



September 2, 2007

By E-Mail and Courier

Ontario Securities Commission
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Attention: John Stevenson, Secretary to the
Commission

TIMOTHY PINOS



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Dear Sirs:

Re: Offer by Yamana Gold Inc. ("Yamana") to Purchase all of the outstanding Shares (the "Offer") of Meridian Gold Inc. ("Meridian")

Application for relief under section 127 of the *Securities Act* (Ontario)

I am writing further to my letter of August 24, 2007 and the response to that letter dated August 31, 2007 from Fraser Milner Casgrain LLP on behalf of Meridian Gold Inc. ("the Meridian response").

This letter summarizes Yamana Gold Inc.'s ("Yamana") response to the position of Meridian advanced in the Meridian response. In this letter, the same defined terms are used as are set out in the body of my August 24, 2007 letter.

AMENDMENTS

1. In this application Yamana seeks the following amended relief in this application.
 - a) a permanent order pursuant to section 127 of the *Act*, effective no later than 9:00 AM EDT on ~~September 7, 2007~~ September 11, 2007, that trading cease in respect of any securities issued, or to be issued, under or in connection with the Rights Plan (including without limitation, in respect of the rights issued under the Rights Plan (the "Rights") and the common shares to be issued on the exercise of the Rights, on condition that the Expiry Date of the Offer be extended to September 11, 2007 at 8:00 PM EDT;

- b) a permanent order removing prospectus exemptions in respect of the exercise of the Rights and the issuance of Shares upon such exercise;
- c) to the extent necessary, a temporary order pursuant to subsection 127(5) of the Act suspending the operation of the Rights Plan, or providing that any Rights that have been or may be issued thereunder shall not separate from the Shares or become exercisable or trade separately from the Shares until such time as the matters raised in this request for a hearing have been finally disposed of by the Commission;
- d) to the extent necessary for the purposes of implementing this relief, an order pursuant to section 104(2)(b) varying any applicable time period so as to facilitate the relief in a), above; and
- e) such further and other relief as the Commission deems appropriate.

OVERVIEW OF YAMANA'S RESPONSE

- 2. Yamana submits that Meridian has advanced no evidence or arguments that would justify the continuation of the Rights Plan beyond September 11, 2007. Rather, the evidence of Meridian makes it clear that there is little possibility of a superior competing Offer or transaction emerging by September 11th or any other date, and that continued operation of the Rights Plan is neither in the interests of Meridian shareholders, nor the public.
- 3. Specifically, in response to paragraph 1 of the Meridian response:
 - a) Prior approval of a Rights Plan by shareholders is not determinative of its validity nor, in the current circumstances, is it of any material significance.
 - b) There is no evidence that Meridian implemented a timely or appropriate search process designed to generate a better offer or transaction; in fact, the evidence is clearly to the contrary.
 - c) Meridian's business is neither extensive nor complicated and would not require as much as 49 or 53 days for an alternative transaction to crystallize, if one were available.



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- d) Allowing the operation of a Rights Plan for a period of 55 days or more is very much the exception rather than the rule, and there are no exceptional facts in this case.
- e) There is no compelling evidence that there is a real and substantial likelihood that a superior transaction will emerge. To the contrary, the weak response to Meridian's efforts to generate an alternative transaction supports the opposite conclusion that it is highly unlikely that a superior transaction will emerge.

YAMANA'S REPLY SUBMISSIONS

Amendment

- 4. The Offer as extended on August 14th is currently scheduled to expire on September 7, 2007.
- 5. This application was filed on August 24, 2007, and the first available date when the Commission could schedule a hearing was Wednesday, September 5, 2007, two days before the Expiry Date.
- 6. In order to permit Meridian shareholders sufficient time to tender their shares to the Offer following a decision of the Commission, Yamana is seeking to have the Rights Plan cease trade at 9:00 a.m. on September 11, 2007, on the condition that the Expiry Date of the Offer be extended to 8:00 p.m. on September 11, 2007.

Likelihood of Obtaining Better Transaction

- 7. It is submitted that the evidence submitted by Meridian does not support a conclusion that it is in the interest of Meridian shareholders or the public that the Rights Plan be permitted to continue on the basis of their being a real likelihood of a superior offer or transaction emerging.
- 8. The facts in the Meridian evidence which support a conclusion that there is no substantial likelihood of a superior alternative transaction emerging include the following:

- a) Meridian engaged in an extensive process commencing in August 2006, to identify value maximizing transactions. This process continued until May 2007, and Meridian was not successful in identifying a suitable transaction.
- b) When Meridian finally took steps to locate an alternative transaction in July 2007 in response to the Offer, only four parties were sufficiently interested to sign confidentiality agreements, and from the unclear evidence of Meridian, it appears that perhaps only two undertook serious investigation.
- c) Meridian is unable to provide evidence that a proposal has been received, a term sheet discussed or otherwise negotiations commenced towards an alternative bid that would be financially superior for Meridian shareholders.
- d) The period of time from either the commencement of the Offer (July 20th) or the making of Yamana's proposal (June 27th) is more than sufficient time for any seriously interested party to evaluate Meridian for the purposes of making an alternative bid.
- e) Meridian's own expert advisor can only speak of the likelihood of an alternative bid in terms of "possibility", rather than "likelihood" or "probability".

Meridian's Reluctant Response

9. The Meridian evidence simply confirms the "just say no" nature of its response.
10. It is clear from the chronology of correspondence following the Yamana June 15th approach, that although Meridian initially made encouraging noises, it refused to enter into a confidentiality agreement and engaged in unresponsive delay tactics from June 18th to June 26th. Yamana had no choice but to escalate matters by announcing its Proposal on June 27th.
11. Following the Yamana Proposal on June 27th, Meridian acknowledged Yamana's intention to bid. Notwithstanding this acknowledgement, Meridian took no steps to negotiate the Proposal with Yamana, apart from rejecting it on July 2, 2007, and more surprisingly took no steps to attempt to locate a superior alternative transaction until faced with the commencement of the Offer. Meridian's failure to

do this is indicative of its stand pat, "just say no" reaction to the Yamana Proposal and the Yamana Offer.

12. Further even when faced with the Offer (announced on July 19 and commenced on July 20th), Meridian took no steps to locate any value maximizing alternatives until nearly a week later, July 25, 2007.
13. Finally, it did not set a deadline for the receipt of proposals from interested parties until "late August", a point in time after the extension of the Offer to September 7, 2007, with a deadline for proposals set for the same date. Yamana suggests that the timing of the proposal deadline letter and the September 7th deadline should be regarded as little more than a tactic to justify further life for the Rights Plan beyond September 7, 2007, rather than a genuine effort to generate superior alternatives.

Nothing Special About Meridian's Business

14. There is nothing particularly unique or "world class" about Meridian's business that would make it difficult to evaluate. Meridian's own evidence says nothing about any difficulty in valuing the primary assets of the company, its operating mines, reserves, and resources. Rather Meridian's evidence waxes at great length about its exploration and development "potential" all of which is either at the pre-resource or highly speculative stage, and in the case of one resourced prospect, Esquel, it has been blocked from development by law for at least three years.
15. There is nothing in the Meridian evidence to suggest that this speculative potential can form the substantive basis of a superior offer. The evidence is to the contrary. Market reaction to Meridian's attempt to draw attention to this potential as part of it's "Reject Yamana" campaign failed to have any impact on the market; Meridian's own expert asserts that Meridian's high trading multiples reflect market recognition of its exploration and development potential.

No Need for More Time

16. Meridian has been "in play" since June 27, the date of the public announcement of the Yamana Proposal. The announcement of the Yamana Proposal included disclosure of the financial terms of Yamana's offer for Meridian which would then be available for any prospective interested party to review and assess for the purposes of the possibility of making an alternative competing proposal.
17. It is significant that Meridian is unable to point to any evidence of inquiries from potential alternative bidders in the period between June 27 and July 25, which is indicative both of the value of the Yamana Offer and the absence of any competing bidders.
18. In any event, the time period between July 25th (the date when Meridian finally did something) and the hearing date of September 5, 2007, would have been more than sufficient time for any third parties contacted by Meridian to respond, enter into a confidentiality agreement, receive and analyze information and decide whether to make a firm proposal.
19. For the purpose of this proceeding, Yamana submits that Meridian's deadline of September 7, 2007, should be ignored as arbitrary and inappropriate. Even then, if a serious and firm proposal that was financially attractive to Meridian shareholders emerged by September 7, the period between then and September 11 is more than enough time for its assessment by the Meridian Board and any public announcement of an alternative offer.

Criticisms of Yamana Offer Unfounded

20. The attempts in the Meridian response to criticize the value of the Yamana Offer have no substance and are fully responded to in the supplementary affidavit of Ted Hirst. None of Mr. Mattan's arguments displace the core fact that Yamana has made an offer incorporating a significant premium over Meridian's prior trading price, for a company that already trades at the higher range of trading multiples, and where the valuation metrics of the Offer compare favourably to other gold transactions.
21. Accordingly, it is submitted that one cannot conclude that the Offer undervalues Meridian and that there is a higher likelihood of another company coming along to place a higher value on Meridian in the context of financially superior proposal.



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22. Yamana submits that in the circumstances of this case the Commission should exercise its public interest jurisdiction to cease trade the Rights Plan.

Yours truly,

A handwritten signature in cursive script that reads "Tim Pinos".

Timothy Pinos
TP/gmc

cc: Naizam Kanji, Ontario Securities Commission
Michael Brown, Ontario Securities Commission
Kelly McKinnon, Ontario Securities Commission
Peter Marrone, Yamana Gold Inc.
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