limitations. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with the Company's policies and procedures.

### ***Changes in Internal Controls***

During the period ended September 30, 2010, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### ***Limitations of Controls and Procedures***

The Company's management, including the Chairman and Chief Executive Officer and the Executive Vice President, Finance and Chief Financial Officer, believes that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Furthermore, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must

be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

*This report provides a discussion and analysis of the financial condition and results of operations ("Management's Discussion and Analysis") to enable readers to assess material changes in financial condition between September 30, 2010, and December 31, 2009, and results of operations for the periods ended September 30, 2010 and September 30, 2009.*

*This Management's Discussion and Analysis ("MD&A") has been prepared as of November 3, 2010. The unaudited consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") follow this MD&A. This MD&A is intended to supplement and complement the unaudited consolidated financial statements and notes thereto as at and for the period ended September 30, 2010 (collectively the "Financial Statements"). Readers are encouraged to review the Financial Statements in conjunction with this MD&A, which should be read in conjunction with both the annual audited consolidated financial statements for the year ended December 31, 2009, and the most recent Annual Information Form for the year ended December 31, 2009, on file with the Securities Commissions of all of the provinces in Canada and the 2009 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 MD&A and such notes are incorporated by reference herein. All Dollar amounts in the MD&A are in United States Dollars, unless otherwise specified.*

### ***Cautionary Note Regarding Forward-Looking Statements***

This Management's Discussion and Analysis contains or incorporates by reference "forward-looking statements" within the meaning of the United States *Private Securities Litigation Reform Act of 1995* and "forward-looking information" under applicable Canadian securities legislation. Except for statements of historical fact relating to the Company, information contained herein constitutes forward-looking statements, including any information as to the Company's strategy, plans

or future financial or operating performance. Forward-looking statements are characterized by words such as “plan,” “expect,” “budget,” “target,” “project,” “intend,” “believe,” “anticipate,” “estimate” and other similar words, or statements that certain events or conditions “may” or “will” occur. Forward-looking statements are based on the opinions, assumptions and estimates of management considered reasonable at the date the statements are made, and are inherently subject to a variety of risks and uncertainties and other known and unknown factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include, but are not limited to, the impact of general business and economic conditions; global liquidity and credit availability on the timing of cash flows and the values of assets and liabilities based on projected future conditions; fluctuating metal prices (such as gold, copper, silver and zinc); currency exchange rates (such as the Brazilian Real and the Chilean Peso versus the United States Dollar); possible variations in ore grade or recovery rates; changes in the Company’s hedging program; changes in accounting policies; changes in the Company’s corporate resources; changes in project parameters as plans continue to be refined; changes in project development and production time frames; risk related to joint venture operations; the possibility of project cost overruns or unanticipated costs and expenses; higher prices for fuel, steel, power, labour and other consumables contributing to higher costs and general risks of the mining industry; failure of plant, equipment or processes to operate as anticipated; unexpected changes in mine life; final pricing for concentrate sales; unanticipated results of future studies; seasonality and unanticipated weather changes; costs and timing of the development of new deposits; success of exploration activities; successful transition to owner mining; permitting timelines; 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 and labour disputes, as well as those risk factors discussed or referred to in the Company’s annual Management’s Discussion and Analysis and Annual Information Form for the year ended December 31, 2009, filed with the securities regulatory authorities in all provinces of Canada and available at [www.sedar.com](http://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, assumptions or opinions should change, except as required by applicable law. Readers are cautioned not to place undue reliance on forward-looking statements. The forward-looking information contained herein is presented for the purpose of assisting investors in understanding the Company’s expected financial and operational performance and results as at and for the periods ended on the dates presented in the Company’s plans and objectives and may not be appropriate for other purposes.

#### ***Cautionary Note to United States Investors Concerning Estimates of Measured, Indicated and Inferred Mineral Resources***

This Management’s Discussion and Analysis uses the terms “Measured,” “Indicated” and “Inferred” Mineral Resources. United States (“U.S.”) investors are advised that while such terms are recognized and required by Canadian regulations, the United States Securities and Exchange Commission does not recognize them. “Inferred Mineral Resources” have a great amount of uncertainty as to their existence, and as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or other economic studies. U.S. investors are cautioned not to assume that all or any part of Measured or Indicated Mineral Resources will ever be converted into Mineral Reserves. U.S. investors are also cautioned not to assume that all or any part of an Inferred Mineral Resource exists, or is economically or legally mineable.

#### ***Cautionary Note Regarding Mineral Reserves and Mineral Resources***

Readers should refer to the Annual Information Form of the Company for the year ended December 31, 2009, and other continuous disclosure documents filed by the Company since January 1, 2010, available at [www.sedar.com](http://www.sedar.com), for further information on mineral reserves and mineral resources, which is subject to the qualifications and notes set forth therein.

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## Consolidated Balance Sheets

As at

<i>(In thousands of United States Dollars; unaudited)</i>	September 30, 2010	December 31, 2009
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 279,691	\$ 170,070
Accounts receivable	150,737	102,126
Inventory (Note 4)	129,984	101,820
Other current assets (Note 5)	202,428	154,979
Current assets held for sale (Note 3)	–	53,624
	762,840	582,619
Mineral interests (Note 6)	8,725,002	8,576,361
Other long-term assets (Note 7)	362,550	223,756
Future income tax assets	141,984	135,454
Goodwill	55,000	55,000
Long-term assets held for sale (Note 3)	–	134,070
	<b>\$ 10,047,376</b>	<b>\$ 9,707,260</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable	\$ 115,327	\$ 153,522
Accrued liabilities	107,188	86,319
Income taxes payable	59,527	42,844
Other current liabilities (Note 8)	15,726	25,660
Current liabilities held for sale (Note 3)	–	13,937
	297,768	322,282
Long-term debt (Note 9)	505,568	529,450
Asset retirement obligations	146,854	133,163
Future income tax liabilities	1,806,591	1,768,899
Other long-term liabilities (Note 10)	142,608	138,389
Long-term liabilities held for sale (Note 3)	–	19,559
	2,601,621	2,589,460
	2,899,389	2,911,742
<b>Shareholders' equity</b>		
Capital stock		
Issued and outstanding: 741,110,154 common shares (December 31, 2009—733,411,458 shares)	6,167,750	6,063,410
Share purchase warrants	13,111	44,071
Contributed surplus	34,320	26,942
Accumulated other comprehensive income (Note 12)	40,879	26,652
Retained earnings	845,127	587,643
	7,101,187	6,748,718
Non-controlling interest	46,800	46,800
	<b>\$ 10,047,376</b>	<b>\$ 9,707,260</b>

Contractual Commitments and Contingencies (Notes 17 and 20).

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

## Consolidated Statements of Operations

For the Periods Ended

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<i>(In thousands of United States Dollars, except for shares and per share amounts; unaudited)</i>				
<b>Revenues</b>	\$ 453,965	\$ 333,179	\$ 1,151,681	\$ 783,489
Cost of sales excluding depletion, depreciation and amortization	(171,913)	(131,357)	(452,722)	(338,152)
Depletion, depreciation and amortization	(79,219)	(64,792)	(217,420)	(160,579)
Accretion of asset retirement obligations	(1,618)	(611)	(4,957)	(1,601)
<b>Mine operating earnings</b>	<b>201,215</b>	<b>136,419</b>	<b>476,582</b>	<b>283,157</b>
<b>Expenses</b>				
General and administrative	(25,109)	(17,029)	(79,137)	(58,823)
Exploration	(12,249)	(9,035)	(29,699)	(18,224)
Other operating (expenses) income	(5,966)	(5,890)	(14,697)	1,415
<b>Operating earnings</b>	<b>157,891</b>	<b>104,465</b>	<b>353,049</b>	<b>207,525</b>
Investment and other business income	1,740	8,978	3,012	22,227
Interest and financing expenses	(13,743)	(5,970)	(42,198)	(14,879)
Foreign exchange gain	15,894	15,126	36,089	87,820
Realized (loss) gain on derivatives (Note 19)	(246)	(3,562)	(5,476)	27,849
Unrealized (loss) gain on derivatives (Note 19)	(1,534)	(16,853)	2,454	(96,950)
<b>Earnings from continuing operations before taxes and equity earnings</b>	<b>160,002</b>	<b>102,184</b>	<b>346,930</b>	<b>233,592</b>
Income tax expense (Note 14)	(47,510)	(55,799)	(97,388)	(94,144)
Equity earnings from Minera Alumbra (Note 6)	10,689	8,061	30,140	18,865
<b>Earnings from continuing operations</b>	<b>123,181</b>	<b>54,446</b>	<b>279,682</b>	<b>158,313</b>
(Loss) earnings from discontinued operations (Note 3)	(2,496)	6,377	11,329	(1,857)
<b>Net earnings</b>	<b>\$ 120,685</b>	<b>\$ 60,823</b>	<b>\$ 291,011</b>	<b>\$ 156,456</b>
<b>Net earnings per share</b>				
Basic	\$ 0.17	\$ 0.08	\$ 0.39	\$ 0.22
Diluted	\$ 0.17	\$ 0.08	\$ 0.39	\$ 0.22
<b>Earnings per share from continuing operations</b>				
Basic	\$ 0.17	\$ 0.07	\$ 0.37	\$ 0.22
Diluted	\$ 0.17	\$ 0.07	\$ 0.37	\$ 0.22
<b>Weighted average number of shares outstanding (Note 11(c))</b>				
Basic	741,028	733,215	739,510	733,017
Diluted	741,795	733,975	740,335	733,820

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

## Consolidated Statements of Comprehensive Income

For the Periods Ended

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<i>(In thousands of United States Dollars, unaudited)</i>				
Net earnings	\$ 120,685	\$ 60,823	\$ 291,011	\$ 156,456
Other comprehensive income, net of taxes (Note 12)	21,795	9,064	14,227	39,841
<b>Comprehensive income</b>	<b>\$ 142,480</b>	<b>\$ 69,887</b>	<b>\$ 305,238</b>	<b>\$ 196,297</b>

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

## Consolidated Statements of Shareholders' Equity

For the Periods Ended

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<i>(In thousands of United States Dollars; unaudited)</i>				
<b>Common shares (in thousands of shares)</b>				
Balance, beginning of period	741,023	733,208	733,411	732,845
Issued on exercise of stock options, share appreciation rights and warrants (Note 11(a))	82	41	7,241	138
Issued on vesting of restricted share units (Note 13)	5	–	458	266
	741,110	733,249	741,110	733,249
<b>Common shares</b>				
Balance, beginning of period	\$ 6,166,657	\$ 6,061,181	\$ 6,063,410	\$ 6,055,892
Issued on exercise of stock options, share appreciation rights and warrants	1,026	557	99,034	2,454
Issued on vesting of restricted share units (Note 13)	67	–	5,306	3,392
	\$ 6,167,750	\$ 6,061,738	\$ 6,167,750	\$ 6,061,738
<b>Share purchase warrants</b>				
Balance, beginning of period	\$ 13,111	\$ 44,109	\$ 44,071	\$ 44,109
Exercise of warrants	–	–	(23,750)	–
Expiry of warrants	–	–	(7,210)	–
	\$ 13,111	\$ 44,109	\$ 13,111	\$ 44,109
<b>Contributed surplus</b>				
Balance, beginning of period	\$ 32,521	\$ 24,458	\$ 26,942	\$ 26,587
Transfer of stock-based compensation on the exercise	(292)	(324)	(501)	(2,007)
Expiry of warrants	–	–	7,210	–
Transfer of restricted share units on vesting (Note 13)	–	–	(5,239)	(3,392)
Stock-based compensation	2,091	1,821	5,908	4,767
	\$ 34,320	\$ 25,955	\$ 34,320	\$ 25,955
<b>Total before retained earnings and accumulated other comprehensive income</b>	<b>\$ 6,215,181</b>	<b>\$ 6,131,802</b>	<b>\$ 6,215,181</b>	<b>\$ 6,131,802</b>
<b>Retained earnings</b>				
Balance, beginning of period	\$ 739,486	\$ 505,311	\$ 587,643	\$ 424,182
Net earnings	120,685	60,823	291,011	156,456
Dividends declared	(15,044)	(7,278)	(33,527)	(21,782)
<b>Retained earnings, end of period</b>	<b>845,127</b>	<b>558,856</b>	<b>845,127</b>	<b>558,856</b>
<b>Accumulated other comprehensive income (loss) (Note 12)</b>	<b>40,879</b>	<b>(810)</b>	<b>40,879</b>	<b>(810)</b>
	886,006	558,046	886,006	558,046
<b>Total shareholders' equity</b>	<b>\$ 7,101,187</b>	<b>\$ 6,689,848</b>	<b>\$ 7,101,187</b>	<b>\$ 6,689,848</b>

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

## Consolidated Statements of Cash Flows

For the Periods Ended

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<i>(In thousands of United States Dollars, unaudited)</i>				
<b>Operating Activities</b>				
Earnings from continuing operations	\$ 123,181	\$ 54,446	\$ 279,682	\$ 158,313
Asset retirement obligations paid	(1,052)	(999)	(2,820)	(1,971)
Cash distribution from Minera Alumbrera Ltd. (Note 6)	6,624	11,878	30,140	18,865
Items not involving cash:				
Depletion, depreciation and amortization	79,219	64,792	217,420	160,579
Stock-based compensation	2,990	2,431	8,126	7,895
Future income taxes (Note 14)	25,959	40,330	7,425	51,274
Accretion of asset retirement obligations	1,618	611	4,957	1,601
Unrealized foreign exchange gain	(4,839)	(7,081)	(28,520)	(82,752)
Unrealized loss (gain) on commodity contracts (Note 19)	1,534	16,853	(2,454)	96,950
Mark-to-market on sales of concentrate	(20,987)	2,470	(5,910)	(37,859)
Equity earnings from Minera Alumbrera (Note 6)	(10,689)	(8,061)	(30,140)	(18,865)
Other	5,257	(9,740)	7,360	(13,447)
	208,815	167,930	485,266	340,583
Net change in non-cash working capital (Note 15(c))	(55,495)	(23,491)	(105,035)	(23,574)
<b>Cash flows from operating activities of continuing operations</b>	<b>153,320</b>	<b>144,439</b>	<b>380,231</b>	<b>317,009</b>
<b>Cash flows from operating activities of discontinued operations (Note 3)</b>	<b>-</b>	<b>1,671</b>	<b>1,616</b>	<b>17,154</b>
<b>Financing Activities</b>				
Issue of common shares upon exercise of options and warrants (net of issue costs)	735	234	74,784	526
Dividends paid	(11,306)	(7,393)	(26,049)	(22,033)
Proceeds of notes payable and long-term liabilities	-	-	-	31,000
Repayment of notes payable and long-term liabilities	-	(21,053)	(25,000)	(63,159)
Financing and other costs	(1)	-	(249)	(713)
<b>Cash flows (to) from financing activities of continuing operations</b>	<b>(10,572)</b>	<b>(28,212)</b>	<b>23,486</b>	<b>(54,379)</b>
<b>Investing Activities</b>				
Expenditures on mineral properties	(70,090)	(75,694)	(204,826)	(200,256)
Acquisition of property, plant and equipment	(28,061)	(41,669)	(70,170)	(82,996)
Expenditures on assets under construction	(28,598)	(27,291)	(38,583)	(76,689)
Proceeds on disposition of assets	1,682	-	65,092	-
Return of investment from Minera Alumbrera Ltd. (Note 6)	-	13,495	7,204	13,495
Business acquisition and related transaction costs (Note 3)	-	-	(49,109)	-
Other assets and investments	(8,114)	(21,002)	(10,620)	(32,939)
<b>Cash flows to investing activities of continuing operations</b>	<b>(133,181)</b>	<b>(152,161)</b>	<b>(301,012)</b>	<b>(379,385)</b>
<b>Cash flows to investing activities of discontinued operations (Note 3)</b>	<b>-</b>	<b>36,011</b>	<b>(1,616)</b>	<b>19,429</b>
Effect of foreign exchange on non-United States Dollar-denominated cash and cash equivalents	7,901	1,375	6,916	7,533
Increase (decrease) in cash and cash equivalents	17,468	3,123	109,621	(72,639)
Cash and cash equivalents, beginning of period—continuing operations	262,223	94,375	170,070	170,137
<b>Cash and cash equivalents, end of period</b>	<b>\$ 279,691</b>	<b>\$ 97,498</b>	<b>\$ 279,691</b>	<b>\$ 97,498</b>
Cash and cash equivalents are composed of the following:				
Cash at bank	\$ 279,691	\$ 53,414	\$ 279,691	\$ 53,414
Short-term money market securities	-	44,084	-	44,084
	<b>\$ 279,691</b>	<b>\$ 97,498</b>	<b>\$ 279,691</b>	<b>\$ 97,498</b>

Supplementary cash flow information (Note 15)

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

# Notes to the Consolidated Financial Statements

*For the three- and nine-month period ended September 30, 2010 (with comparatives as at December 31, 2009 and for the three- and nine-month periods ended September 30, 2009)*

*(Tabular amounts in thousands of United States Dollars unless otherwise noted; unaudited)*

## 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Yamana Gold Inc. (the “Company” or “Yamana”) is a Canadian publicly traded gold producer engaged in gold and other precious metals mining and related activities including exploration, extraction, processing and reclamation. Yamana has significant properties involved in gold production and other precious metals, development, exploration and land positions throughout the Americas including Brazil, Chile, Argentina, Mexico and Colombia.

The Company’s net earnings and operating cash flows for the period result from operations in Brazil, Chile and Argentina. Gold mining requires the use of specialized facilities and technology. The Company relies heavily on such facilities and technology to maintain production levels. Cash flow and profitability of operations are affected by various factors, including levels of production, prices of consumables, interest rates, environmental costs, the level of exploration activity and other discretionary costs and activities. Profitability and operating cash flows are also affected by the market prices of gold, silver and copper and foreign currency exchange rates which can fluctuate widely. Yamana seeks to manage the risks associated with its business; however, many factors affecting the above risks are beyond the Company’s control.

The accompanying interim consolidated financial statements have been prepared on a going-concern basis in accordance with Canadian generally accepted accounting principles (“GAAP”) and include the assets, liabilities and operations of the Company and its wholly owned subsidiaries. These interim consolidated financial statements do not contain all the information required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the audited annual financial statements of the Company for the year ended December 31, 2009. Except as noted in *Note 2*, these interim consolidated financial statements follow the same accounting policies and methods of their application as the most recent audited annual financial statements.

## 2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

During 2010, the Company adopted, in accordance with the respective transitional provisions, the following new accounting standards that were issued by the Canadian Institute of Chartered Accountants (“CICA”):

### *Business Combinations, Consolidated Financial Statements and Non-Controlling Interests*

In January 2009, the CICA issued Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*, to replace Section 1581 and Section 1600. These sections have an effective date of January 1, 2011, but earlier application is permitted. These standards establish updated principles on the recognition, measurement criteria and presentation for acquisitions, the accounting for assets and liabilities assumed and non-controlling interests. The Company has adopted these standards early to be applicable beginning on January 1, 2010. The implementation of these standards impacted the accounting for the business combination in *Note 3* of the consolidated financial statements as well as the disclosures related to the non-controlling interests in the financial statements.

### *Future accounting changes*

- (a) In December 2009, the CICA issued EIC Abstract 175, *Multiple Deliverable Revenue Arrangements* (“EIC-175”), requiring a vendor to allocate arrangement consideration at the inception of an arrangement to all deliverables using the relative selling price method. It also changes the level of evidence of the stand-alone selling price required to separate deliverables when more objective evidence of the selling price is not available. Given the requirement to use the relative selling price method of allocating arrangement consideration, it prohibits the use of the residual method. EIC-175 may be applied prospectively and should be applied to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011, with early adoption permitted. The implementation of this standard is not expected to have a material impact on the Company’s consolidated financial statements.
- (b) Canadian public companies will be required to prepare their financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board, for financial years beginning on or after January 1, 2011. Effective January 1, 2011, the Company will adopt IFRS as the basis for preparing its consolidated financial statements. The Company will issue its financial results for the quarter ended March 31, 2011 prepared on an IFRS basis and provide comparative data on an IFRS basis as required.

### 3. BUSINESS ACQUISITIONS AND DISPOSITIONS

#### *Acquisition of Constructora Gardilcic Ltda. and Constructora TCG Ltda.*

On January 5, 2010, the Company acquired all of the outstanding shares of Constructora Gardilcic Ltda. (“CG”) and Constructora TCG Ltda. (“CT”), two entities held by Gardilcic Construccion S.A. (the “Seller”). CG and CT were responsible for a servicing contract at El Peñón mine. Through purchasing this business, the Company is now owner mining at El Peñón mine. The purchase price of this transaction totaled cash of \$48.9 million and included a \$1.0 million deferred payment. Transaction costs relating to this acquisition were immaterial and have been expensed. The sale did not result in a significant tax impact.

The business combination was accounted for as a purchase transaction with the Company as the acquirer of CG and CT. The Company has consolidated the assets and operations acquired from the date of acquisition. Included in the purchase price allocation is \$18.6 million of other identifiable intangibles, representing the intellectual property, know-how and processes associated with mining for and extracting gold ore in the Chilean region. This intangible asset will be amortized over its estimated useful life to the Company, which is expected to be 12 years.

The purchase price was calculated as follows:

Cash consideration	\$	48,938
<b>Purchase consideration</b>	<b>\$</b>	<b>48,938</b>

The preliminary purchase price allocation is as follows:

Inventory	\$	2,969
Property, plant and equipment, net		28,328
Other liabilities accrued		(1,000)
Other identifiable intangibles		18,641
<b>Net identifiable assets</b>	<b>\$</b>	<b>48,938</b>

#### *Disposition of San Andrés, São Francisco and São Vicente Mines*

On July 17, 2009, the Company signed an agreement with Aura Minerals Inc. (the “Purchaser”) to sell three of the Company’s non-core operating mines for total consideration of approximately \$265.0 million in a combination of cash, shares, secured promissory notes, and deferred payments. One of the mines is in Honduras and two are in Brazil.

The sale transaction is structured in two parts to accommodate jurisdiction-related regulatory requirements as follows:

- The first disposition related to the sale of shares representing a 100% interest in the San Andrés mine (*Note 16*, Mexico and Other Segment). The sale closed on August 25, 2009, at which time the Company received consideration totaling \$84.9 million, which included cash of \$35.9 million, a note receivable of \$23.2 million and the remainder paid for in shares. In addition, the agreement entitled the Company to receive a deferred consideration to a maximum of \$14.7 million payable on the achievement of specified operating results. The sale did not result in a significant income tax liability for the Company. There was a gain on sale of \$5.8 million.
- The second disposition related to the sale of assets that encompass the São Francisco and São Vicente mines, which closed on April 30, 2010. The consideration is approximately \$141.5 million excluding a deferred consideration asset of up to \$28.6 million payable on the achievement of specified operating results. Total consideration includes cash of \$49.4 million, a note receivable of \$38.4 million and the remainder of \$53.7 million paid for in shares. The sale does not result in a significant income tax liability for the Company. The Company has recorded a gain of \$5.3 million on this transaction.

As at September 30, 2010, a total of \$25.0 million has been recognized in respect of the deferred consideration on the disposition of these assets.

Based on the final terms of the executed purchase and sale agreement, the results of operations of the mines above were retrospectively reclassified as discontinued operations.

The following are the results of operations for the periods presented:

	Total discontinued operations		Total discontinued operations	
	Three months ended		Nine months ended	
	September 30, 2010 (i)	September 30, 2009 (ii)	September 30, 2010 (i)	September 30, 2009 (ii)
Revenues	\$ –	\$ 32,068	\$ 53,047	\$ 95,806
Operating earnings	–	4,318	7,406	25,800
Other losses	(1,015)	–	–	–
(Loss) earnings before taxes	(2,496)	(7,943)	13,295	(12,793)
Income tax (expense) recovery	–	8,576	(1,966)	5,192
Gain on sale	–	5,744	–	5,744
<b>(Loss) earnings from discontinued operations</b>	<b>\$ (2,496)</b>	<b>\$ 6,377</b>	<b>\$ 11,329</b>	<b>\$ (1,857)</b>
Earnings (loss) per share from discontinued operations				
Basic	\$ (0.00)	\$ 0.01	\$ 0.02	\$ (0.00)
Diluted	\$ (0.00)	\$ 0.01	\$ 0.02	\$ (0.00)
<b>Cash flows of discontinued operations</b>				
Operating activities	\$ –	\$ 1,671	\$ 1,616	\$ 17,154
Investing activities	\$ –	\$ 36,011	\$ (1,616)	\$ 19,429

(i) Includes the operations of São Francisco/São Vicente.

(ii) Includes the operations of São Francisco/São Vicente and San Andrés.

The carrying amounts of the major classes of assets and liabilities held for sale included in the Consolidated Balance Sheet are as follows:

	São Francisco/São Vicente	
	As at September 30, 2010	As at December 31, 2009
<b>Assets</b>		
Accounts receivable	\$ –	\$ 7,953
Inventory	–	44,085
Other current assets	–	1,586
Current assets held for sale	\$ –	\$ 53,624
Long-term assets	\$ –	\$ 134,070
<b>Total assets</b>	<b>\$ –</b>	<b>\$ 187,694</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities and other	\$ –	\$ 13,937
Current liabilities	\$ –	\$ 13,937
Asset retirement obligation and other	–	19,559
Long-term liabilities	\$ –	\$ 19,559
<b>Total liabilities</b>	<b>\$ –</b>	<b>\$ 33,496</b>

#### 4. INVENTORY

	As at September 30, 2010	As at December 31, 2009
Product inventories	\$ 24,509	\$ 26,372
Metal in circuit and gold in process	22,404	11,752
Ore stockpiles	21,281	20,303
Material and supplies	61,790	43,393
	<b>\$ 129,984</b>	<b>\$ 101,820</b>

The amounts of \$171.9 million and \$452.7 million of inventories were recognized as an expense as cost of sales during the three- and nine-month periods ended September 30, 2010 (September 30, 2009—\$131.4 million, \$338.2 million, respectively).

## 5. OTHER CURRENT ASSETS

	As at September 30, 2010	As at December 31, 2009
Advances and deposits	\$ 123,266	\$ 98,035
Income taxes recoverable	15,749	12,323
Current portion of derivative-related assets (Note 19(a))	21,468	14,110
Future income tax assets	22,310	14,552
Current portion of note receivable (Note 7 (ii))	11,627	–
Other current assets	8,008	15,959
	<b>\$ 202,428</b>	<b>\$ 154,979</b>

## 6. MINERAL INTERESTS

	As at September 30, 2010			As at December 31, 2009		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Total property, plant and equipment (i)	\$ 1,143,407	\$ 258,578	\$ 884,829	\$ 999,001	\$ 187,149	\$ 811,852
Mineral Properties:						
Depletable producing properties	2,931,429	584,697	2,346,732	2,703,580	435,957	2,267,623
Non-depletable development and exploration properties	5,242,238	–	5,242,238	5,278,605	–	5,278,605
Total mineral properties (ii)	\$ 8,173,667	\$ 584,697	\$ 7,588,970	\$ 7,982,185	\$ 435,957	\$ 7,546,228
Total assets under construction			\$ 44,618			\$ 4,492
Equity investment in Minera Alumbra Ltd. (iii)			\$ 206,585			\$ 213,789
<b>Total mineral interests</b>			<b>\$ 8,725,002</b>			<b>\$ 8,576,361</b>

(i) Included in property, plant and equipment is \$42.0 million of land properties that are not subject to depreciation (December 31, 2009—\$39.4 million).

(ii) The following table shows the reconciliation of capitalized stripping costs included in depletable producing properties incurred in the production phase:

	Nine months ended	
	September 30, 2010	December 31, 2009
<b>Balance, beginning of period</b>	\$ 13,995	\$ –
Additions	28,934	14,272
Amortization	(691)	(277)
<b>Balance, end of period</b>	<b>\$ 42,238</b>	<b>\$ 13,995</b>

(iii) The Company has a 12.5% indirect interest in the Bajo de la Alumbra Mine, held by Minera Alumbra Ltd. (“Alumbra”). Based on the Company’s ability to exercise significant influence, the investment has been accounted for using the equity method. Earnings of Alumbra have been included in the earnings of the Company from October 13, 2007, the date of acquisition.

	Nine months ended	
	September 30, 2010	December 31, 2009
<b>Balance, beginning of period</b>	\$ 213,789	\$ 234,200
Equity in earnings	30,140	31,073
Cash distributions	(37,344)	(51,484)
<b>Balance, end of period</b>	<b>\$ 206,585</b>	<b>\$ 213,789</b>

## 7. OTHER LONG-TERM ASSETS

	As at September 30, 2010	As at December 31, 2009
Investments (i)	\$ 99,257	\$ 56,366
Derivative-related assets (Note 19)	15,500	167
Restricted cash	13,844	13,844
Long-term note receivable (ii)	52,960	25,971
Long-term tax credits (iii)	123,695	107,177
Intangible asset (iv)	17,076	–
Deferred consideration receivable (Note 3)	25,000	–
Other	15,218	20,231
	<b>\$ 362,550</b>	<b>\$ 223,756</b>

- (i) Investments include \$96.5 million (December 31, 2009—\$46.2 million) in available-for-sale securities which includes the share consideration received on the sale of San Andrés, São Francisco and São Vicente mines and \$2.8 million (December 31, 2009—\$10.1 million) in other investments. The net change in fair value for available-for-sale financial instruments for the period ended September 30, 2010 is an unrealized loss of \$5.4 million (December 31, 2009—gain of \$21.3 million) reflected in other comprehensive income (Note 12). In January 2010, the Company sold its MAVII notes for proceeds of \$7.5 million and recorded a gain of \$57.0 thousand. In June 2010, the Company sold several Auction Rate Securities (“ARS”) for proceeds of \$2.5 million and recorded a gain of \$1.5 million. Subsequent to the period ended September 30, 2010, the Company sold the remainder of its ARS with a carrying value of \$2.8 million and does not expect to record a material gain or loss on this transaction.
- (ii) Long-term note receivable relates to the balances that remain outstanding on the sale of the San Andrés, São Francisco and São Vicente mines. Of the total principal outstanding on the first note, \$10.0 million matures in February 2011, and \$15.8 million matures in August 2012. For the second note, \$13.0 million matures in October 2011 and \$25.3 million matures in April 2013. The effective yields on the notes at September 30, 2010 were 4.46% and 4.7% per annum, respectively.
- (iii) Long-term tax credits consist of South American sales taxes, which will be recoverable against other taxes payable and value-added tax credits.
- (iv) The balance relates to the other identifiable limited-life intangibles on acquisition with a useful life of 12 years (Note 3).

## 8. OTHER CURRENT LIABILITIES

	As at September 30, 2010	As at December 31, 2009
Current portion of derivative-related liabilities (Note 19(a))	\$ 4,609	\$ 12,105
Other current liabilities	11,117	13,555
	<b>\$ 15,726</b>	<b>\$ 25,660</b>

## 9. LONG-TERM DEBT

	As at September 30, 2010	As at December 31, 2009
\$680 million revolving facility (i)	\$ 237,585	\$ 261,477
\$270 million senior debt notes (i)	267,983	267,973
	<b>\$ 505,568</b>	<b>\$ 529,450</b>

- (i) The terms in respect to the revolving facility and senior debt notes have not changed from those as at December 31, 2009. Balances are net of transaction costs of \$7.1 million and amortization (December 31, 2009—\$8.2 million). Subsequent to the quarter ended September 30, 2010, a total of \$20.0 million was paid with respect to the revolving facility.

The following is a schedule of long-term debt principal repayments:

	Revolving facility	Senior debt notes
2010	\$ —	\$ —
2011	—	—
2012	242,632	—
2013	—	—
2014	—	15,000
Thereafter	—	255,000
	<b>\$ 242,632</b>	<b>\$ 270,000</b>

## 10. OTHER LONG-TERM LIABILITIES

	As at September 30, 2010	As at December 31, 2009
Long-term withholding taxes (i)	\$ 91,647	\$ 91,172
Royalty payable	14,524	14,193
Severance accrual	9,484	8,340
Derivative-related liabilities	1,839	3,241
Other	25,114	21,443
	<b>\$ 142,608</b>	<b>\$ 138,389</b>

(i) The Company is subject to additional taxes in Chile on the repatriation of profits to its foreign shareholders. Total taxes in the amount of \$91.6 million (December 31, 2009—\$91.2 million) have been accrued on the assumption that the profits will be repatriated.

## 11. CAPITAL STOCK

(a) Common shares issued and outstanding:

The company is authorized to issue an unlimited number of common shares.

During the three- and nine-month periods ended September 30, 2010, the following table summarizes items with respect to the exercise of optionees, warrants, share options and appreciation rights:

	Three months		Nine months	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Shares issued (in thousands of shares)	87	41	7,699	404
Cash proceeds	\$ 735	\$ 234	\$ 74,784	\$ 442
Previously recognized stock-based compensation	\$ 292	\$ 324	\$ 501	\$ 5,403

(b) Warrants issued and outstanding:

There were no warrants issued during the quarter. As at September 30, 2010, the Company had a total of 4.9 million (September 30, 2009—14.5 million) share purchase warrants outstanding with a weighted average exercise price of Cdn\$19.08 per share (September 30, 2009—Cdn\$13.73). The expiry date on share purchase warrants is May 2011, with an exercise price of Cdn\$19.08. All outstanding warrants were exercisable as at September 30, 2010. The weighted average remaining life of warrants outstanding is 0.59 years (September 30, 2009—0.79 years). During the nine-month period ended September 30, 2010, a total of 9.2 million publicly traded warrants with an exercise price of \$11.05 were scheduled to expire. Of these, a total of 7.1 million common shares were issued for approximately Cdn\$78.1 million in respect of the exercise of these warrants and the remainder expired unexercised.

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

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Weighted average number of common shares	741,028	733,215	739,510	733,017
Weighted average number of dilutive warrants	—	8	5	15
Weighted average number of dilutive stock options	767	752	820	788
<b>Dilutive weighted average number of common shares</b>	<b>741,795</b>	<b>733,975</b>	<b>740,335</b>	<b>733,820</b>

Total options and warrants excluded from the computation of diluted earnings per share because the exercise prices exceeded the average market value of the common shares for the three- and nine-month periods ended September 30, 2010 were 5.0 million and 5.0 million, respectively (three- and nine-month periods ended September 30, 2009—14.1 million).

## 12. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Nine months ended	
	September 30, 2010	Year ended December 31, 2009
<b>Balance, beginning of period</b>	\$ 26,652	\$ (40,651)
Net change in fair value of available-for-sale instruments	(5,420)	21,327
Reclassification of gain on available-for-sale securities to earnings	268	–
Net change in fair value of hedging instruments	19,379	45,976
Other comprehensive income	14,227	67,303
<b>Balance, end of period</b>	<b>\$ 40,879</b>	<b>\$ 26,652</b>

## 13. STOCK-BASED COMPENSATION

### (a) Stock Options

	Nine months ended			
	September 30, 2010		September 30, 2009	
	Number of Options (000's)	Weighted Average Exercise Price (Cdn\$)	Number of Options (000's)	Weighted Average Exercise Price (Cdn\$)
Outstanding, beginning of period	5,876	\$ 9.35	5,065	\$ 9.21
Granted	–	–	1,516	9.91
Exercised	(122)	8.44	(449)	9.36
Expired	(5)	9.65	(226)	9.98
<b>Outstanding, end of period</b>	<b>5,749</b>	<b>\$ 9.33</b>	<b>5,906</b>	<b>\$ 9.28</b>
<b>Exercisable, end of period</b>	<b>5,245</b>	<b>\$ 9.27</b>	<b>4,952</b>	<b>\$ 9.16</b>

### (b) Other Stock-Based Payment Plans

#### (i) Deferred Share Units (“DSUs”)

	Nine months ended	
	September 30, 2010	September 30, 2009
	Number of DSUs (000's)	Number of DSUs (000's)
<b>Outstanding, beginning of period</b>	605	273
Granted	283	280
<b>Outstanding, end of period</b>	<b>888</b>	<b>553</b>

A total non-cash amount of \$0.1 million (September 30, 2009—\$0.1 million) was expensed during the quarter with respect to the newly granted DSUs. A mark-to market expense of \$0.7 million (September 30, 2009—\$0.6 million) is included in general and administrative expenses with respect to all outstanding DSUs for a net expense of \$0.8 million for the third quarter ended September 30, 2010.

The value of the DSUs as at September 30, 2010 is \$10.2 million (September 30, 2009—\$6.0 million).

(ii) Restricted Share Units (“RSUs”)

	Nine months ended	
	September 30, 2010	September 30, 2009
	Number of RSUs (000's)	Number of RSUs (000's)
<b>Outstanding, beginning of period</b>	1,349	1,128
Granted	415	670
Vested and converted into common shares (i)	(458)	(266)
Forfeited	(16)	(246)
<b>Outstanding, end of period</b>	<b>1,290</b>	<b>1,286</b>

(i) A total of \$5.3 million common shares (September 30, 2009—\$3.4 million common shares) were issued on vesting of RSUs during the nine months ended September 30, 2010.

#### 14. INCOME TAXES

The following table reconciles the statutory rates with the effective income tax rate in these financial statements:

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Combined Canadian federal and provincial statutory tax rate	31.0 %	33.0 %	31.0 %	33.0 %
Less:				
Lower tax rates in foreign jurisdictions	(8.7) %	(1.5) %	(7.3) %	(8.1) %
Change in tax rates	2.0 %	– %	0.9 %	8.2 %
Permanent differences	3.1 %	(21.0) %	1.7 %	(13.1) %
Accrued foreign exchange gains and losses in Brazil and Canada on inter-corporate debt (i)	4.3 %	9.1 %	0.6 %	19.0 %
Change in valuation allowance	(2.0) %	35.0 %	1.3 %	1.3 %
<b>Effective tax rate</b>	<b>29.7 %</b>	<b>54.6 %</b>	<b>28.2 %</b>	<b>40.3 %</b>
Income tax expense is represented by				
Current income tax expense	\$ 21,551	\$ 15,469	\$ 89,963	\$ 42,870
Future Income tax expense	25,959	40,330	7,425	51,274
<b>Net income tax expense</b>	<b>\$ 47,510</b>	<b>\$ 55,799</b>	<b>\$ 97,388</b>	<b>\$ 94,144</b>

(i) Tax provision reflects accrued foreign exchange gains and losses in Brazil on United States Dollar denominated inter-corporate debt. This debt is eliminated on consolidation. The consolidated effective tax rate excluding the tax impact of the intra-group foreign exchange gain was 25.4% for the third quarter (46.6% for the third quarter of 2009). The income tax expense reported and the Company's effective tax rate 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. The amount of the current tax liability will depend on the foreign exchange rate in effect at the time that the inter-corporate debt is repaid.

## 15. SUPPLEMENTARY CASH FLOW INFORMATION

### (a) Non-cash Investing and Financing Transactions:

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Transfer of contributed surplus on the exercise of stock options and share appreciation rights	\$ 292	\$ 324	\$ 501	\$ 2,007
Accrued interest capitalized to assets under construction	1,081	5,155	2,326	18,959
Common shares issued on vesting of RSU (Note 13)	67	–	5,306	3,392
Shares in Aura Minerals received as consideration for assets sold during the period (Note 3)	–	–	53,760	–
Value of expired warrants transferred to contributed surplus	–	–	7,210	–
Issue of shares on exercise of warrants	\$ –	\$ –	\$ 23,750	\$ –

### (b) Interest and Income Tax Paid:

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Interest paid during the period	\$ 18,830	\$ 7,304	\$ 33,892	\$ 23,655
Income taxes paid during the period	\$ 21,649	\$ 21,637	\$ 49,744	\$ 46,435

### (c) Net Change in Non-cash Operating Working Capital, Net of Acquisitions:

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<b>Net (increase) decrease in:</b>				
Accounts receivable	\$ (28,111)	\$ (39,332)	\$ (30,457)	\$ (45,782)
Inventory	(8,396)	(12,877)	(71,208)	(11,110)
Other current assets	(16,968)	4,830	(32,374)	(14,629)
<b>Net (decrease) increase in:</b>				
Accounts payable and accrued liabilities	(6,852)	19,585	13,184	22,666
Income taxes payable	3,882	1,542	12,856	22,038
Other liabilities	950	2,761	2,964	3,243
	<b>\$ (55,495)</b>	<b>\$ (23,491)</b>	<b>\$ (105,035)</b>	<b>\$ (23,574)</b>

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

## 16. SEGMENTED INFORMATION

Reporting segments for the Company consist of geographical segments for which decisions in resource allocation, performance assessment and operating results are reviewed by the chief operating decision-makers. The Company's operating segments are Brazil, Chile, Argentina, Mexico and Other, and Canada (which is solely composed of corporate and administrative activities).

Mineral interests referred to below consist of land, buildings, equipment, mineral properties, exploration costs, assets under construction and equity investment.

As at September 30, 2010	Brazil	Chile	Argentina	Mexico and Other	Canada	Total
Equity investments	\$ –	\$ –	\$ 206,585	\$ –	\$ –	\$ 206,585
<b>Total assets</b>	<b>\$ 2,098,322</b>	<b>\$ 4,873,849</b>	<b>\$ 2,626,541</b>	<b>\$ 151,399</b>	<b>\$ 297,265</b>	<b>\$ 10,047,376</b>

As at December 31, 2009	Brazil (i)	Chile	Argentina	Mexico and Other (i)	Canada	Total
Equity investments	\$ –	\$ –	\$ 213,789	\$ –	\$ –	\$ 213,789
<b>Total assets</b>	<b>\$ 1,844,663</b>	<b>\$ 4,752,653</b>	<b>\$ 2,614,903</b>	<b>\$ 142,153</b>	<b>\$ 165,194</b>	<b>\$ 9,519,566</b>

(i) Balances exclude assets held for sale (Note 3).

## Segmented Operating Earnings

	Three months ended September 30, 2010					
	Brazil	Chile	Argentina	Mexico and Other	Canada	Total
Revenues	\$ 247,447	\$ 161,879	\$ 44,639	\$ -	\$ -	\$ 453,965
Cost of sales	(88,961)	(65,473)	(17,479)	-	-	(171,913)
Depreciation, amortization and depletion	(23,399)	(45,603)	(10,217)	-	-	(79,219)
Accretion of asset retirement obligations	(736)	(348)	(534)	-	-	(1,618)
<b>Mine operating earnings</b>	<b>\$ 134,351</b>	<b>\$ 50,455</b>	<b>\$ 16,409</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 201,215</b>
<b>Equity earnings</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,689</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,689</b>
<b>Capital expenditures</b>	<b>\$ 46,989</b>	<b>\$ 44,843</b>	<b>\$ 12,702</b>	<b>\$ 21,871</b>	<b>\$ 344</b>	<b>\$ 126,749</b>

	Nine months ended September 30, 2010					
	Brazil (i)	Chile	Argentina	Mexico and Other (i)	Canada	Total
Revenues	\$ 596,491	\$ 439,198	\$ 115,992	\$ -	\$ -	\$ 1,151,681
Cost of sales	(233,965)	(172,250)	(46,507)	-	-	(452,722)
Depreciation, amortization and depletion	(63,413)	(126,158)	(27,849)	-	-	(217,420)
Accretion of asset retirement obligations	(2,291)	(1,045)	(1,621)	-	-	(4,957)
<b>Mine operating earnings</b>	<b>\$ 296,822</b>	<b>\$ 139,745</b>	<b>\$ 40,015</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 476,582</b>
<b>Equity earnings</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 30,140</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 30,140</b>
<b>Capital expenditures</b>	<b>\$ 134,363</b>	<b>\$ 150,614</b>	<b>\$ 37,247</b>	<b>\$ 39,864</b>	<b>\$ 600</b>	<b>\$ 362,688</b>

	Three months ended September 30, 2009					
	Brazil (i)	Chile	Argentina	Mexico and Other (i)	Canada	Total
Revenues	\$ 186,086	\$ 117,766	\$ 29,327	\$ -	\$ -	\$ 333,179
Cost of sales	(76,709)	(43,658)	(10,990)	-	-	(131,357)
Depreciation, amortization and depletion	(18,015)	(38,126)	(8,651)	-	-	(64,792)
Accretion of asset retirement obligations	(280)	(136)	(195)	-	-	(611)
<b>Mine operating earnings</b>	<b>\$ 91,082</b>	<b>\$ 35,846</b>	<b>\$ 9,491</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 136,419</b>
<b>Equity earnings</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,061</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,061</b>
<b>Capital expenditures</b>	<b>\$ 59,468</b>	<b>\$ 39,200</b>	<b>\$ 42,205</b>	<b>\$ 3,781</b>	<b>\$ -</b>	<b>\$ 144,654</b>

	Nine months ended September 30, 2009					
	Brazil (i)	Chile	Argentina	Mexico and Other (i)	Canada	Total
Revenues	\$ 448,734	\$ 305,428	\$ 29,327	\$ -	\$ -	\$ 783,489
Cost of sales	(203,609)	(123,553)	(10,990)	-	-	(338,152)
Depreciation, amortization and depletion	(52,794)	(99,134)	(8,651)	-	-	(160,579)
Accretion of asset retirement obligations	(759)	(647)	(195)	-	-	(1,601)
<b>Mine operating earnings</b>	<b>\$ 191,572</b>	<b>\$ 82,094</b>	<b>\$ 9,491</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 283,157</b>
<b>Equity earnings</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18,865</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18,865</b>
<b>Capital expenditures</b>	<b>\$ 143,713</b>	<b>\$ 94,817</b>	<b>\$ 109,472</b>	<b>\$ 11,939</b>	<b>\$ -</b>	<b>\$ 359,941</b>

(i) Excludes operating results of discontinued operations (Note 3).

## 17. CONTRACTUAL COMMITMENTS

In addition to commitments otherwise reported in these financial statements, the Company is contractually committed to the following as at September 30, 2010, for the following calendar years:

Year	2010	2011	2012	2013	2014	Thereafter	Total
Operating/construction and service contracts:							
Brazil	50,855	109,311	56,829	40,094	37,312	449	\$ 294,850
Chile	29,002	65,569	47,096	44,974	43,448	50,260	\$ 280,349
Argentina	8,708	6,411	278	–	–	–	\$ 15,397
Mexico and Other	5,597	18,014	12,367	1,164	–	186	\$ 37,328
Canada	229	915	915	915	915	1,143	\$ 5,032
	\$ 94,391	\$ 200,220	\$ 117,485	\$ 87,147	\$ 81,675	\$ 52,038	\$ 632,956

## 18. CAPITAL MANAGEMENT

The Company's overall strategy with respect to capital management remains unchanged from the period ended December 31, 2009. As at September 30, 2010, the Company has met all of the externally imposed capital requirements.

## 19. FINANCIAL INSTRUMENTS

### (a) Fair value of financial instruments

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, deferred consideration receivable, advances and deposits, marketable securities, current and long-term note receivable, accounts payable and other current liabilities, current and long-term debt and derivative assets (liabilities). The carrying values of cash and cash equivalents, restricted cash, accounts receivable, advances and deposits, accounts payable and other current liabilities approximate their fair values due to the relatively short-term nature of these instruments. Adjustments recognized in the balance sheet relating to concentrate sales were fair valued based on published and observable prices. The fair value of long-term receivables is calculated by discounting the future cash flows by a discount factor based on an interest rate of 5%, which reflects the Company's own credit risk. The fair value of the deferred consideration receivable was calculated by discounting the future cash flows by using the discount factors based on interest rates of 5% and 8%. Fair values of derivatives were based on published and observable market prices for similar instruments and on market closing prices at period end.

There were no material differences between the carrying value and fair value of long-term assets and liabilities except for the long-term debts, which have a carrying value of \$505.6 million (December 31, 2009—\$529.5 million) and a fair value of \$550.2 million (December 31, 2009—\$581.4 million), composed of a revolving facility and senior debt notes with fair values of \$248.6 million and \$301.6 million, respectively (December 31, 2009—\$278.3 million and \$303.1 million, respectively). The fair value was calculated by discounting the

future cash flows by a discount factor based on an interest rate of 5% which reflects the Company's own credit risk. Fair values of long-term investments were calculated based on current and available market information and the Company's best estimate.

The Company assesses its financial instruments and non-financial contracts on a regular basis to determine the existence of any embedded derivatives that would be required to be accounted for separately at fair value and to ensure that any embedded derivatives are accounted for in accordance with the Company's policy. As at September 30, 2010, there were no embedded derivatives requiring separate accounting other than concentrate sales.

There are no significant changes during the nine months ended September 30, 2010 to the fair value hierarchy and the valuation techniques that were used as at December 31, 2009. Subsequent to the quarter, the Company sold all its investments with fair value measurements using Level 3 inputs.

The following table summarizes derivative-related assets:

	As at September 30, 2010	As at December 31, 2009
<b>Currency Contracts</b>		
Forward contracts	\$ 36,968	\$ 14,277
Less: Current portion (Note 5)	(21,468)	(14,110)
Long-term portion (Note 7)	\$ 15,500	\$ 167

The following table summarizes the components of derivative-related liabilities:

	As at September 30, 2010	As at December 31, 2009
<b>Commodity Contracts</b>		
Forward contracts and options	\$ –	\$ (5,230)
<b>Interest Rate Contracts</b>		
Interest rate swaps	(6,448)	(10,116)
	\$ (6,448)	\$ (15,346)
Less: Current portion (Note 8)	4,609	12,105
Long-term portion (Note 10)	\$ (1,839)	\$ (3,241)

The following table summarizes unrealized derivative (losses) gains:

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Commodity contracts	\$ -	\$ (19,121)	\$ 5,230	\$ (97,886)
<b>Hedge ineffectiveness</b>				
Currency contracts	(1,693)	2,268	(3,339)	936
Interest rate contracts	159	-	563	-
	<b>\$ (1,534)</b>	<b>\$ (16,853)</b>	<b>\$ 2,454</b>	<b>\$ (96,950)</b>

The following table summarizes realized derivative gains (losses):

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Commodity contracts	\$ -	\$ (3,562)	\$ (5,230)	\$ 27,849
Currency contracts	(246)	-	(246)	-
	<b>\$ (246)</b>	<b>\$ (3,562)</b>	<b>\$ (5,476)</b>	<b>\$ 27,849</b>

Additionally, included in cost of sales are realized gains in the amount of \$6.5 million and \$18.6 million for the three- and nine-month periods ended September 30, 2010, respectively (September 30, 2009—\$4.0 million) in respect to currency derivative contracts. Included in sales are realized losses in the amount of \$8.8 million and \$0.6 million, respectively, for the three- and nine-month periods ended September 30, 2010 (September 30, 2009—\$nil) in respect to commodity contracts. Included in interest and financing

expenses are realized losses in the amount of \$2.0 million and \$6.5 million (September 30, 2009—\$4.3 million and \$12.1 million, respectively) in respect to the interest rate swaps for the three- and nine-month periods ended September 30, 2010.

The following table summarizes cash flow currency and interest rate hedge gains in Other Comprehensive Income ("OCI") (Note 12):

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Effective portion of change in fair value of hedging instruments:				
Currency contracts	\$ 25,203	\$ 12,185	\$ 26,700	\$ 40,958
Interest rate contracts	645	1,263	3,106	8,796
Future income tax	(6,818)	(3,025)	(10,427)	(14,419)
	<b>\$ 19,030</b>	<b>\$ 10,423</b>	<b>\$ 19,379</b>	<b>\$ 35,335</b>

### **(b) Currency risk**

The Company's sales are predominantly denominated in United States Dollars. The Company is primarily exposed to currency fluctuations relative to the United States Dollar as a significant portion of the Company's operating costs and capital expenditures are denominated in foreign currencies, predominately the Brazilian Real, the Argentine Peso, the Chilean Peso and the Mexican Peso. Monetary assets denominated in foreign currencies are also exposed to foreign currency fluctuations. These potential currency fluctuations could have a significant impact on production costs and thereby the profitability of the Company.

The Company has forward contracts to economically hedge against the risk of an increase in the value of the Brazilian Real versus the United States Dollar. Currency contracts totaling 695.0 million Reais at an average rate of 2.1398 Real to the United States Dollar have been designated against forecast Reais-denominated expenditures as a hedge against the variability of the United States Dollar amount of those expenditures caused by changes in the currency exchange rates for 2010 through to December 2013. Of these, 63.6 million Reais are hedged for 2010, 281.8 million Reais for 2011, 273.6 million Reais for 2012 and 76.0 million Reais for 2013. The effective portion of changes in the fair value of the currency contracts has been recorded in OCI until the forecast expenditure impacts earnings. The ineffective portion of changes in the fair value of the currency contracts has been recorded in current earnings.

### **(c) Commodity price risk**

Gold, copper and silver prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and the political and economic conditions of major gold-, copper- and silver-producing countries. The profitability of the Company is directly related to the market prices of gold, copper and silver.

The Company has not hedged any of its gold sales.

### **(d) Interest rate risk**

The Company is exposed to interest rate risk on its variable rate debt. As at September 30, 2010, the Company has a total of \$168.4 million in interest rate swap agreements to convert floating rate financing to fixed rate financing effective until 2012. These contracts fix the rate of interest on the Company's long-term debt at 4.36%. The effective portion of changes in the fair value of the interest rate swaps has been recorded in OCI until the forecast interest expense impacts earnings. The ineffective portion of changes in the fair value of the interest rate swaps have been recorded in current earnings.

### **(e) Credit risk**

Credit risk is the risk that a third party might fail to discharge its obligations under the terms of a financial instrument.

The Company limits credit risk by entering into business arrangements with high credit quality counterparties, limiting the amount of exposure to each counterparty and monitoring the financial condition of counterparties while also establishing policies to ensure liquidity of available funds. In addition, credit risk is further mitigated in specific cases by maintaining the ability to novate contracts from lower quality credit counterparties to those with higher credit ratings.

For cash, cash equivalents, accounts receivable, income taxes recoverable, derivative-related assets, long-term investments, restricted cash, long-term note receivable and long-term tax credits, credit risk is represented by the carrying amount on the balance sheet. Cash, cash equivalents and restricted cash are deposited with highly rated corporations, and the credit risk associated with these deposits is low. The Company sells its products to large international financial institutions and other organizations with high credit ratings. Historical levels of receivable defaults and overdue balances over normal credit terms are both negligible; thus, the credit risk associated with accounts receivables is also considered to be negligible. For long-term investments, credit risk represents the par value of the instruments. Tax-related assets have negligible credit risk as they are receivable from governmental authorities and are carried at their estimated fair value. The long-term note receivable in relation to the sale of assets is due from a highly rated corporation and the credit risk associated with it is low. For derivatives, the Company assumes no credit risk when the fair value of the instruments is negative. When the fair value of the instruments is positive, this is a reasonable measure of credit risk.

The Company's maximum credit exposure to credit risk is as follows:

	As at September 30, 2010	As at December 31, 2009
Cash and cash equivalents	\$ 279,691	\$ 170,070
Accounts receivable	150,737	102,126
Income taxes recoverable	15,749	12,323
Derivative-related assets	36,968	14,277
Investments	99,257	56,366
Restricted cash	13,844	13,844
Deferred consideration receivable	25,000	–
Notes receivable	64,587	25,971
Long-term tax credits	123,695	107,177
	<b>\$ 809,528</b>	<b>\$ 502,154</b>

*(f) Liquidity risk*

Liquidity risk is the risk that a financial instrument cannot be eliminated quickly, by either liquidating it or by establishing an offsetting position. Under the terms of our trading agreements, counterparties cannot require the Company to immediately settle outstanding derivatives except upon the occurrence of customary events of default. The Company mitigates liquidity risk by spreading the maturity dates of derivatives over time, managing its capital expenditures and operating cash flows and by maintaining adequate lines of credit. In addition, the Company addresses the capital management process as described in *Note 18*. Contractual maturities relating to contractual commitments are included in *Note 17* and those relating to long-term debt are included in *Note 9*.

## 20. CONTINGENCIES

Due to the size, complexity and nature of the Company's operations, various legal and tax matters arise in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. In the opinion of management, these matters will not have a material effect on the consolidated financial statements of the Company.

## 21. COMPARATIVE FIGURES

Certain general and administrative expenses comparative figures have been reclassified to other operating expenses to conform to the financial statement presentation adopted in the current year.

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# Corporate Information

## BOARD OF DIRECTORS

### **Peter Marrone**\*

Chairman and Chief Executive Officer, Yamana Gold Inc.

### **Patrick Mars**<sup>(1)(3)(4)</sup>

Lead Director, Yamana Gold Inc. and President, P.J. Mars Investments Limited

### **John Begeman**<sup>(4)</sup>

President and Chief Executive Officer, Avion Resources Corp.

### **Alex Davidson**

Company Director

### **Richard Graff**<sup>(1)</sup>

Consultant

### **Robert Horn**<sup>(2)(4)</sup>

Company Director

### **Nigel Lees**<sup>(1)(2)</sup>

President and Chief Executive Officer, SAGE Gold Inc.

### **Juvenal Mesquita**<sup>(3)</sup>

Company Director

### **Carl Renzoni**<sup>(1)(3)</sup>

Company Director

### **Antenor Silva**\*

President and Chief Executive Officer, MBAC Fertilizer Corp. (Former President, Yamana Gold Inc.)

### **Dino Titaro**<sup>(2)(3)(4)</sup>

President and Chief Executive Officer, Carpathian Gold Inc.

## SENIOR MANAGEMENT

### **Peter Marrone**

Chairman and Chief Executive Officer

### **Ludovico Costa**

President and Chief Operating Officer

### **Charles Main**

Executive Vice President, Finance and Chief Financial Officer

### **Greg McKnight**

Senior Vice President, Business Development

### **Darcy Marud**

Senior Vice President, Exploration

### **Evandro Cintra**

Senior Vice President, Technical Services

### **Sofia Tsakos**

Senior Vice President, General Counsel and Corporate Secretary

### **Nelson Munhoz**

Vice President, Operations, Brazil

### **Ricardo Palma**

Vice President, Country Manager, Chile

### **Arão Portugal**

Vice President, Administration and Country Manager, Brazil

### **Hernan Vera**

Vice President, Country Manager, Argentina

### **Ana Lucia Martins**

Vice President, Safety, Health, Environment and Community

### **Betty Soares**

Vice President, Corporate Controller

### **Jason LeBlanc**

Vice President, Finance and Treasurer

### **Patrick Portmann**

Vice President, Corporate Development

### **Lisa Doddridge**

Vice President, Corporate Communications and Investor Relations

### **Mark Bennett**

Assistant Corporate Secretary

\* Non-independent Board Member

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Corporate Governance and Nominating Committee

(4) Member of the Sustainability Committee

# Shareholder Information

## SHARE LISTINGS

Toronto Stock Exchange: YRI  
New York Stock Exchange: AUJ  
London Stock Exchange: YAU

## CAPITALIZATION

Common Shares issued as of September 30, 2010: 741,110,154

## ELECTRONIC DELIVERY OF SHAREHOLDER DOCUMENT

If you would like to receive your shareholder and financial documents electronically, please enroll in Yamana's electronic delivery program through CIBC Mellon Trust at [www.cibcmellon.com/electronicdelivery](http://www.cibcmellon.com/electronicdelivery).

## TRANSFER AGENT

For information regarding shareholdings, dividends, certificates, change of address, electronic delivery, or exchange of share certificates due to an acquisition, please contact CIBC Mellon Trust Company at:  
CIBC Mellon Trust Company  
320 Bay Street, Box 1  
Toronto, Ontario, Canada M5H 4A6  
Phone: 1-800-387-0825 (toll free in North America)  
1-416-643-5500 (outside North America)  
Email: [inquiries@cibcmellon.com](mailto:inquiries@cibcmellon.com)

## INVESTOR INFORMATION CONTACT

For additional financial information, industry developments, latest news and corporate updates:  
Phone: (416) 815-0220  
Email: [investor@yamana.com](mailto:investor@yamana.com)

## AUDITORS

Deloitte & Touche LLP

## LEGAL COUNSEL

Cassels, Brock & Blackwell LLP  
Shearman & Sterling LLP

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## Executive Offices

150 York Street, Suite 1102  
Toronto, Ontario, Canada  
M5H 3S5  
Tel: (416) 815-0220  
Fax: (416) 815-0021  
[investor@yamana.com](mailto:investor@yamana.com)

Rua Funchal  
411-5 andar—conjunto  
43/44  
CEP 04551-0660—São Paulo  
SP—Brazil  
Tel: +55 11 2163 8300  
Fax: +55 11 2163 8324  
[www.yamana.com](http://www.yamana.com)

