

**TIMMINS GOLD CORP.**  
**MANAGEMENT DISCUSSION AND ANALYSIS – FORM 51-102F1**  
**for the three and six month periods ended September 30, 2006**

**1.1 Date of Report**

The following Management Discussion and Analysis (“MD&A”) for Timmins Gold Corp. (“Timmins” or the “Company”) is prepared as of November 24, 2006 and should be read in conjunction with the interim consolidated financial statements for the three and six month periods ended September 30, 2006 and the audited consolidated financial statements and related notes for the years ended March 31, 2006 and 2005. Except as noted, all dollar amounts contained in this discussion and analysis and in the financial statements are in Canadian dollars.

**Forward-Looking Statements**

This MD&A contains certain statements that may be deemed “forward-looking statements”. All statements in this MD&A, other than statements of historical fact, that address exploration drilling, exploitation activities and events or developments that the Company expects to occur, are forward looking statements. Forward looking statements are statements that are not historical facts and are generally, but not always, identified by the words “expects”, “plans”, “anticipates”, “believes”, “intends”, “estimates”, “projects”, “potential” and similar expressions, or that events or conditions “will”, “would”, “may”, “could” or “should” occur. Information inferred from the interpretation of drilling results and information concerning mineral resource estimates may also be deemed to be forward looking statements, as it constitutes a prediction of what might be found to be present when and if a project is actually developed. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results may differ materially from those in the forward-looking statements. Factors that could cause the actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, and continued availability of capital and financing, and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. Forward looking statements are based on the beliefs, estimates and opinions of the Company’s management on the date the statements are made. The Company undertakes no obligation to update these forward-looking statements in the event that management’s beliefs, estimates or opinions, or other factors, should change.

**Management’s Responsibility for Financial Statements**

The information provided in this MD&A, including the interim consolidated financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of the future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company’s assets are safeguarded and to facilitate the preparation of relevant and timely information.

**1.2 Nature of Business and Overall Performance**

Timmins Gold Corp. is a junior resource company engaged in the acquisition, exploration and development of gold properties in Mexico.

The Company completed its initial public offering (“IPO”) and raised gross proceeds of \$3,150,000. The Company’s agent for the IPO was Bolder Investment Partners, Ltd. (“Bolder”) of Vancouver, British Columbia. The IPO was fully subscribed for 9,000,000 Units at a price of \$0.35 per Unit. Each Unit consisted of one common share and one non-transferable share purchase warrant which entitles the holder to acquire one additional common share at a price of \$0.50 per share for a period of 1 year from the closing. In consideration of their services, the Company paid Bolder a cash commission of 8% of the aggregate proceeds of the offering, and issued agent’s warrants in an amount equal to 12% of the number of units sold under the IPO. Bolder was also paid a corporate finance fee of 75,000 Units.

The Company has its corporate office in Vancouver and has administrative offices in Hermosillo, Sonora, Mexico and a field office in Magdalena, Sonora, Mexico.

The interim consolidated financial statements include the accounts of Timmins Gold Corp. and its wholly owned subsidiary, Timmins Goldcorp Mexico, S.A. de C.V. (the “Subsidiary”).

### **Corporate Developments and Management Changes**

Subsequent to the period end, Darcy Krohman joined the management team of Timmins Gold in the capacity of Executive Vice-President and Chief Financial Officer. Darcy was also appointed to the board of directors of the Company. He is a Professional Geologist and Chartered Accountant who has held various senior positions within the mining and mineral exploration sector since 1981. During the past 11 years Darcy was employed as a mining and securities analyst within the Corporate Finance divisions of the British Columbia Securities Commission and C.M. Oliver & Company Limited – Capital Markets (now Canaccord Capital). Darcy replaces Mark Aplas who resigned as CFO of the Company effective October 27, 2006. In circumstances where his experience will satisfy that of Qualified Person (QP) pursuant to NI 43-101, Darcy will also serve as the Company’s non-independent QP.

### **Mineral Project**

#### **1. SAN FRANCISCO PROJECT, SONORA STATE, MEXICO**

##### **(a) Drill and Exploration Program**

In the six month period ended September 30, 2006, \$1,320,000 (approx. US\$1,084,000) was expended on the San Francisco Mine Property. In total \$1,826,092 (approx. US\$1,570,000) has been expended to September 30, 2006. As required by the Option Agreement the Company has satisfied its obligation to spend US\$1,000,000 on the property before September 1, 2006. Of the \$1.3 million in property expenditures incurred during the period, over \$600,000 were directly related to drilling activities. To date 4,215 m’s of diamond and 4,649 m’s of reverse circulation (RC) drilling have been completed. As previously outlined the principal objective of the current drill program is to (i) confirm the previous historical resource estimate; (ii) expand the known resource and (iii) prepare a current mineral resource estimate that meets CIM definitions for mineral resources as required by NI 43-101.

The Company had initially engaged ALS Chemex Ltd. of North Vancouver, BC (ALS Chemex) to complete the geochemical analysis and assaying of the drill core samples. However significant delays in processing were encountered because of the volume of samples submitted to ALS Chemex by other clients. As a result the Company chose to engage Acme Analytical Laboratories Ltd. of Vancouver (Acme) to complete the geochemical analysis of those core samples not yet submitted. Acme has encountered the same delays as ALS Chemex. Analytical results for 2 diamond drill holes (23 samples) and 2 reverse circulation holes (176 samples) are yet to be received by the Company from both ALS Chemex and Acme. As previously disclosed, IMC is awaiting these final results to complete a NI 43-101 compliant mineral resource estimate, the supporting technical report and the pre-feasibility study.

Despite the delays Company management are confident that, as a minimum, the results of the current drill program will support the historical resource estimate.

#### **(b) Drill and Exploration Results**

North extension of San Francisco pit.- Drilling results confirmed the continuation of several, near surface, mineralized lenses striking NW 20 degrees that had been previously identified in the San Francisco pit. The drill program also identified several other mineralized lenses at depth. Some of these are located beneath the crusher used in previous operations. The drill program extended the mineralized zone approximately 160 meters along strike from the north edge of the pit. The zone is 100 meters wide and is open along strike and at depth. Company geologists expect these results to have a positive impact on the mineral resource estimate currently being prepared by IMC.

West extension of the San Francisco pit.- Drill results from this years program confirm the higher grade nature of the pit extension to the west of the San Francisco pit that was identified during the 2005 year program. Diamond drill hole TFD27 intersected 3.07 g/t Au over 110.75 meters (including an intersection of greater than 100 g/t Au over 1.85 meters) and a second interval grading 41 g/t Au over 1.0 m.

North extension of La Chicharra pit.- Four holes located north of the La Chicharra pit encountered a number of important intersections including a 20 m interval grading over 1 g/t Au. To date the drill program has confirmed the mineralized zone extends over an area 200 meters wide (along the edge of the pit) by 100 m long (to the north along strike). The zone is open both along strike and at depth. Company geologists believe that they have encountered an important extension of the La Chicharra pit and recommend an infill drill program be completed. This infill drill program would facilitate a planned mineral resource estimate for the zone.

#### **(c) Future Developments**

The final drill hole of the current program was completed on October 25. As disclosed above the Company is waiting for final geochemical and assay results from both ALS and Acme so Independent Mining Consultants Inc. may complete the NI 43-101 compliant mineral resource estimate and pre-feasibility study on the San Francisco Mine Property. Should the independent mineral resource estimate and pre-feasibility support it, and sufficient funds are available, the Company intends to (i) continue the infill drill program to increase the confidence level of the mineral resource estimate; (ii) expand the step-out drill program down dip along strike with the objective of expanding the mineral resource; and (iii) calculate a mineral reserve and proceed to full feasibility.

The Company continues to investigate other opportunities in Sonora and other regions in Mexico.

### **1.3 Selected Annual Information**

N/A

### **1.4 Results of Operations**

During the three and six month periods ended September 30, 2006, the Company reported losses of \$686,199 and \$826,503 or \$0.04 and \$0.06 per share respectively. These losses do not compare with previous periods as the Company had just begun operations to acquire a mineral project in the period ended September 30, 2005. The major expenses for the six month period ended September 30, 2006 were mainly attributable to the following:

- a. Consulting fees were \$69,556 due to corporate development work required to complete the IPO.
- b. Transfer agent and regulatory fees were \$27,623 due to the costs required for the approval of the Company's IPO prospectus.
- c. A foreign exchange loss of \$29,374 incurred by holding US\$'s. The Company's subsidiary is required to make most of its payments to suppliers and contractors in US funds and therefore holds a significant proportion of their foreign currency reserve as US\$'s to satisfy these obligations.
- d. Charges to stock-based compensation in the amount of \$514,259. These charges are non-cash transactions and are based on the fair value of 2,000,000 options at \$0.35 for a term of five years using the Black-Scholes option pricing model. Please refer to Note 6 for details.

Overall, the Company's general and administrative expenses increased significantly due to its increased activity on its San Francisco gold project in Mexico and the increased activity required to complete the Company's IPO offering.

### 1.5 Summary of Quarterly Results

The following is a summary of the Company's financial results for the eight most recently completed quarters:

	Q2 Sep. 30, 2006	Q1 Jun 30, 2006	Q4 Mar. 31, 2006	Q3 Dec. 31, 2005	Q2 Sep. 30, 2005	Q1 Jun. 30, 2005	Q4 Mar. 31, 2005	Q3 Dec. 31, 2004
Total revenues	\$ N/A	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ Nil	\$ N/A	\$ N/A
Net loss	\$(686,199)	\$(140,034)	\$(165,236)	\$(42,418)	\$(12,556)	\$(18,088)	\$ N/A	\$ N/A
Basic loss per share (1)	\$ (0.04)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ N/A	\$ N/A

(1) Loss per share on a diluted basis is not disclosed as it is anti-dilutive due to losses incurred.

The expenses incurred by the Company are those typical of junior exploration companies that have not established mineral reserves. In some quarters more expenses are incurred than in others as a result of non-recurring activities or events.

### 1.6 Liquidity

The interim consolidated financial statements for the three and six month periods ended September 30, 2006 have been prepared on the basis of accounting principles applicable to a going concern. This assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has incurred operating losses since inception, has limited financial resources, no source of operating cash flow and no assurances that sufficient funding, including adequate financing, will be available to further explore its mineral property projects and to cover general and administrative expenses necessary to maintain a public company.

The Company has cash of \$734,119 as at September 30, 2006 compared to \$2,996 as at March 31, 2006. The Company's has working capital of \$900,671 as at September 30, 2006 compared to working capital deficiency of \$58,284 as at March 31, 2006. During the period ended September 30, 2006, the Company completed its IPO offering and received gross proceeds of \$3,150,000 (9,000,000 common shares at

\$0.35 per share with 9,000,000 share purchase warrants to purchase one share at \$0.50 up to July 25, 2007). The Company paid a cash commission of 8% of the aggregate proceeds of the offering.

The Company will be required to raise additional funds through the capital markets early in the new calendar year in order to finance its planned course of action.

## 1.7 Capital Resources

Timmins has historically relied upon equity financings to satisfy its capital requirements and will continue to depend heavily upon equity capital to finance its activities. There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms or that optionees will continue to make property payments to the Company.

The Company anticipates it will need additional capital in the future to finance ongoing exploration of its properties, such capital to be derived from the exercise of outstanding stock options and warrants and/or the completion of private placements. The Company may also seek short-term loans from directors of the Company.

## 1.8 Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements to which the Company is committed.

## 1.9 Transactions with Related Parties

- a) The Company was charged the following by directors of the Company, or companies with common directors:

	Three months ended September 30,		Six months ended September 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Mineral property costs:				
- deferred exploration costs				
- field work and consulting	\$ 11,868	\$ -	\$ 40,459	\$ -
Share issue costs:				
- legal fees	90,000	-	90,000	-
Legal fees	(3,156)	5,350	6,844	6,287
Salaries and wages	<u>18,559</u>	<u>6,000</u>	<u>33,559</u>	<u>17,500</u>
	<u>\$ 117,271</u>	<u>\$ 11,350</u>	<u>\$ 170,862</u>	<u>\$ 23,787</u>

These charges were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

- b) Accounts payable and accrued liabilities outstanding with related parties are unsecured, non-interest bearing and have no fixed terms of repayment. Included in accounts payable and accrued liabilities at September 30, 2006 and March 31, 2006 are the following related party amounts:

	September 30, <u>2006</u>	March 31, <u>2006</u>
Accounts payable and accrued liabilities	<u>\$ 30,431</u>	<u>\$ 118,106</u>

c) Advances due to related parties are unsecured, do not bear interest and are payable on demand.

	September 30, <u>2006</u>	March 31, <u>2006</u>
Advances due to related parties	\$ <u>38,875</u>	\$ <u>79,600</u>

#### **1.10 Second Quarter**

Second quarter results differ significantly from other quarters due to its increased activity on its San Francisco gold project in Mexico and the increased activity required to complete the Company's IPO offering.

#### **1.11 Proposed Transactions**

N/A

#### **1.12 Critical Accounting Estimates**

Critical accounting estimates used in the preparation of the interim consolidated financial statements include the Company's estimate of recoverable value of its mineral properties and related deferred expenditures as well as the value of stock-based compensation. All of these estimates involve considerable judgement and are, or could be, affected by significant factors that are out of the Company's control.

The factors affecting stock-based compensation include estimates of when the stock options might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and will depend upon a variety of factors including the market value of the Company's shares and the financial objectives of the optionees.

The Company's recoverability of the recorded value of its mineral properties and associated deferred expenses is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Company is in an industry that is dependent on a number of factors including environmental, legal and political risks, the existence of economically recoverable reserves and the ability of the Company to obtain necessary financing to complete the development and future profitable production or proceeds of disposition thereof.

#### **1.13 Changes in Accounting Policies**

The interim consolidated financial statements for the three and six month periods ended September 30, 2006 have been prepared in accordance with Canadian generally accepted accounting principles. The accounting policies and methods remain consistent with the previous period.

#### **1.14 Financial Instruments and Other Instruments**

The carrying value of financial instruments which include cash, accounts receivable, prepaid expenses, accounts payable and accrued liabilities and advances due to related parties approximate fair value because of the short-term maturity of those instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

## 1.15 Other MD&A Requirements

### Disclosure of Outstanding Share Capital

a) Authorized:

Unlimited number of common shares without par value

b) Issued:

	<u>Number of Shares</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Balance, March 31, 2006	10,948,633	\$ 685,516	\$ 92,625
For cash:			
Pursuant to Initial Public Offering – at \$0.35	9,000,000	3,150,000	-
Pursuant to Agent’s Corporate Finance Shares – at \$0.35	75,000	26,250	-
Agents’ broker warrants	-	-	123,020
Less: share issue costs	-	(587,426)	-
Conversion of Promissory Note	285,000	99,750	-
Stock-based compensation	-	-	514,259
	<u>20,308,633</u>	<u>\$ 3,374,090</u>	<u>\$ 729,904</u>
Balance, September 30, 2006			

c) Stock Options:

#### Stock-based Compensation Plan

The Company has a stock option plan (the “Plan”) for directors, senior officers, employees, consultants and management. The Plan provides for the issuance of stock options to acquire up to a maximum of 10% of the issued and outstanding common shares of the Company. Options granted for a term not exceeding five years. Options granted to directors, senior officers, employees and consultants vest when granted. Options granted to consultants performing investor relations activities vest over a period of twelve months.

A summary of the stock option activity is presented below:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding, March 31, 2006	-	\$ -
Granted	<u>2,000,000</u>	0.35
Balance, September 30, 2006	<u>2,000,000</u>	<u>\$ 0.35</u>
Vested, September 30, 2006	<u>2,000,000</u>	<u>\$ 0.35</u>

Share purchase options outstanding at September 30, 2006 are as follows:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,500,000	\$0.35	July 25, 2011
<u>500,000</u>	\$0.35	September 6, 2011
<u>2,000,000</u>		

The Company has recorded \$514,259 (2005: \$Nil) of compensation expense for stock-based compensation relating to options granted and vested during the period. The fair value of the options granted has been determined using the Black-Scholes option pricing model with the following assumptions:

	Six months ended September 30, <u>2006</u>
Expected dividend yield	Nil
Expected volatility	80%
Risk-free interest rate	4.01 - 4.26%
Weighted average expected term	5.0 years

#### **DIRECTORS AND OFFICERS**

Arturo Bonillas	Director, President & CEO
Bruce Bragagnolo	Director, Secretary
Derek Thomson	Director
Miguel Soto	Director & COO
Lawrence Dick, PhD.	Director
Eugene Hodgson	Director
Darcy Krohman, P.Geo., C.A.	Director, Vice President and CFO (appointed October 27, 2006)
Mark Aplas	Outgoing CFO

The Company is dependent on a small number of key directors and officers. Loss of any one of those persons could have an adverse affect on the Company. The Company does not maintain "key-man" insurance with respect to any of its management.

#### **CONFLICTS OF INTEREST**

Certain officers and directors of the Company are officers and/or directors of, or are associated with other natural resource companies that acquire interests in mineral properties. Such associations may give rise to conflicts of interest. The directors are required by law, however, to act honestly and in good faith with a view to the best interests of the Company and its shareholders and to disclose any personal interest which they may have in any material transaction which is proposed to be entered into with the Company and to abstain from voting as a director for the approval of any such transaction.

#### **RISKS & UNCERTAINTIES**

The Company is a mineral exploration and development company and is exposed to a number of risks and

uncertainties that are common to other companies in the same business; some of these risks have been discussed elsewhere in this document. The reader should also refer to the discussion of risks contained in the Company's prospectus dated July 10, 2006. The Company's financial success is subject to, among other things, fluctuations in gold and other commodity prices that may affect current or future operating results and may affect the economic value of its mineral properties. The Company is exposed to currency fluctuations against the Mexican peso and United States dollar that could affect capital and operating costs, but may choose to mitigate the risk through forward purchase of these currencies. The Company must comply with environmental regulations governing air and water quality and land disturbance. The Company's ability to obtain financing to explore and develop its mineral properties is not assured; nor is there assurance that the expenditure of funds will result in the discovery and development of an economic mineral deposit. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements.

## **OUTLOOK**

The current drill program was completed on October 25, 2006 with geochemical analysis and assaying of the samples are being completed by ALS Chemex Ltd. of North Vancouver and Acme Analytical Laboratories Ltd. of Vancouver BC. As discussed above (see "Mineral Properties") delays in processing times at each of the facilities has resulted in significant delay's in the Company's receipt of results. Once received Independent Mining Consultants of Tucson, Arizona will be in a position to complete the NI 43-101 compliant mineral resource estimate, supporting technical report and pre-feasibility study. The Company hopes to receive this estimate, report and study prior to, or early in the new-year. Satisfying the requirement to spend an aggregate of US\$2.5 million prior to April 15, 2007 to earn it's 50% interest will be the principal focus of the Company in the near term. To date the Company has expended approximately US\$1.4 million in satisfaction of this requirement.

In addition to the work focused on the resource estimate and the strike and down dip extensions of the known mineralized body at San Francisco, several other exploration targets within the property boundaries are being assessed. While the Company continues to evaluate these targets through early stage exploration programs it has no concrete plans for intensive programs at this time.

## **OTHER INFORMATION**

The Company web address is [www.timminsgold.com](http://www.timminsgold.com). Other information relating to the Company may be found on the SEDAR website [www.sedar.com](http://www.sedar.com).

## **BY ORDER OF THE BOARD**

*"Arturo Bonillas"*

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Arturo Bonillas  
President & CEO

*"Darcy Krohman"*

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Darcy Krohman  
Vice-President & CFO

November 24, 2006