FIRST NORTHERN COMMUNITY BANCORP
Form 8-K
July 30, 2014

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

FORM 8-K

Current Report

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report July 29, 2014
(Date of Earliest event reported)

FIRST NORTHERN COMMUNITY BANCORP
(Exact name of registrant as specified in its charter)

California	68-0450397
(State of Incorporation)	(IRS Employer ID Number)

000-30707
(Commission File No.)

First Northern Community Bancorp

195 North First Street, P.O. Box 547, Dixon, California	95620
(Address of principal executive offices)	(Zip Code)

(707) 678-3041
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 2.02 RESULTS OF OPERATION AND FINANCIAL CONDITION

On July 29, 2014, First Northern Community Bancorp issued a press release concerning financial results for the 2nd quarter of 2014, a copy of which is included as ITEM 9.01 (c) Exhibit 99.1 and incorporated herein by reference in both ITEM 2.02 and ITEM 7.01. The Company does not intend for this exhibit to be incorporated by reference into future filings under the Securities Exchange Act of 1934.

ITEM 7.01 REGULATION FD DISCLOSURE

On July 29, 2014, First Northern Community Bancorp issued a press release concerning financial results for the 2nd quarter of 2014, a copy of which is included as ITEM 9.01 (c) Exhibit 99.1 and incorporated herein by reference in both ITEM 2.02 and ITEM 7.01 in accordance with SEC Release No. 33-8216.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibit

99.1 Earnings Press Release, dated July 29, 2014

SIGNATURES

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

Date: July 29, 2014

First Northern Community Bancorp
(Registrant)

/s/ Jeremiah Z. Smith
By: Jeremiah Z. Smith
Executive Vice President/
Chief Financial Officer

EXHIBIT INDEX

Exhibit	Document
99.1	Earnings Press Release, dated July 29, 2014

166,667 67,800 11,331(9) 50,000 Nil Nil (8) Finance and Chief 2004(2) 99,261 24,815 Nil 350,000 Nil Nil Nil Financial Officer -- Antenor F. Silva, 2005 223,190 139,320 10,081(9) 400,000 Nil Nil Nil Jr. (3) 2004(6) 194,865 65,942 4,149(9) 300,000 Nil Nil (8) Chief Operations 2004(3)(5) 123,401 32,167 109,754 1,200,000 Nil Nil Nil Officer -- Greg McKnight (4) 2005 225,000 125,000 5,812(9) 200,000 Nil Nil Nil Vice President, 2004 166,667 75,000 4,637(9) Nil Nil Nil (8) Business 2004(4) 16,667 6,250 Nil 400,000 Nil Nil Nil Development ==

(1) Mr. Marrone was appointed as President and Chief Executive Officer of the Company effective July 31, 2003. Mr. Marrone's salary amount for the year ended February 29, 2004 represents salary from July 31, 2003 to February 29, 2004. Other Annual Compensation for the year ended February 29, 2004 includes Cdn$100,000 paid at the equivalent rate of Mr. Marrone's salary for the period prior to July 31, 2003 during the change of management and reorganization of the Company. (2) Mr. Main was appointed as Vice President, Finance and Chief Financial Officer of the Company effective July 31, 2003. Mr. Main's salary amount for the year ended February 29, 2004 represents salary from July 31, 2003 to February 29, 2004. (3) Mr. Silva was appointed as Chief Operations Officer of the Company effective August 12, 2003. Mr. Silva's salary amount for the year ended February 29, 2004 represents salary from August 12, 2003 to February 29, 2004. Other Annual Compensation for the year ended February 29, 2004 represents Cdn$109,754 paid at the equivalent rate of Mr. Silva's salary for the period prior to August 12, 2003 during the change of management and reorganization of the Company. (4) Mr. McKnight was appointed as Vice President, Business Development of the Company effective February 5, 2004. Mr. McKnight's salary amount for the year ended February 29, 2004 represents salary from February 5, 2004 to February 29, 2004. (5) All dollar amounts shown for the year ended February 29, 2004 were converted from United States dollars to Canadian dollars based on an average exchange rate for the period of US$0.7289:Cdn$1. (6) All dollar amounts shown for the ten months ended December 31, 2004 have been converted from United States dollars to Canadian dollars based on an average exchange rate for the period of US$0.7698:Cdn$1. (7) All dollar amounts shown for the year ended December 31, 2005 were converted from United States dollars to Canadian dollars based on an average exchange rate for the period of US$0.8613:Cdn$1. (8) In connection with the transactions creating the Company in 2003, the Company agreed to grant an aggregate of five million options to purchase Common Shares to certain key executives at an exercise price of Cdn$1.20 per share, being the issue price of the subscription receipts sold pursuant to the $55.5 million equity financing completed by the Company in July 2003. These options were subsequently granted to the executives at an issue price of $1.67 per share. To account for the difference in the exercise price, an aggregate of 808,000 Common Shares were issued to the key executives at a price of $1.67 per share pursuant to subscriptions entered into as at July 31, 2003. The Company issued the shares in July 2004 following receipt of regulatory and shareholder approvals. Pursuant to this transaction, Messrs. Marrone, Main, Silva and McKnight were issued 217,391, 68,870, 208,695 and 69,565 Common Shares, respectively. (9) Other Annual Compensation includes a non-cash interest benefit conferred under the share subscription arrangements described in note (8) above. -5- Stock Options ------------- The following table provides details of stock options granted to the Named Executive Officers during the financial year ended December 31, 2005 pursuant to the Company's share incentive plan (the "Share Incentive Plan"). OPTION GRANTS DURING THE FINANCIAL YEAR ENDED DECEMBER 31, 2005 ==

Market Value of % of Total Options Securities Securities Granted to Exercise or Base Underlying Options Under Options Employees in Price on the Date of Grant Name Granted (#)(1) Financial Year (2) (Cdn$/Security)

(Cdn$/Security) Expiration Date
-- Peter Marrone
600,000 22 3.69 3.69 May 12, 2015 President and Chief Executive Officer
-- Charles Main
200,000 7 3.69 3.69 May 12, 2015 Vice President, Finance and Chief Financial Officer
-- Antenor F. Silva,
400,000 14 3.69 3.69 May 12, 2015 Jr. Chief Operations Officer
-- Greg McKnight
200,000 7 3.69 3.69 May 12, 2015 Vice President, Business Development
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(1) Class of securities underlying all stock options is Common Shares. All stock options vested immediately upon grant on May 12, 2005. (2) Based on the total number of options granted to employees and directors of the Company and its subsidiaries pursuant to the Share Incentive Plan during the financial year ended December 31, 2005 of 2,785,000. -6- The following table provides details regarding stock options exercised by the Named Executive Officers during the financial year ended December 31, 2005 and year-end option values. AGGREGATED OPTION EXERCISES DURING THE FINANCIAL YEAR ENDED DECEMBER 31, 2005 AND YEAR-END OPTION VALUES
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Value of Unexercised Unexercised Options at in-the-money Options at December 31, 2005 December 31, 2005 (1)
-------------------------- -------------------------- Aggregate Securities Value Acquired Realized Exercisable Unexercisable Exercisable Unexercisable Name on (Cdn$) (#) (#) (Cdn$) (Cdn$) Exercise (#)
-- Peter Marrone Nil Nil
2,150,000 Nil 11,221,500 Nil President and Chief Executive Officer
-- Charles Main Nil Nil
430,000 Nil 2,100,400 Nil Vice President, Finance and Chief Financial Officer
-- Antenor F. Silva, Jr.
Nil Nil 1,500,000 Nil 7,706,000 Nil Chief Operations Officer
-- Greg McKnight Nil
Nil 500,000 Nil 2,611,000 Nil Vice President, Business Development
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(1) Calculated using the closing price of the Common Shares on the Toronto Stock Exchange (the "TSX") on December 30, 2005 of Cdn$7.70 less the exercise price of in-the-money stock options. These options have not been, and may never be, exercised and actual gains, if any, on exercise will depend on the value of the Common Shares on the date of exercise. Employment Agreements -------------------- As at December 31, 2005, the Company or its wholly-owned subsidiaries, had employment agreements with each of the Named Executive Officers. The Company has entered into employment agreements (i) dated July 25, 2003, as amended September 1, 2004 with Peter Marrone, President and Chief Executive Officer of the Company; (ii) dated August 6, 2003, as amended December 13, 2004 with Charles Main, Vice President, Finance and Chief Financial Officer of the Company; (iii) dated August 12, 2003 with Antenor F. Silva, Jr., Chief Operations Officer of the Company; and (iv) dated January 8, 2004, as amended December 13, 2004 with Greg McKnight, Vice President, Business Development of the Company. Pursuant to his employment agreement, Mr. Marrone's base salary is reviewed on an annual basis, but in any event will not be less than the previous year's base salary. Mr. Marrone is also entitled to bonuses, stock options and benefits at the discretion of the Board of Directors. Mr. Marrone may terminate his employment agreement upon three months' written notice to the Company. The Company may terminate Mr. Marrone's employment agreement at any time without cause, in which event it is obligated to provide Mr. Marrone with a severance in lieu of notice. Upon termination of Mr. Marrone's employment with the Company for any reason other than cause, or upon Mr. Marrone's resignation in connection with a change of control of the Company, Mr. Marrone is entitled to a payment equal to three times his highest annual salary and bonus (plus additional premium in the case of a change of control). Mr. Marrone is also entitled to a cash amount in lieu of Common Shares issuable under stock options not exercised within 30 days of notice from the Company, whether or not such options are exerciseable, based on a predetermined -7- formula set out in his employment agreement. Alternatively, Mr. Marrone may elect to continue to hold any

unexercised options for the balance of their term. In addition, Mr. Marrone's employment agreement contains customary provisions relating to the termination of his employment for good reason and, in such event, Mr. Marrone is entitled to the severance payments noted above. Pursuant to Mr. Main's employment agreement, his base salary is reviewed annually, but in any event will not be less than the previous year's base salary. Mr. Main is also entitled to bonuses, stock options and benefits at the discretion of the Board of Directors. The employment agreement relating to Mr. Silva provides that Mr. Silva shall be employed as Chief Operations Officer of Yamana through the Company's indirect, wholly-owned subsidiary, Yamana Resources (BVI) Ltd. Pursuant to Mr. Silva's employment agreement, his base salary is reviewed annually, but in any event will not be less than the previous year's base salary. Mr. Silva is also entitled to bonuses, stock options and benefits at the discretion of the Board of Directors of Yamana. The employment agreements relating to Messrs. Main and Silva both provide that the executive may terminate his employment agreement upon 90 days' written notice to the Company, and the Company may terminate the executive's employment agreement at any time without cause, in which event the executive shall be entitled to a severance in lieu of notice. Upon termination of their respective employment with the Company for any reason other than cause (or, in the case of Mr. Main, other than upon a change of control of the Company), each is entitled to a payment equal to his annual base salary plus accrued but unused vacation. Upon a change of control of the Company, each of Messrs. Main and Silva is entitled to a payment of an amount equal to 18 months base salary and any bonuses plus accrued but unused vacation. Any previously issued options granted to each of Messrs. Main and Silva, as applicable, shall vest upon termination of his employment and shall remain exercisable for 12 months from such termination, notwithstanding the provisions of any agreement or plan. In addition, the employment agreements relating to Messrs. Main and Silva each contain customary provisions relating to termination for good reason and, in such event, Mr. Main and Mr. Silva shall be entitled to the severance noted above. Pursuant to his employment agreement, Mr. McKnight's salary is reviewed annually but in any event will not be less than the previous year's base salary. Mr. McKnight is also entitled to bonuses, stock options and benefits at the discretion of the Board of Directors. Mr. McKnight may terminate his employment agreement upon 90 days' written notice to the Company. The Company may terminate Mr. McKnight's employment agreement at anytime without cause, in which event Mr. McKnight shall be entitled to a severance in lieu of notice. Upon termination of his employment with the Company for any reason other than cause or a change of control, Mr. McKnight is entitled to a payment equal to 18 months' base salary plus accrued but unused vacation. Any previously issued options granted to Mr. McKnight shall vest upon termination of his employment and shall remain exercisable for 18 months from such termination, notwithstanding the provisions of any agreement or plan. Upon a change of control, Mr. McKnight is entitled to a payment of an amount equal to 24 months base salary and any bonuses plus accrued but unused vacation, and any previously issued stock options granted to Mr. McKnight shall vest upon termination of his employment as a result of a change of control and shall remain exercisable for 12 months from such termination, notwithstanding the provisions of any agreement or plan. In addition, Mr. McKnight's employment agreement contains customary provisions relating to the termination of his employment for good reason and, in such event, Mr. McKnight is entitled to the severance payments noted above. Other than as described above, the Company and its subsidiaries have no compensatory plans or arrangements with respect to the Named Executive Officers that results or will result from the resignation, retirement or any other termination of employment of such officers' employment with the Company and its subsidiaries, from a change of control of the Company and its subsidiaries or a change in the Named Executive Officers' responsibilities following a change of control. Compensation of Directors ------------------------ Standard Compensation Arrangements During the year ended December 31, 2005, each non-executive director of the Company received an annual retainer fee of Cdn$20,000 and was paid quarterly for the attendance of a minimum of four Board meetings per year, with an additional Cdn$1,000 per meeting in excess of four Board meetings in one -8- year. The Chairman of the Board received an additional fee of Cdn$16,250 in 2005 representing an additional annual retainer of Cdn$5,000, which amount was increased as of April 1, 2005 to Cdn$20,000. For 2006, the annual retainer fee for each non-executive director is Cdn$25,000 and the Chairman of the Board will receive an additional Cdn$25,000. Members of the audit, compensation, corporate governance and nominating and sustainability committees of the Board were paid Cdn$1,500, Cdn$1,000, Cdn$1,000 and Cdn$1,000 per meeting, respectively, and the Chairman of each such committees of the Board were paid an annual retainer fee of Cdn$4,000, Cdn$2,000, Cdn$2,000 and Cdn$2,000, respectively. Members of the Board received an additional fee of Cdn$1,500 per diem when consulting at a mine site. Directors are entitled to participate in the Company's stock option plan. The stock option plan is designed to give each option holder an interest in preserving and maximizing shareholder value in the longer term. Individual grants are determined by an assessment of the individual's current and expected future performance, level of responsibilities and the importance of his or her position and contribution to the Company. During the financial year ended December 31, 2005, an aggregate of Cdn$300,408 was paid to the six non-executive directors and the Company granted stock options to the five non-executive directors to purchase an aggregate of 780,000 Common Shares. Other Arrangements Other than as described below, none of the directors of the Company were compensated in their capacity as a director by the Company and its subsidiaries during the financial year ended December 31, 2005 pursuant to any other arrangement or in lieu of any standard compensation arrangement and none of the directors were compensated for services as consultants or experts by the Company and its subsidiaries during the financial year ended December 31, 2005 other than Juvenal Mesquita who received $90,000 in consulting fees. From time to time, the Board of Directors of the Company appoints ad hoc special committees to consider corporate opportunities, financings and other matters. During the financial year ended December 31, 2005, Victor Bradley was paid $25,000 to Chair a special committee and each of James Askew, Patrick Mars, and Lance Tigert was paid Cdn $20,000 for serving on a special committee. Directors' and Officers' Liability Insurance --- The Company maintains, for the benefit of the Company, its subsidiaries and their directors and officers, insurance against liability incurred by the directors or officers in their capacity as directors or officers of the Company or any subsidiary, in an amount commensurate for companies of Yamana's size and maturity. The aggregate limit on liability for directors and officers under the insurance policy is $10 million, and the aggregate premium paid by the Company is $140,000. The terms of the policy provide for a deductible of $250,000 in respect of securities law claims and $100,000 in respect of all other claims. Composition of the Compensation Committee --------------------------------------- During 2005, the Compensation Committee was comprised of James Askew (Chairman), Lance Tigert (to March 2005) and Peter Marrone (non-voting, ex officio member). In January 2006, the Compensation Committee was re-constituted and is currently compromised of Nigel Lees (Chairman), Victor Bradley and Dino Titaro. -9- Report on Executive Compensation ------------------------------- Overall Compensation Philosophy The following principles guide the Company's overall compensation philosophy: (a) compensation is determined on an individual basis by the need to attract and retain talented, high-achievers; (b) calculating total compensation is set with reference to the market for similar jobs in similar locations; (c) an appropriate portion of total compensation is variable and linked to achievements, both individual and corporate; (d) internal equity is maintained such that individuals in similar jobs and locations are treated fairly; and (e) the Company supports reasonable expenses in order that employees continuously maintain and enhance their skills. Compensation Committee Mandate The Compensation Committee is established by the Board to assist the Board in fulfilling its responsibilities relating to human resources and compensation issues and to establish a plan of continuity for executive officers and other members of senior management (collectively, "Executive Management"). The Compensation Committee ensures that the Company has an executive compensation plan that is both motivational and competitive so that it will attract, hold and inspire performance of Executive Management of a quality and nature that will enhance the sustainable profitability and growth of the Company. The Compensation Committee reviews and recommends the compensation philosophy and guidelines for the Company which include reviewing the compensation philosophy and guidelines (a) for Executive Management, for recommendation to the Board for its consideration and approval, and (b) relating to all employees, including annual salary and incentive policies and programs, and material new benefit programs, or material changes to existing benefit programs. The Compensation Committee reviews on an annual basis the cash compensation, performance and overall compensation package for each executive officer. It then submits to the Board recommendations with respect to the basic salary, bonus and participation in share compensation arrangements for each executive officer. Following discussions with management of the Company and receiving recommendations from management for 2005 bonuses and 2006 salaries for Executive Management and employees of the Company, the Compensation Committee made its recommendations to the Board for approval in December 2005. In conducting its review of management's recommendations, the Compensation Committee was satisfied that all recommendations complied with the Compensation Committee's philosophy and guidelines set forth above. Base Salary In determining the base salary of an executive officer, the Compensation Committee places equal weight on the following factors: (a) the particular responsibilities related to the position; (b) salaries paid by comparable businesses; (c) the experience level of the executive officer; and (d) his or her overall performance. -10- Bonus Payments Executive officers are eligible for annual cash bonuses, after taking into account and giving equal weight to, financial performance, attainment of certain corporate objectives and individual performance. In taking into account the financial performance aspect, it is recognized that executive officers cannot control certain factors, such as currency exchange rates, commodity prices and interest rates. When applying the financial performance criteria, the Compensation Committee considers factors over which the executive officers can exercise control, such as meeting budget targets established by the Board at the beginning of each year, controlling costs, taking successful advantage of business opportunities and enhancing the competitive and business prospects of the Company. There are no pre-established payout ranges. During the financial year ended December 31, 2005, bonuses were awarded to the following Named Executive Officers of the Company: Peter Marrone, President and Chief Executive Officer, in the amount of Cdn$500,000; Charles Main, Vice President, Finance and Chief Financial Officer, in the amount of Cdn$125,000; Antenor Silva, Chief Operations Officer, in the amount of $139,320, and Greg McKnight, Vice President, Business Development, in the amount of Cdn$125,000. Long-Term Incentives It is the compensation philosophy of the Company to emphasize the equity incentive portion of compensation. Accordingly, base salaries and bonuses have been at the relatively low end of the scale compared to industry peers with a greater emphasis placed on options. The Company believes that weighting compensation to options better aligns the interests of management with the interests of its shareholders. During the financial year ended December 31, 2005, the Board, on the recommendation of the Compensation Committee, granted stock options to Named Executive Officers of the Company as follows: Name of Officer Title of Officer Number of Options --------------- --------------- ----------------- Peter Marrone President and Chief Executive Officer 600,000 Charles Main Vice President, Finance and Chief Financial Officer 200,000 Antenor Silva Chief Operations Officer 400,000 Greg McKnight Vice President, Business Development 200,000 All of these options were granted at an exercise price of Cdn$3.69 for a term of ten years, and vested immediately upon grant. The exercise price of the options was determined based on closing price of the Common Shares on the TSX on May 12, 2005, the date before the grant in accordance with the terms of the Share Incentive Plan. Chief Executive Officer Compensation The components of the Chief Executive Officer's compensation are the same as those which apply to the other senior executive officers of the Company, namely base salary, bonus and long-term incentives in the form of stock options. The Chairman of the Compensation Committee presents recommendations of the Compensation Committee to the Board with respect to the Chief Executive Officer's compensation. In setting the Chief Executive Officer's salary, the Compensation Committee reviews salaries paid to other senior officers in the Company, salaries paid to other chief executive officers in the industry and the Chief Executive Officer's impact on the achievement of the Company's objectives for the previous financial year, as measured against his key performance indicators. During the financial year ended December 31, 2005, Mr. Marrone's base salary was Cdn$501,960 and he was granted a cash bonus of Cdn$500,000 in recognition of his contribution to the development of the Company. During the financial year ended December 31, 2005, Mr. Marrone was also granted options to purchase 600,000 Common Shares under the Share Incentive Plan (see "Option Grants During the Financial Year Ended December 31, 2005" table above for further details). -11- The foregoing report has been submitted by the Compensation Committee: Nigel Lees (Chairman) Victor Bradley Dino Titaro Performance Graph The following graph compares the yearly percentage change in the cumulative total shareholder return for Cdn$100 invested in Common Shares on August 1, 2003 against the cumulative total shareholder return of the S&P/TSX Composite Index and the S&P/TSX Composite Index Gold for the three most recently completed financial years of the Company following the completion of its reverse take-over transaction in August 2003, assuming the reinvestment of all dividends. [PERFORMANCE GRAPH GRAPHICAL REPRESENTATION OF NUMBERS IN TABLE BELOW]] Aug. Dec. Dec. Dec. 1/03 31/03 31/04 30/05 ---- ----- ----- ----- Yamana Gold Inc. 100.00 185.63 215.57 461.08 S&P/TSX Composite Index 100.00 114.75 131.37 163.06 S&P/TSX Composite Index Gold 100.00 132.34 121.92 147.86 Securities Authorized for Issuance Under Equity Compensation Plans -- The following table provides details of compensation plans under which equity securities of the Company are authorized for issuance as of the financial year ended December 31, 2005. -12- ==

Number of securities to be Weighted-average price of Number of securities issued upon exercise of outstanding options, remaining available for outstanding options, warrants and rights future issuance under equity Plan Category warrants and rights (1) (Cdn$) compensation plans (2) -- Equity compensation plans approved by 7,953,765 $2.67 197,380 securityholders (3)

-- Equity compensation plans not approved by Nil Nil Nil securityholders

-- Total 7,953,765 $2.67 197,380

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(1) Represents Common Shares issuable upon exercise of stock options. (2) Based on the maximum number of Common Shares reserved for issuance upon exercise of stock options under the Share Incentive Plan of 9,500,000, taking into account options that have been exercised under the plan. (3) An additional 8,510,000 Common Shares are to be issued upon the exercise of stock options that were granted under the amended share incentive plan to certain officers, directors and employees of the Company on March 23, 2006, which stock options are only exercisable subject to the ratification of the grant thereof by the shareholders at the Meeting, pursuant to the rules of the TSX. See "Security Based Compensation Arrangements" and "Ratification of Stock Option Grants". Security Based Compensation Arrangements -- Share Incentive Plan The Company's share incentive plan (the "Share Incentive Plan") dated June 24, 2004, as amended, is designed to advance the interests of the Company by encouraging eligible participants, being employees, officers, directors and consultants, to have equity participation in the Company through the acquisition of Common Shares. The current aggregate maximum number of Common Shares that may be reserved for issuance under stock options granted pursuant to the Share Incentive Plan is 9,500,000, representing approximately 5% of Company's issued and outstanding Common Shares as at March 20, 2006. Options to purchase an aggregate of 7,953,765 Common Shares, representing approximately 4% of the Company's issued and outstanding Common Shares as at March 20, 2006, are currently outstanding and exercisable under the Share Incentive Plan. In connection with the acquisition of RNC Gold Inc., the Company assumed options (the "RNC Options") outstanding under the RNC Gold Inc. stock option plan exercisable to acquire an aggregate of 375,720 Common Shares. In connection with the proposed acquisition of Desert Sun Mining Corp., the Company has agreed to assume options (the "DSM Options") outstanding under the Desert Sun Mining Corp. stock option plan exercisable into 5,128,298 Common Shares. The RNC Options and DSM Options are not governed by or outstanding under the Share Incentive Plan. However, for the purposes of calculating the number of Common Shares available to be issued upon the exercise of options granted under the Share Incentive Plan following the approval of the amendment to the Share Incentive Plan described herein, any Common Shares reserved for issuance upon the exercise of then outstanding RNC Options and DSM Options shall be deducted from the number of Common Shares otherwise issuable under the Share Incentive Plan. The Share Incentive Plan provides for an aggregate maximum reserve of 5% of the Company's issued and outstanding Common Shares for issuance to any one person. The Share Incentive Plan does not include a limit on the number of Common Shares issuable to insiders, however, as described below, the Company proposes to amend the Share Incentive Plan to add such restriction. Options granted under the Share Incentive Plan have an exercise price of not less than the closing price of the Common Shares on the TSX on the trading day immediately preceding the date on which the option is granted and are exercisable for a period not to exceed ten years. The vesting of stock options is at the discretion of the Board of Directors of the Company, and there are currently no vesting provisions governing any of the outstanding stock options. Options granted under the stock option component are not transferable or assignable and terminate: (i) within a period of 60 days following the termination of an optionee's employment, subject to any agreement with a director or officer of the Company with respect to the rights of such director or officer upon termination or a change of control of the Company; and (ii) within a period of six months following the death of an optionee. -13- The Share Incentive Plan also provides for the granting of stock appreciation rights to optionees. An optionee is entitled to elect to terminate his or her option, in whole or part, and, in lieu of receiving the Common Shares to which the terminated option relates, to receive that number of Common Shares, disregarding fractions, which, when multiplied by the fair value of the Common Shares (which is the average closing price of the Common Shares on the TSX for the five trading days prior to the date of termination of the option) to which the terminated option relates, has a total value equal to the product of the number of such Common Shares times the difference between the fair value and the option price per share of such Common Shares, less any amount required to be withheld on account of income taxes. During the year ended December 31, 2005, a total of 347,175 Common Shares were issued upon the exercise of outstanding stock appreciation rights. The Board and/or the Compensation Committee of the Board, may modify or terminate the Share Incentive Plan at any time. However, any amendment of the Share Incentive Plan which would: (a) materially increase the benefits under the

plan; (b) increase the number of Common Shares which may be issued under the plan; or (c) materially modify the requirements as to the eligibility for participation in the plan is subject to the approval of the shareholders of the Company. Any amendment to any provision of the Share Incentive Plan is subject to receipt of any necessary approvals by any stock exchange or regulatory body having jurisdiction over the securities of the Company. The Company does not provide any financial assistance to Participants under the Share Incentive Plan to facilitate the purchase of securities under the Share Incentive Plan. At the Meeting, shareholders are being asked to consider and, if thought appropriate, to pass a resolution to amend the Share Incentive Plan to (i) increase the maximum number of Common Shares that may be reserved for issuance upon exercise of options granted under the Share Incentive Plan by 15,400,000 Common Shares or in the event that the proposed acquisition of Desert Sun Mining Corp. is not completed by 9,800,000 Common Shares; (ii) add a limitation on the percentage of securities issuable to insiders under all security based compensation arrangements; and (iii) amend the provisions concerning amendments and modifications to the Share Incentive Plan. For the purposes of calculating the number of Common Shares reserved for issuance upon exercise of options granted under the Share Incentive Plan, the Company includes Common Shares reserved for issuance upon the exercise of DSM Options and RNC Options. See "Approval of Amendment to Share Incentive Plan". The effect of the amendment to increase the maximum number of Common Shares reserved for issuance under the Share Incentive Plan will be to provide that the number of Common Shares reserved for issue upon the exercise of the following shall not exceed approximately 9% of the outstanding Common Shares: (i) options currently outstanding under the Share Incentive Plan, (ii) options available for grant under the Share Incentive Plan, (iii) outstanding RNC Options and (iv) in the event that the acquisition of Desert Sun Mining Corp. is completed, outstanding DSM Options. On a fully-diluted basis, the number of common Shares reserved for issue shall not exceed 8% in the event that the acquisition if Desert Sun Mining Corp. is completed or 8.4% in the event that the proposed acquisition in not completed. In 2006, the Compensation Committee approved the grant of an aggregate of 8,510,000 stock options to certain non-executive directors, officers, employees and consultants of the Company, as set out below. These options were granted on March 23, 2006 following the expiry of the trading black-out relating to the dissemination of the Company's annual financial statements. These options were, in part, granted based on the contribution of the optionees to the growth of the Company, including the completed acquisition of RNC Gold Inc. and the proposed acquisition of Desert Sun Mining Corp. In addition, during the past 12 months, the Company's capital structure was simplified by the early exercise of publicly-traded common share purchase warrants and the Company completed the Sao Francisco mine, accelerated completion of the Chapada copper-gold project and executed its business plan including the strategic plan announced in October 2005. These contributions have significantly advanced the development of the Company to the status of an intermediate gold producer. -14- Category of Grantee Number of Options Exercise Price Expiry Date ------------------ ---------------- ------------- ----------- Non-Executive Directors 1,500,000 Cdn$9.65 March 22, 2011 Named Executive Officers 3,700,000 Cdn$9.65 March 22, 2011 Employees 2,700,000 Cdn$9.65 March 22, 2011 Consultants 610,000 Cdn$9.65 March 22, 2011 The exercise price of the stock options was the closing price of the Common Shares on the TSX on the trading day immediately preceding the date of grant. The above-noted stock options can only be exercised upon the approval by the shareholders at the Meeting of the proposed amendments to the Share Incentive Plan, which include an increase in the maximum number of shares reserved for issuance upon the exercise of stock options granted under the Share Incentive Plan in accordance with the rules of the TSX. Further, the exercise of the Options is subject to the completion of the acquisition of Desert Sun Mining Corp. The aggregate amount of the above-noted option grants represent less than 3.2% of issued and outstanding Common Shares after giving effect to the acquisition of Desert Sun Mining Corp. (and less than 2.9% on a fully diluted basis after giving effect to such acquisition). The grant to any one officer or employee is less than 1% of the issued and outstanding Common Shares after giving effect to the acquisition of Desert Sun Mining Corp. The grant to non-executive directors as a group is less than 1% of the issued and outstanding Common Shares as of the date of grant and less than 1% of the issued and outstanding Common Shares after giving effect to the acquisition of Desert Sun Mining Corp. When the above-noted grants are combined with all other outstanding stock options currently held by officers and employees, no one officer or employee will hold options exercisable for more than 1.4% of the issued and outstanding Common Shares after giving effect to the acquisition of Desert Sun Mining Corp. (and no more than 1.3% on a fully diluted basis after giving effect to such acquisition). Other Security Based Compensation Arrangements The Company proposes to issue to its officers and employees an aggregate of up to 300,000 Common Shares, representing approximately 0.15% of the issued and outstanding Common Shares as at March 20, 2006, as security based compensation to such persons for contributions to the Company based on the compensation philosophy, guidelines and key performance indicators established by the Compensation Committee. The Compensation Committee has determined to award such additional equity compensation to provide a mechanism to award performance based compensation which does not involve the use of cash resources. The number of Common Shares to be issued to one officer, insider or employee shall not exceed 75,000 Common Shares, or 0.04 % of the Common Shares outstanding at the time of grant (on a non-diluted basis). The purchase price allocated to the Common Shares will not be less than the market price of the Common Shares as at the time of grant, as market price is defined under the rules of the TSX. The Common Shares, if issued, cannot be sold for a period of 12 months from the date of issue. At the Meeting, shareholders are being asked to pass a resolution approving these security based compensation arrangements. See "Approval of Security Based Compensation Arrangement". Corporate Governance Practices ----------------------------- National Policy 58-201 entitled "Corporate Governance Guidelines" ("NP 58-201") sets out guidelines for effective corporate governance. These guidelines deal with matters such as the constitution and independence of corporate boards, their functions, the effectiveness and education of board members and other items dealing with sound corporate governance. National Instrument 58-101 entitled "Disclosure of Corporate Governance Practices" ("NI 58-101") requires that if management of an issuer solicits proxies from its securityholders for the purpose of electing directors, specified disclosure of the corporate governance practices must be included in its management information circular. The Company and the Board recognize the importance of corporate governance to the effective management of the Company and to the protection of its employees and shareholders. The Company's approach to significant issues of corporate governance is designed with a view to ensuring that the business and affairs of the Company are effectively managed so as to enhance shareholder value. The -15- Board of Directors fulfills its mandate directly and through its committees at regularly scheduled meetings or as required. Frequency of meetings may be increased and the nature of the agenda items may be changed depending upon the state of the Company's affairs and in light of opportunities or risks which the Company faces. The directors are kept informed of the Company's operations at these meetings as well as through reports and discussions with management on matters within their particular areas of expertise. The Company's corporate governance practices have been and continue to be in compliance with applicable Canadian and United States requirements. The Company continues to monitor developments in Canada and the United States with a view to further revising its governance policies and practices, as appropriate. The Board of Directors has considered the guidelines set out in NP 58-201 and believes that its approach to corporate governance is appropriate and works effectively for the Company and its shareholders. The following is a description of the Company's corporate governance practices which has been prepared by the Corporate Governance and Nominating Committee of the Board and has been approved by the Board. The Board of Directors The Board of Directors is currently comprised of Victory Bradley (Chair), Peter Marrone, James Askew, Nigel Lees, Patrick Mars, Juvenal Mesquita, Antenor Silva and Dino Titaro. The majority of the members of the Company's Board of Directors, including the Chair of the Board of Directors, are independent within the meaning of NI 58-101 and hold regularly scheduled meetings. Messrs. Marrone and Silva are not independent as they are the President and Chief Executive Officer of the Company and the Chief Operating Officer of the Company, respectively. Mr. Mesquita is also not independent as he is a consultant to the Company. Although Mr. Bradley acted as President and Chief Executive Officer of the Company until July 31, 2003, the Board of Directors does not consider Mr. Bradley to have a material relationship with the Company which could be reasonably expected to interfere with the exercise of his independent judgement as a non-executive director of the Company, and considers Mr. Bradley to be independent. Each of Messrs. Askew, Lees, Mars and Titaro is independent. In connection with the proposed acquisition of Desert Sun Mining Corp., the Company has agreed to appoint Stan Bharti, Chairman of Desert Sun Mining Corp. and Bruce Humphrey, President and Chief Executive Officer of Desert Sun Mining Corp. to the Board of Directors on the closing of the acquisition, scheduled for early April 2005. In addition, Mr. Askew is not standing for re-election as a director. The role of the Company's Chairman of the Board is to chair all meetings of the Board in a manner that promotes meaningful discussion, and to provide leadership to the Board to enhance the Board's effectiveness in meeting its responsibilities. The Chairman's responsibilities include, without limitation, ensuring that the Board of Directors works together as a cohesive team with open communication; working together with the Corporate Governance and Nominating Committee to ensure that a process is in place by which the effectiveness of the Board, its committees and its individual directors can be evaluated on at least an annual basis. The Chairman also acts as a liason between the Board and management to ensure that the relationship between the Board and management is professional and constructive and ensures that the allocation of responsibilities and the boundaries between Board and management are clearly understood. The independent directors meet regularly without management to review the business operations, corporate governance and financial results of the Company. During the fiscal year ended December 31, 2005, the Board of Directors held 12 meetings. The attendance of each of the directors, based on the number of meeting each was eligible to attend is as follows: Mr. Marrone (12/12), Mr. Bradley (12/12), Mr. Askew (7/12), Mr. Mars (12/12), Mr. Mesquita (11/12), Mr. Silva (9/12), Mr. Lees (8/8) and Mr. Titaro (6/6). Mr. Lees joined the board on June 16, 2005 and Mr. Titaro joined the board on August 5, 2005. Messrs. Bradley, Askew, Lees, Mars Titaro, Marrone, Mesquita and Silva are current directors of the other reporting issuers set forth below: -16- Director Name Directorships with Other Reporting Issuers ------------ -- Victor H. Bradley Aura Gold Inc. Frontier Pacific Mining Corporation James Askew Golden Star Resources Ltd. Sino Gold Limited Euro Resources S.A. Nigel Lees URSA Major Minerals Incorporated Sage Gold Inc. Patrick J. Mars Aura Gold Inc. Carpathian Gold Inc. Endeavour Mining Capital Corp. Glencairn Gold Corporation First Point Minerals Corp. Manicouagan Minerals Inc. Pacifica Resources Ltd. Sage Gold Inc. Dino Titaro Carpathian Gold Inc. Cogient Corp. Plata Peru Resources Inc. Richview Resources Inc. Peter Marrone Aura Gold Inc. Vaaldiam Resources Ltd. Juvenal Mesquita Aura Gold Inc. Vaaldiam Resources Ltd. Antenor Silva Vaaldiam Resources Ltd. Report on Board Activities The Board of Directors of the Company is comprised of Messrs. Bradley (Chairman), Mesquita, Marrone, Mars, Silva, Askew, Lees and Titaro, five of whom are independent directors. In carrying out its mandate, the Board of Directors met 12 times during the fiscal year ended December 31, 2005. At such meetings, the Board of Directors reviewed and approved or ratified various corporate decisions such as production decisions for the Chapada copper-gold project and the Sao Francisco gold project; reviewed and approved financing alternatives, including the Cdn$59 million early exercise of the Company's listed July 31, 2008 common share warrants completed in August 2005 and the Cdn.$130 million bought deal public offering completed in October 2005; reviewed various acquisition proposals and approved the acquisition of RNC Gold Inc.; reappointed the officers of the Company and the members of each of the committees of the Board of Directors; reviewed and approved the consolidated financial statements for the ten months ended December 31, 2004, as well as the consolidated financial statements for the three months ended March 31, 2005, six months ended June 30, 2005 and the nine months ended September 30, 2005, reviewed with management on a quarterly basis, the mining operations and exploration and development activities of the Company; received reports from the chairman of each of the committees regarding their activities; and following the year end, the Board conducted an assessment of the board as a whole and of each director individually. -17- The foregoing report dated this 20th day of March, 2006 has been furnished by the Chairman on behalf of the Board of Directors: (Signed) Victor H. Bradley Board Mandate The Board of Directors of the Company is responsible for the general supervision of the management of the business. The Board of Directors discharges its responsibilities directly and through its committees, currently consisting of Corporate Governance and Nominating Committee, the Audit Committee, the Compensation Committee and the Sustainability Committee. A copy of the charter of the Board of Directors, setting out its mandate, responsibilities and the duties of its members is attached hereto as Schedule "A". Position Descriptions Written position descriptions have been developed by the Board of Directors for the Chairman of the Board of Directors and the Chair of each of the Board's committees. The Board, together with the Chief Executive Officer, has also developed a written position description for the Chief Executive Officer. Orientation and Continuing Education The measures that the Board of Directors takes in connection with orienting new Board members regarding the role of the Board, its directors, the committees of the Board and the nature and operation of the Company's business include providing each new member with information concerning the role and responsibilities of a public company director, providing new members with a complete set of the Company's charters, policies and procedures and discussing with new members the Company's operations including possible site visits to the Company's properties. With respect to providing continuing education for its directors, the Board ensures that all directors are kept apprised of changes in the Company's operations and business, changes in the regulatory environment affecting the Company's day to day business both within Canada and within the foreign jurisdictions in which the Company maintains properties and changes in their roles as directors of a public company. The Corporate Governance and Nominating Committee also considers orientation and continuing education for Board members and makes recommendations to the Board of Directors from time to time regarding same. Code of Business Conduct and Ethics The Board of Directors has adopted a Code of Business Conduct and Ethics for its directors, officers and employees. The Code includes provisions that require directors, officers and employees to inform the Company's

Chief Executive Officer or other appropriate person of any non-compliance with the Code. The Board of Directors takes steps to ensure directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer of the Company has a material interest, which include ensuring that directors and officers are thoroughly familiar with the Company's Code of Business Conduct and Ethics and, in particular, the rules concerning reporting conflicts of interest and obtaining direction from the Company's Chief Executive Officer or other appropriate person, regarding any potential conflicts of interest. The Board encourages and promotes an overall culture of ethical business conduct by promoting compliance with applicable laws, rules and regulations; providing guidance to employees, officers and directors to help them recognize and deal with ethical issues; promoting a culture of open communication, honesty and accountability; and ensuring awareness of disciplinary action for violations of ethical business conduct. -18- Nomination of Directors The Board of Directors, together with its Corporate Governance and Nominating Committee which is composed entirely of independent directors, is responsible for identifying new candidates for nomination to the Board. The Corporate Governance and Nominating Committee members are Messrs. Mars (Chairman), Askew and Bradley, all of whom are independent directors. In carrying out its mandate, the Corporate Governance and Nominating Committee met once during the year ended December 13, 2005, and all of the members at that time were in attendance. The process by which the Board identifies new candidates is through recommendations of the Corporate Governance and Nominating Committee whose responsibility it is to establish qualification and procedures to identify new candidates based on corporate law and regulatory requirements as well as relevant education and experience related to the business of the Company. The Corporate Governance and Nominating Committee's responsibilities include annually reviewing the charters of the Board of Directors and the Corporate Governance and Nominating Committee; assisting the Chairman of the Board of Directors in carrying out his responsibilities; considering and, if thought fit, approving requests from directors or committee members for the engagement of special advisors from time to time; preparing and recommending to the Board of Directors a set of corporate governance guidelines, a Code of Business Conduct and ethics and annually a statement of corporate governance practices to be included in the Company's management information circular; meeting with the Company's external corporate counsel to discuss the Company's corporate governance policies and practices; recommending procedures to permit the Board of Directors to meet on a regular basis without management present; assisting the Board of Directors by identifying individuals qualified to become Board members and members of Board committees; leading the Board of Directors in its annual review of the Board's performance; and assisting the Board of Directors in monitoring compliance by the Company with legal and regulatory requirements. Compensation The Board of Directors, together with its Compensation Committee which is composed entirely of independent directors, among other things, determines appropriate compensation for the Company's directors and executive officers. In January 2006, the Compensation Committee was reconstituted to include Messrs. Lees (Chairman), Titaro and Bradley, all of whom are independent directors. The Compensation Committee met twice during the year ended December 31, 2005. During 2005, the Compensation Committee was comprised of Messrs. Askew (Chairman) and Lance Tigert (to March 2005) and, subsequent to March 2005, Messrs. Askew (Chairman) and Bradley. The process by which appropriate compensation is determined is through periodic and annual reports from the Compensation Committee on the Company's overall compensation and benefits philosophies, which are established based, in part, on a review of peer group and mining industry compensation data. The reports describe processes undertaken by the committee to weight factors and target levels in determining executive compensation. The Compensation Committee's responsibilities include reviewing and making recommendations to the directors regarding any equity or other compensation plan and regarding the total compensation package of the Chief Executive Officer, and considering and approving the recommendations of the Chief Executive Officer regarding the total compensation packages of the Chief Financial Officer and the Chief Operating Officer. Sustainability Committee The Board of Directors also has a Sustainability Committee to assist in establishing objectives relating to exploration, development, operations and mining of the Company's properties, and to monitor and assess the Company's performance against such objectives. The Sustainability Committee is also responsible for assisting the Board in developing a corporate culture of environmental responsibilities and awareness as to the importance of health and safety. In 2005, the Sustainability Committee was comprised of Messrs. Askew (Chairman), Mars and Titaro, all of whom are an independent directors. The Sustainability Committee met once formally during the year ended December 31, 2005, and once informally during the course of site visits to each of the Company's key mineral projects in December 2005. Messrs. Askew and Mars were in attendance for both meetings and Mr. Titaro was in attendance at the December meeting, following his appointment to the board in August 2005. -19- Audit Committee Information regarding the Company's Audit Committee is contained in the Company's annual information form dated March 20, 2006 under the heading "Audit Committee", and a copy of the Audit Committee charter is attached to the annual information form as Schedule "A". The Company's annual information form is available on SEDAR at www.sedar.com. Board Assessments The Board of Directors, its committees and its individual directors are assessed regularly, on at least an annual basis, as to their effectiveness and contribution. The process by which such assessments are made is through questionnaires developed by the Board and its Corporate Governance and Nominating Committee, which are distributed to each director and/or committee member for review and completion each year. In addition, the Chairman of the Board and the Chair of each committee encourages discussion amongst the Board or the committee, as the case may be, as to their evaluation of their own effectiveness over the course of the year. All directors and/or committee members are free to make suggestions for improvement of the practice of the Board and/or its committees at any time and are encouraged to do so. The Corporate Governance and Nominating Committee is responsible for reviewing with the Board, on an annual basis, the requisite skills and characteristics of prospective board members as well as the composition of the Board as a whole. This assessment will include member's contribution, qualification as independent, as well as consideration of diversity, age, skills and experience in the context of the needs of the board. Indebtedness of Directors and Executive Officers -- None of the Company's directors or executive officers, nor any associate of such director or executive officer is as at the date hereof, or has been, during the financial year ended December 31, 2005, indebted to the Company or any of its subsidiaries in connection with a purchase of securities or otherwise. In addition, no indebtedness of these individuals to another entity has been the subject of a guarantee, support agreement, letter of credit or similar arrangement or understanding of the Company or any of its subsidiaries. Interest of Informed Persons in Material Transactions --- Since January 1, 2005, no informed person of the Company, nominee for election as a director of the Company, or any associate or affiliate of an informed person or nominee, has or had any material interest, direct or indirect, in any transaction or any proposed transaction which has materially affected or will materially affect the Company or any of its subsidiaries. Election of Directors -------------------- The Company's Articles of Incorporation and the CBCA provide that the Board consist of a minimum of three (3) and a maximum of ten (10) directors. The Board currently consists of eight (8) directors. Mr. Askew has decided not to stand for re-election at this year's shareholders' meeting. We thank Mr. Askew for his many years of service to the Company and wish him well in his future pursuits. In the event that the Company's previously announced acquisition of Desert Sun Mining Corp. is completed prior to the date of the Meeting, the nine (9) persons named hereunder will be proposed for election as directors of the Company at the Meeting or, in the event that the acquisition of Desert Sun Mining Corp. does not occur prior to the date of the Meeting, Messrs. Stan Bharti and Bruce Humphrey will not be proposed nominees for election as directors of the Company at the Meeting, and the seven (7) other persons named in the table of director nominees below will be proposed for election as directors of the Company at the Meeting. Management does not contemplate that any of the nominees will be unable to serve as a director, but if that should occur for any reason prior to the Meeting, it is intended that discretionary authority shall be exercised by the persons named in the accompanying proxy to vote the proxy for the election of any other person or persons in place of any nominee or nominees unable to serve. Each director elected will hold office until the close of the first annual meeting of shareholders of the Company following his election unless his office is earlier vacated in accordance with the Company's By-Laws. -20- Unless authority to do so is withheld, the persons named in the accompanying proxy intend to vote for the election of all nine (9) nominees whose names are set forth below, subject to the completion of the acquisition of Desert Sun Mining Corp. prior to the date of the Meeting, or for the nominees whose names are set forth in the table below other than Stan Bharti and Bruce Humphrey in the event that the acquisition of Desert Sun Mining Corp. is not completed prior to the date of the Meeting. The following table sets forth the name, province or state and country of residence, present principal occupation, business or employment, the period or periods during which each has served as a director of the Company and number of Common Shares beneficially owned by each nominee for election as a director of the Company. The statement as to the Common Shares beneficially owned, directly or indirectly, or over which control or direction is exercised by the nominees for election as directors hereinafter named is in each instance based upon information furnished by the person concerned and is as at March 20, 2006. All directors hold office until the next annual meeting of shareholders of the Company or until their successors are appointed. Number of Common Shares Beneficially Owned, Directly or Indirectly, or Name and Province/State and Principal Occupation, Period(s) Served as a Over

Which Control or Country of Residence Business or Employment Director of the Company Direction is Exercised -------------------- --------------------- ---------------------- ---------------------- Peter Marrone President and Chief July 31, 2003 to present 2,295,279 Ontario, Canada Executive Officer of the Company Victor H. Bradley (1) (4) President and Chief February 7, 1995 to present 1,349 California, United States Executive Officer of Aura Gold Inc. Patrick J. Mars (1) (2) (3) (4) President of P.J. Mars August 16, 2001 to present 20,000 Ontario, Canada Investments Limited (5) Juvenal Mesquita Filho President of Mineracao July 31, 2003 to present 208,695 Sao Paulo, Brazil Santa Elina S/A Antenor F. Silva, Jr. Chief Operating Officer July 31, 2003 to present 208,695 Rio de Janeiro, Brazil of the Company Nigel Lees(1) (2) Mining Consultant June 16, 2005 to present Nil Ontario, Canada Dino Titaro (2) (3) Mining Consultant August 5, 2005 to present Nil Ontario, Canada Stan Bharti Chairman of Desert Sun N/A Nil(6) Ontario, Canada Mining Corp. Bruce Humphrey President and Chief N/A Nil(7) Ontario, Canada Executive Officer of Desert Sun Mining Corp. -------------------------------- (1) Member of the Audit Committee. (2) Member of the Compensation Committee. (3) Member of the Sustainability Committee. (4) Member of the Corporate Governance and Nominating Committee. (5) Mr. Mars also served as a director of the Company between February 7, 1995 and February 18, 1999. (6) Upon completion of the acquisition of Desert Sun Mining Corp., Mr. Bharti will beneficially own or exercise control or direction over 875,652 Common Shares. (7) Upon completion of the acquisition of Desert Sun Mining Corp., Mr. Humphrey will beneficially own or exercise control or direction over 222,779 Common Shares. The principal occupations, businesses or employments of each of the proposed directors during the past five years are disclosed in the brief biographies set forth below. Peter Marrone - President and Chief Executive Officer. Mr. Marrone joined Yamana as President and Chief Executive Officer of Yamana in July 2003, and was instrumental in the creation of the Company and organizing it as a significant gold producer in Brazil. Prior to joining Yamana, Mr. Marrone was Executive Vice President and Managing Director, Investment Banking of Canaccord Capital Corporation from 2001 -21- to July 2003, and prior thereto was a partner at the law firm of Cassels Brock & Blackwell LLP, where he practiced in the area of securities law with a strong focus on mining and international transactions. Mr. Marrone has more than 20 years of business and capital market experience and has been on the boards of a number of public companies and advised companies with a strong Brazilian presence. Mr. Marrone is a Faculty Scholar and holds a Bachelor of Laws degree. Victor H. Bradley - Director. Mr. Bradley joined Yamana in February 1995 as President and Chief Executive Officer, which position he held until July 2003, at which time he became Chairman of Yamana. Mr. Bradley is currently the President and Chief Executive Officer of Aura Gold Inc. (since January 2006) and also works as a mining consultant and sits on the board of Frontier Pacific Mining Corporation. Mr. Bradley is a Chartered Accountant with over 40 years of experience in the minerals industry. For 30 of those years, Mr. Bradley held senior financial and management positions with a wide range of mining and exploration companies. Patrick J. Mars - Director. Mr. Mars is currently the President of P.J. Mars Investments Limited, a private investment company, the Chairman of Aura Gold Inc. (since January 2006) and also works as a mining consultant and serves as a director of several resource companies, including Glencairn Gold Corporation, Endeavour Mining Capital Corp., SAGE Gold Inc., Carpathian Gold Inc., First Point Minerals Corp. and Manicouagan Minerals Inc., Aura Gold Inc. and Pacific Resources Ltd. During the period of January 1999 to May 2001, Mr. Mars acted as Chairman and director of First Marathon Securities (UK) Ltd. prior to such company being acquired by National Bank of Canada, after which time Mr. Mars was director of NBC Financial (UK). Mr. Mars is a Certified Financial Analyst with over 40 years experience in the finance industry. Juvenal Mesquita Filho - Director. Mr. Mesquita is currently the President of Mineracao Santa Elina S/A, in Brazil, as well as a director of Santa Elina Mines Corporation since September 1994. Antenor F. Silva - Chief Operating Officer. Mr. Silva joined Yamana as Chief Operating Officer in July 2003. Mr. Silva has approximately 40 years of experience in the mining and chemical industries, and has provided technical consultation and training in development, construction, start-up, operation, strategic planning and productivity for various mining, hydropower and industrial companies. During this time, Mr. Silva has been instrumental in researching and developing metallurgical and engineering processes for mill plants in mining projects in Brazil, and implementing metallurgical processes which contributed to the development of mines in Tunisia, Africa and Togo, Africa. Mr. Silva has gained significant experience in senior management at various engineering companies and mining, petroleum and chemical companies. Prior to joining Yamana, Mr. Silva acted as Chief Operating Officer of Santa Elina Mines Corporation. Mr. Silva has also served as a director on the boards of several engineering, mining and aluminum extrusion companies. Mr. Silva holds a Bachelor of Science degree in in Mining and Metallurgical Engineering from the Universidade do Estado de Sao Paulo in Sao Paulo, Brazil. Nigel Lees - Director. Mr. Lees has over 25 years experience in the investment banking industry in Canada and the United Kingdom. He is currently the President of C.N. Lees Investments Limited, a private investment and consulting company, and President and Chief Executive Officer of SAGE Gold Inc., a public precious metals exploration company. Mr. Lees was President and Chief Executive Officer of Sunblush Technologies Corporation from 1994 to 2002. Mr. Lees is also a director of URSA Major Minerals Incorporated, which is a TSX Venture Exchange-listed mineral exploration company. Dino Titaro - Director. Mr. Titaro is currently the President and Chief Executive Officer of Carpathian Gold Inc., a public mineral exploration company listed on the TSX Venture Exchange. From 1986 to 2003, Mr. Titaro was the President and Chief Executive Officer of A.C.A. Howe International Limited, a geological and mining consulting firm. Mr. Titaro is also a director of each of Plata Peru Resources Inc., a TSX Venture Exchange-listed company, Richview Resources Inc. and Cogient Corp. Stan Bharti - Director Nominee. Mr. Bharti is a professional engineer and is the currently Chairman and a director of Desert Sun Mining Corp., as TSX listed mining company, which position he has held since February 2002. From December 1999 to May 2001, Mr. Bharti was Chief Executive Officer of Galaxy Online Inc., a TSX Venture listed technology company. Bruce Humphrey - Director Nominee. Mr. Humphrey is a mining engineer with 30 years experience in the mining industry and is currently the President and Chief Executive Officer of Desert Sun Mining Corp. From 1998 to 2004, Mr. Humphrey was the Vice President and Chief Operating Officer for Goldcorp Inc. -22- He has worked for several major mining companies and mining contractors in a variety of engineering, operations and executive management positions. He has been very active in several mining associations and mine safety groups. Prior to working with Desert Sun Mining Corp., Mr. Humphrey was Senior Vice President and Chief Operating Officer of Goldcorp Inc. (TSX: G) (NYSE: GG). His responsibilities included the re-development, start-up and operation of the high grade Red Lake Mine as well as the Exploration Group and Goldcorp's operations in South Dakota and Saskatchewan. Corporate Cease Trade Orders or Bankruptcies -- None of the proposed directors are, as at the date hereof, or have been, within the ten years prior to the date hereof, a director or executive officer, of any company that, while that person was acting in the capacity: (i) was the subject of a cease trade order or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, other than Mr. Dino Titaro who is a director of Plata Peru Resources Inc., which company was cease traded in 2002 pending a proposed corporate reorganization, which remains subject to shareholder approval. Mr. Titaro was also a director of Compressario Corp. at the time it was cease traded in 2003, which company is now insolvent and inactive; (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, other than Mr. Patrick Mars who was President and Chief Executive Officer of a mining company when it make a voluntary arrangement with creditors in 1998, or (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets. None of the proposed directors have, within the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director. Appointment of Auditors ---------------------- Unless authority to do so is withheld, the persons named in the accompanying proxy intend to vote for the appointment of Deloitte & Touche LLP, Chartered Accountants, as auditors of the Company until the close of the next annual meeting of shareholders and to authorize the directors to fix their remuneration. Deloitte & Touche LLP, Chartered Accountants, were first appointed as auditors of the Company since its incorporation in 1995. Approval of Amendment to Share Incentive Plan --- The Company is engaged in the acquisition, exploration, development and operation of mineral projects. The ability of the Company to acquire, explore and develop mineral projects is dependent upon having sufficient financing and cash flow from its operating mines to fund such activities. The Company is also actively pursuing growth opportunities involving mineral exploration, development or production assets which may require additional financing and as a result, the Company's compensation philosophy is to emphasize the equity position of compensation as compared to base salaries and bonuses payable in cash. The Company believes that its base salary and cash bonus compensation is at the low end of the scale compared to its peers. The Company also believes that weighting compensation to options better aligns the interests of management with the interests of shareholders and is consistent with the Company's growth strategy. Accordingly, the shareholders are being asked to authorize and approve a resolution authorizing an amendment to the Share Incentive Plan to (i) increase the maximum number of Common Shares that may be reserved for issuance upon exercise of options granted thereunder by 15,400,000 Common Shares or -23- if the acquisition of Desert Sun Mining Corp. is not completed, by 9,800,000 Common Shares; (ii) add a limitation on the percentage of securities issuable to insiders under all security based compensation arrangements; and (iii) amend the provisions concerning amendments and modifications to the Share Incentive Plan. For the purposes of calculating the number of Common Shares reserved for issuance upon exercise of options granted under the Share Incentive Plan, the Company includes Common Shares reserved for issuance upon the exercise of DSM Options and RNC Options. The effect of the amendment to increase the maximum number of Common Shares reserved for issuance under the Share Incentive Plan will be to provide that the number of Common Shares reserved for issue upon the exercise of the following shall not exceed approximately 9% of the outstanding Common Shares: (i) options currently outstanding under the Share Incentive Plan, (ii) options available for grant under the Share Incentive Plan, (iii) outstanding RNC Options and (iv) in the event that the acquisition of Desert Sun Mining Corp. is completed, outstanding DSM Options. On a fully-diluted basis, the number of common Shares reserved for issue shall not exceed 8% in the event that the acquisition if Desert Sun Mining Corp. is completed or 8.4% in the event that the proposed acquisition in not completed. Management of the Company believes that the proportion of the number of Common Shares issuable under the Share Option Plan relative to the number of issued and outstanding Common Shares is within a competitive range in its industry. Other than as described herein, all other provisions of the Share Option Plan will remain in full force and effect. The Board has approved the amendment to the Share Option Plan, subject to shareholder and stock exchange approvals. See "Security Based Compensation Arrangements - Share Incentive Plan". The Board recommends that shareholders vote for the adoption of the resolution. In order to be effective, the resolution must be approved by the affirmative vote of a majority of the votes cast at the Meeting in respect of such resolution. Unless otherwise indicated, the persons named in the accompanying proxy intend to vote for the resolution with respect to the amendment of the Share Incentive Plan on any ballot requested or required by law. The text of the resolution to be submitted to shareholders at the Meeting is set forth below, subject to such amendments, variations or additions as may be approved at the Meeting: "NOW THEREFORE BE IT RESOLVED THAT: 1. The Company's Share Incentive Plan be and same is hereby amended as follows: (i) the number of Common Shares reserved for issuance upon exercise of options granted under the Share Incentive Plan be increased by 15,400,000 Common Shares in the event that the Company's acquisition of Desert Sun Mining Corp. is completed, or from by 9,800,000 Common Shares in the event that the proposed acquisition is not completed; (ii) the number of securities issuable to insiders, at any time, under all security based compensation arrangements, shall not exceed 10% of the issued and outstanding securities and that the number of securities issued to insiders, within any one-year period, under all security based compensation arrangements, shall not exceed 10% of the issued and outstanding securities; (iii) the text under section 4.6 of the Share Incentive Plan be deleted in its entirety and replace with the following: "Subject the requisite shareholder and regulatory approvals set forth under subparagraphs 4.6(a) and (b) below, the Board of Directors, or the Compensation Committee of the Board of Directors pursuant to Section 4.4, may from time to time amend or revise the terms of the Plan or may discontinue the Plan at any time provided however that no such right may, without the consent of the optionee, in any manner adversely affect his rights under any Option theretofore granted under the Plan. -24- (a) Subject to Section 4.4, The Board of Directors may, subject to receipt of requisite shareholder and regulatory approval, make the following amendments to the Plan: (i) any amendment to the number of securities issuable under the Plan, including an increase to a fixed maximum number of securities or a change from a fixed maximum number of securities to a fixed maximum percentage. A change to a fixed maximum percentage which was previously approved by shareholders will not require additional shareholder approval; (ii) any change to the definition of "Participants" which would have the potential of narrowing or broadening or increasing insider participation; (iii) the addition of any form of financial assistance; (iv) any amendment to a financial assistance provision which is more favourable to Participants; (v) any addition of a cashless exercise feature, payable in cash or securities which does not provide for a full deduction in the number of underlying securities from the Plan; (vi) the addition of deferred or restricted share unit or any other provision which results in Participants receiving securities while no cash consideration is received by the Company; (vii) any other amendments that may lead to significant or unreasonable dilution in the Company's outstanding securities or may provide additional benefits to Participants, especially to insiders of the Company, at the expense of the Company and its existing shareholders. (b) Subject to Section 4.4, the Board of Directors may, subject to receipt of requisite regulatory approval, where required, in its sole discretion make all other amendments to the Plan that are not of the type contemplated in subparagraph 4.6(a) above, including, without limitation: (i) amendments of a housekeeping nature; (ii) the addition of or a change to vesting provisions of a security or the Plan; (iii) a change to the termination provisions of a security or the Plan which does not entail an extension beyond the original expiry date; and (iv) the addition of a cashless exercise feature, payable in cash or securities, which provides for a full deduction of the number of underlying securities from the Plan reserve. (c) Notwithstanding the provisions of subparagraph 4.6(b), the Company shall additionally obtain requisite shareholders approval in respect of amendments to the Plan that are contemplated pursuant to subparagraph 4.6(b) to the extent such approval is required by any applicable law or regulations." 2. Any director or officer of the Company be and is hereby authorized and directed, acting for, in the name of and on behalf of the Company, to execute or cause to be executed, under the seal of the -25- Company or otherwise, and to deliver or cause to be delivered, all such other deeds, documents, instruments and assurances, and to do or cause to be done all such other acts and things, as in the opinion of such director or officer of the Company may be necessary or desirable to carry out the intent of the foregoing resolutions. Approval of Security Based Compensation Arrangement --- The shareholders are being asked to approve a resolution authorizing the issuance to officers and employees of the Company of an aggregate of up to 300,000 Common Shares, representing approximately 0.15% of the issued and outstanding Common Shares as at March 20, 2006, as security based compensation to such persons for contributions to the Company based on the compensation philosophy, guidelines and key performance indicators established by the Compensation Committee. The Compensation Committee has determined to award such additional equity compensation to provide a mechanism to award performance based compensation which does not involve the use of cash resources. The number of Common Shares to be issued to one officer, insider or employee shall not exceed 75,000 Common Shares, or 0.04 % of the Common Shares outstanding at the time of grant (on a non-diluted basis). The purchase price allocated to the Common Shares will not be less than the market price of the Common Shares as at the time of grant, as market price is defined under the rules of the TSX. The Common Shares, if issued, cannot be sold for a period of 12 months from the date of issue. The Board has approved the Common Share issuance, subject to shareholder and stock exchange approvals. See "Security Based Compensation Arrangements - Other Security Based Compensation Arrangements". The Board recommends that shareholders vote for the adoption of the resolution. In order to be effective, the resolution must be approved by the affirmative vote of a majority of the votes cast at the Meeting in respect of such resolution. Unless otherwise indicated, the persons named in the accompanying proxy intend to vote for the resolution with respect to the issuance of up to 300,000 Common Shares to officers and employees of the Company on any ballot requested or required by law. The text of the resolution to be submitted to shareholders at the Meeting is set forth below, subject to such amendments, variations or additions as may be approved at the Meeting: "NOW THEREFORE BE IT RESOLVED THAT: 1. The issuance of an aggregate of up to 300,000 Common Shares to officers and employees of the Company as security based compensation to such persons as determined by the Compensation Committee in recognition of contributions to the Company be and same is hereby authorized and approved. 2. Any director or officer of the Company be and is hereby authorized and directed, acting for, in the name of and on behalf of the Company, to execute or cause to be executed, under the seal of the Company or otherwise, and to deliver or cause to be delivered, all such other deeds, documents, instruments and assurances, and to do or cause to be done all such other acts and things, as in the opinion of such director or officer of the Company may be necessary or desirable to carry out the intent of the foregoing resolution." Additional Information --------------------- Additional information relating to the Company may be found on www.sedar.com. Additional financial information is provided in the Company's comparative financial statements and management's discussion and analysis for the fiscal year ended December 31, 2005, which can be found in the Company's annual report to shareholders that accompanies this management information circular and can also be found at www.sedar.com. Shareholders may also request these documents from the General Counsel of the Company by phone at (416) 945-7357 or by e-mail at jacquelinejones@yamana.com. -26- Directors' Approval ------------------ The contents of this management information circular and the sending thereof to the shareholders of the Company have been approved by the Board. BY ORDER OF THE BOARD OF DIRECTORS (signed) Peter Marrone President and Chief Executive Officer Toronto, Ontario March 20, 2006 SCHEDULE "A" YAMANA GOLD INC. CHARTER OF THE BOARD OF DIRECTORS I. GENERAL The Board of Directors of Yamana Gold Inc. (the "Company") is responsible for the stewardship and the general supervision of the management of the business and for acting in the best interests of the Company and its shareholders. The Board will discharge its responsibilities directly and through its committees, currently consisting of the Audit Committee, the Compensation Committee, the Corporate Governance and Nominating Committee and the Technical Committee. In addition, the Board may from time to time, appoint such additional committees as it deems necessary and appropriate in order to discharge its duties. Each committee shall have its own charter. The Board shall meet regularly, but not less than once each quarter, to review the business operations, corporate governance and financial results of the Company. Meetings of the Board of Directors will also include regular meetings (not less than once annually) of the independent members of the Board without management being present. II. COMPOSITION The Board of Directors shall be constituted of a majority of "independent directors" within the meaning of National Policy 58-201 Corporate Governance Guidelines. Pursuant to Canadian corporate governance guidelines (except in respect of British Columbia), in order to be considered "independent", directors shall have no direct or indirect material relationship with the Company. In British Columbia, a director shall be considered independent unless a reasonable person with knowledge of all relevant circumstances would conclude that the director is in fact not independent of management or of any significant shareholder. The Board of Directors acknowledges that in certain exceptional circumstances such as the death, disability or resignation of an independent director, the Board of Directors may not be constituted of a majority of independent directors. In such circumstances, the Board of Directors shall be comprised of a majority of independent directors no later than the next annual meeting of shareholders of the Company. III. RESPONSIBILITIES The Board of Directors' mandate is the stewardship of the Company and its responsibilities include, without limitation to its general mandate, the following specific responsibilities: * The assignment to the various committees of directors the general responsibility for developing the Company's approach to: (i) corporate governance and nomination of directors; (ii) financial reporting and internal controls; and (iii) compensation of officers and senior employees. * With the assistance of the Corporate Governance Committee: - Reviewing the composition of the Board and ensuring it respects its independence criteria. - Satisfying itself as to the integrity of the Chief Executive Officer and other senior officers and that such officers create a culture of integrity throughout the organization. - The assessment, at least annually, of the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors, including, consideration of the appropriate size of the Board. - Ensuring that an appropriate review selection process for new nominees to the Board is in place. - Ensuring that an appropriate orientation and education program for new members of the Board is in place. - Approving and revising from time to time as circumstances warrant a corporate disclosure and communications policy to address communications with shareholders, employees, -2- financial analysts, governments and regulatory authorities, the media and communities in which the business of the Company is conducted. * With the assistance of the Audit Committee: - Ensuring the integrity of the Company's internal controls and management information systems. - Ensuring the Company's ethical behaviour and compliance with laws and regulations, audit and accounting principles and the Company's own governing documents. - Identifying the principal risks of the Company's business and ensuring that appropriate systems are in place to manage these risks. - Reviewing and approving significant operational and financial matters and the provision of direction to management on these matters. - As required and agreed upon, providing assistance to shareholders concerning the integrity of the Company's reported financial performance. * With the assistance of the Compensation Committee and the Chief Executive Officer, the approval of the compensation of the senior management team. * Succession planning including the selection, training, appointment, monitoring evaluation and, if necessary, the replacement of the senior management to ensure management succession. * The adoption of a strategic planning process, approval at least annually of a strategic plan that takes into account business opportunities and business risks identified by the Board and/or the Audit Committee and monitoring performance against such plans. * The review and approval of corporate objectives and goals applicable to the Company's senior management. * Enhancing congruence between shareholder expectations, Company plans and management performance. * Reviewing with senior management material transactions outside the ordinary course of business and such other major corporate matters which require Board approval including the payment of dividends, the issue, purchase and redemption of securities, acquisitions and dispositions of material assets and material capital expenditures and approving such decisions as they arise. * Performing such other functions as prescribed by law or assigned to the Board in the Company's constating documents and by-laws. * With the assistance of the Sustainability Committee: - Establishing objectives relating to exploration, development, operations and mining of the Company's properties, including determining the budgets required, the allocation of resources, the steps to be implemented and the timing for reaching such steps. - Monitoring matters relating to exploration, development, operations and mining and assessing theh performance of the Company against its objectives. - Developing a corporate culture of environmental responsibilities and awareness as to the importance of health and safety.