

TIMMINS GOLD CORP.
MANAGEMENT DISCUSSION AND ANALYSIS
for the year ended March 31, 2009

The following Management Discussion and Analysis (“MD&A”) for Timmins Gold Corp. (“Timmins” or the “Company”) is prepared as of July 6, 2009, and should be read in conjunction with the audited Consolidated Financial Statements (“Financial Statements”) and related notes for the years ended March 31, 2009, March 31, 2008 and March 31, 2007. The Company’s AIF and the risks and uncertainties discussed therein, and the Company’s MD&A for prior periods are on SEDAR at www.sedar.com and on the Company’s website at www.timminsgold.com.

Forward-Looking Statements

This discussion and analysis contains forward-looking statements about the Company’s future prospects, and the Company provides no assurance that actual results will meet management’s expectations. For a thorough discussion and analysis of the risks and uncertainties affecting the Company we refer you to the Annual Information Form (available on Sedar at www.sedar.com). 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.

Qualified Person

Pursuant to National Instrument 43-101, Lawrence A. Dick, Phd, P.Geo is the Qualified Person (“QP”) responsible for the technical disclosure in this MD&A.

Overall Performance

Timmins Gold Corp. is a junior resource company engaged in the acquisition, exploration and development of gold properties in Mexico. To date the Company has measured its success through the growth in its mineral resources, in particular gold resources. The Company has its corporate office in Vancouver and administrative office in Hermosillo, Sonora, Mexico. The Company also has a field office in Magdalena, Sonora, and an operations office at the San Francisco Mine (“Mine”). The San Francisco Gold Property (“Property”), located in Sonora, is the Company’s principal and only material mineral property for purposes of NI 43-101. An independent pre-feasibility study recommended development and re-commissioning of the Mine. The study titled *NI 43-101 F1 Technical Report on the Preliminary Feasibility Study for the San Francisco Gold Project, Sonora,*

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Mexico, dated March 31, 2008, and amended on January 16, 2009, (jointly, the “Pre-feasibility Study” or “Study”) was prepared by Micon International Limited of Toronto (“Micon”) and Independent Mining Consultants, Inc. of Tucson, Arizona (“IMC”).

The Study projected the total cost of re-commissioning the Mine to be US\$33.8 million (excluding 15% IVA). The Company has spent approximately \$20 million on capital expenditures at the Mine. This figure includes approximately US\$1 million spent on increasing the capacity of the primary crusher and a payment of approximately US\$1 million to the Ejido to acquire the land on which the Mine is situated. Neither of these expenditures was included in the Study. The Company estimates that it currently requires approximately US\$19 million in additional funds to complete development and provide adequate working capital until such time that operations become self sustaining. The difference between the US\$39 million projected total capital expenditure and the US \$33.8 million projected by the Study is the \$1 million spent on increasing the capacity of the primary crusher, the US\$1 million payment to the Ejido and the balance of \$3.2 million is IVA.

The Company has had several developments on the financing front. In February 2009 the Company appointed CPM Group of New York to act as the its financial advisor to review and advise on non-equity offers received by the Company for the working capital requirements for operations at the Mine. In March 2009, the Company announced a private placement of \$10 million at a price of \$0.40 per unit. This private placement was oversubscribed, and a total of \$15,180,000 was received, \$2,500,000 of which was received before March 31, 2009. The balance was received between April 2009 and mid-June 2009. Pacific Road Capital Management (“Pacific Road”) subscribed for \$2,980,000 to maintain its proportional ownership interest of 19.7%. On June 9, 2009, the Company announced that it had engaged WestLB AG, New York Branch (“WestLB”), as lead arranger and sole underwriter for a USD\$25 million of senior secured project finance facilities (the “Facilities”) to fund the remainder of the development of the Mine. The Facilities are comprised of a 3½ year construction and term loan facility of US\$22 million, and a 3½ year, revolving credit facility of USD\$3 million. Completion of the debt financing is subject to WestLB's internal credit approval, due diligence and documentation. Completion of the financing is expected to be toward the end of July 2009. A delay in completing the balance of the financing will delay projected completion and the re-commissioning of operations.

The current mine plan, assuming that financing is arranged as scheduled above, anticipates that production will commence in fall 2009, with the first gold poured and shipped in late 2009.

The exploration and development of the Company’s properties require substantial capital commitments. Currently the Company’s only source of capital is the sale of additional equity capital and/or the assumption of debt. There is no assurance that such funds will be available to the Company or on terms favourable to the Company or will provide the Company with sufficient funds to meet its objectives, which may adversely affect the Company’s business and financial position. In addition any future equity financing may result in significant dilution to the existing shareholders. Failure to obtain sufficient financing may result in the delay or indefinite postponement of further exploration and development of, and/or production at any of the Company’s properties, or even a loss of property interest. The price of the Company’s common shares, its financial results and its exploration, development and mining activities have previously been, and are affected by the volatility in the price of gold. However, there is no guarantee that the Company will be able to secure adequate financing on acceptable terms to complete development of the San Francisco Mine.

The current capital market volatility worldwide has impacted the Company’s operations. The effects encountered, particularly while the Company has been raising the finance required to bring the Mine back into production, include, but are not limited to significant volatility in gold and other commodity prices, significant volatility in foreign exchange rates, depressed equity and credit markets, and an increase in the cost of capital and a delay in obtaining capital and debt.

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As a result of the completion of the recent \$15.1 million dollar financing and management's optimism that its financing agreement with WestLB will close, and it has therefore prepared these Financial Statements as a going concern. However, should capital market volatility continue to erode investor and creditor confidence and/or should gold prices decline significantly, the Company may not be able to secure financing to complete development of the Mine. Should this situation arise the Company will have to reconsider its ability to continue as a going concern and its basis of accounting.

Management continues to evaluate other opportunities as they are presented, however its principal focus is to finance, develop and initiate production at the San Francisco Mine. At the Mine, construction of the new crushing system has been completed and is being tested. 170,000 tons of rock will be crushed in the test. The reclaim tunnel is in place, the ore feeders are being installed in the tunnel, and the crushers have been installed and being tested. The primary crusher was fully refurbished before installation. The new Sandvik secondary crushers have been designed and calibrated for the rock type and capacity of the mine to maximize throughput and minimize down-time. The crushing circuit will have sufficient capacity to crush 3,500,000 tonnes of ore each year, which will support planned production of 80,000 ounces of gold each year. The current mine life is five years and the 42,000 hectare land package comprising the project has displayed excellent exploration potential, consequently the crushing circuit has been designed for future expansion of capacity with minimal additional cost. The infrastructure, such as electrical works and power, and civil works, is 85% complete. The Company has not yet signed an agreement with a contract miner.

The gold extraction plant has been refurbished and is being wet tested. The earthworks for the new heap leach pads are proceeding towards completion with liners being placed on the first eight hectares. Emergency pond and channel liners are being installed. The assay lab operational and is processing samples from drilling activity in support of planning for expansion of the existing open pit.

Selected Annual Information

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

	2009	2008	2007
Total revenues	\$346,592	\$143,512	\$9,563
Net loss	(\$3,414,781)	(\$5,333,772)	(\$853,564)
Basic and diluted loss per share	(\$0.05)	(\$0.10)	(\$0.05)
Total assets	\$52,844,859	\$33,363,246	\$2,988.845
Total long term liabilities	\$4,508,097	\$9,945,637	Nil
Dividends declared	Nil	Nil	Nil

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as described in Note 2 to the audited annual consolidated financial statements for the year ended March 31, 2009, as modified by the changes disclosed in Note 2 to these financial statements. Except as noted, all dollar amounts contained in this discussion and analysis and in the financial statements are in Canadian dollars.

The total revenue figure is interest received and is therefore a direct reflection of the amount of cash the Company had available in the bank throughout the year. The increase in net loss from 2007 to 2008 shows the increase in expenditure as the Company moved toward being an operating entity, as opposed to being merely a newly-listed entity. The increase in total assets and total liabilities from 2007 to 2008 both reflects the acquisition of the San Francisco Mine and the assumption of the related loan from the Property vendors, the future income tax liability, and the creation of an asset retirement obligation (“ARO”).

The net loss in 2008 was considerably higher than in 2009 because of the higher stock-based compensation charges in 2008 as well as the write-off of the Las Coloradas property. The increase in net assets is a direct reflection of the progress made in the construction and refurbishment of the San Francisco Mine. The decrease in long term liabilities is a result of the loan due to the Property vendor being classified as a short term liability (from long term liabilities), as it is due to be repaid within the next fiscal year.

Results of Operations

San Francisco Gold Project

On April 7, 2008 the Company filed the Study, however, the British Columbia Securities Commission subsequently brought to the Company’s attention that certain disclosure in the Study was not in compliance with the guidelines established by National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (“NI 43-101”). In particular, Tables 17.4 and 17.6 in the Study detailing the sensitivity analysis for “Floating Cones for Resource Definition – Measured, Indicated & Inferred Mineral Resources” were not prepared in compliance with NI 43-101, Part 2.2, since they included inferred mineral resources and additional tonnages derived from sensitivity analysis that should not have been treated as mineral resource estimates. Consequently, the Company has retracted its prior disclosure of mineral resource estimates exceeding those tabulated below, and issued a news release to clarify its disclosure on the San Francisco Property

The reproduction of the tables from the Study in the Company’s news release dated April 8, 2008 and the Annual Information Form dated July 24, 2008 were also not in compliance with NI 43-101. The Company has prepared and filed an amended technical report, dated January 16, 2009, on SEDAR

The correct disclosure of both the mineral resource and mineral reserve at the Property as of February 29, 2008 are published in the amended Study and are as below. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Inferred mineral resources are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves.

Resource Classification	Tonnes (000 t)	Grade (g/t Au)	Gold
Measured Mineral Resource	5,352	0.912	156,930
Indicated Mineral Resource	22,296	0.781	559,860
Total Measured + Indicated	27,648	0.806	716,790
Inferred Mineral Resource	2,506	0.788	63,490

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Mineral Reserves, which are part of the Mineral Resources, are estimated to be:

Case	Reserve class	Gold cut-off (g/t)	Reserve (000 t)	Grade (g/t)	Gold (000 oz)
High Grade Crusher feed	Probable	0.50	12,000	1.05	403.7
Low Grade Crusher feed	Probable	0.23	4,653	0.88	132.0
Sub-total Crusher feed	Probable		16,653	1.01	535.7
Low Grade ROM leach	Probable	0.28	5,981	0.39	75.3
Grand Total	Probable		22,634	0.84	611.0

Other Properties

As mentioned previously, the Company's focus has been on recommissioning the San Francisco Mine. However, it does have the following plans for its other properties, all commencing in late summer or early fall of 2009:

Tequila Property

The Company has reviewing the data from the last drill program and is planning to do sampling and prospecting costing approximately \$100,000.

Cocula Property

The Company is planning an extensive drill program of \$250,000 to \$300,000.

El Capomo Property

Following on the encouraging results from the first phase surface program, the Company proposes conducting a sampling program costing approximately \$50,000.

Tim Property

The Company is planning to conduct a sampling, magnetic aerial survey, geophysics and prospecting program costing approximately \$100,000 on this recently acquired property.

El Picacho Property

The Company is planning to prospecting and sampling worth \$50,000 on this recently optioned property, located 20 kilometres west of the San Francisco Mine. These tests will assist in assessing the low grade, bulk tonnage potential of the property's known mineralization given the geological similarities and proximity to the Mine.

San Martin Property

The Company received title to the San Martin Project in Jalisco subsequent to year end. This property is 40,000 hectares. The Company has not yet formalized any plans for it.

Comparison of Actual and Proposed Use of Proceeds from March 16, 2009 Equity Financing

The table below details as at July 6, 2009, the proposed versus actual use of proceeds of the private placement that closed on March 16, 2009:

	Proposed Use of Proceeds (CDN\$)	Actual Use of Proceeds (CDN\$)
Gross Proceeds of Private Placement	\$2,500,000	\$2,500,000
Cost of Private Placement	200,000	200,000
Net Proceeds of Private Placement	\$2,300,000	\$2,300,000
For completion of construction and general working capital	\$2,300,000	
For mine construction		\$2,200,000
To pay accounts payable		\$100,000
	\$2,300,000	\$2,300,000

Summary of Quarterly Results

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

	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Total revenues	\$96,601	\$152,193	\$49,642	\$48,156	\$32,734	\$51,137	\$41,199	\$18,442
Net (loss) income	(\$643,061)	(\$577,331)	(\$1,016,294)	(\$1,178,095)	(\$3,570,523)	(\$1,084,943)	(\$682,711)	\$4,405
Basic loss per share (1)	\$0.00	(\$0.01)	(\$0.02)	(\$0.02)	(\$0.07)	(\$0.02)	(\$0.02)	\$0.00

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

The Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as described in Note 2 to the audited annual consolidated financial statements for the year ended March 31, 2009, as modified by the changes disclosed in Note 2 to the financial statements. Except as noted, all dollar amounts contained in this discussion and analysis and in these financial statements are in Canadian dollars.

The Company's cash expenditures, excluding those related to construction at the Mine, are fairly consistent from quarter to quarter. In general terms, much of the fluctuations seen from quarter to quarter as seen above, are caused by variations in non-cash items, such as stock-based compensation charges, and the write-off of the Las Coloradas property (in Q4 2008).

Liquidity

The consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. If the Company's debt facility with WestLB does not close, management will need to arrange additional financing through issuances of equity, alliances with financial, exploration and mining entities, or other business and financial transactions to assure continuation of the Company's operations and exploration programs. The Company is dependent upon its ability to complete such financing arrangements in order for it to meet its liabilities as they come due, and to continue its operations. There can be no assurance that the Company will be able to raise funds, in which case the Company may be unable to meet its obligations. The net realizable value of the Company's assets may be materially less than the amounts recorded in these financial statements should the Company be unable to realize its assets and discharge its liabilities in the normal course of business.

The Company had cash of \$700,104 at March 31, 2009 compared to \$2,471,042 at March 31, 2008. The Company had a working capital deficit of \$4,995,957 at March 31, 2009 compared to a working capital surplus of \$3,119,199 at March 31, 2008. A large portion on the reason for the move from a surplus to a deficit working capital position is: (a) the reclassification of the Company's loan from the vendors (\$4,742,780) which has been reclassified from a long term debt to a short term one; and (b) the decrease in the Company's cash position in the equivalent period. However, the Company's working capital and cash position has improved significantly since March 31, 2009, as the private placement announced in March 2009 was oversubscribed, resulting in total subscriptions of \$15,180,000 (before finders' fees of \$763,848). The Company's amounts receivable balance consists almost entirely of IVA receivable. IVA is currently taking approximately 60 days to collect from the Mexican tax authorities.

Timmins has historically relied upon equity financings to satisfy its capital requirements. Based upon the conclusions of the Pre-feasibility Study and updated capital and operating cost projections, the Company required approximately US\$29 million of additional funds to complete construction of the San Francisco Mine, commence operations, and provide sufficient working capital until cash flow can sustain operations. If the Company successfully establishes a regular stream of positive cash flow from its mining operations it should be able to finance ongoing exploration of its properties and possibly some development on its properties. Additional capital from the exercise of outstanding stock options, warrants and/or the completion of other equity or debt financings are also potential sources of capital.

Currently the Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for further exploration and development of its projects. Although the Corporation has been successful in the past in financing its activities through the sale of equity securities there can be no assurance that it will be able to obtain sufficient financing in the future to carry out exploration and development work on its properties. The ability of the Company to arrange additional financing in the future depends, in part, on the prevailing capital market conditions and exploration and development success. As mentioned in the discussion of Overall Performance, the recent equity and capital market volatility worldwide has had a significant impact on the Company's operations during the last year. Management believes that while the San Francisco Mine operations are projected to generate positive cash flow over the life of the mine (currently estimated at five years) at gold prices above \$550 per ounce, should the difficult financing/credit environment continue, and if current gold prices decline, there will be a negative impact on the economics of the San Francisco Mine Project and the long term liquidity of the Company. While Management believes adequate financing on acceptable terms will be secured, there can be no assurance of this occurring. A delay in completion of the project could occur if gold prices decline and if the Company does not secure financing to complete Mine construction.

On March 2, 2009, the Company announced a non-brokered private placement offering of \$10 million. The private placement consists of units at a price of \$0.40 per unit. Each unit consists of one common share and one half share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of \$0.60 for a period of one year from closing of the private placement. The private placement was oversubscribed, and \$15,180,000 was received between March and June 2009. The private placement closed in three tranches. The proceeds from the private placement are being used to complete construction of the Mine and for general working capital. All of the securities issued in connection with the private placement are subject to a four month hold period from the date of closing of each tranche.

Following an extensive selection process, the Company announced that it had engaged WestLB AG, New York Branch ("WestLB"), as lead arranger and sole underwriter for a USD\$25 million of senior secured project finance facilities (the "Facilities") to fund the development of the Property. The Facilities are comprised of a 3½ year construction and term loan facility of US\$22 million, and a 3½ year, revolving credit facility of USD\$3 million. Completion of the debt financing is subject to WestLB's internal credit approval, due diligence and documentation. This process is continuing and its completion is expected to be toward the end of July 2009.

Until the financing closes and the Company has funds from operations, the Company will not spend any funds on any of its other properties as re-commissioning the Mine is the Company's priority.

When the Company acquired its interest in the San Francisco Property, the acquisition agreement required the Company to purchase certain mining and processing equipment for US\$3.5 million + IVA (the "Acquisition Agreement"). Payment of this interest-free loan of US\$3.5 million (plus 15% IVA) is due on March 11, 2010. The Company anticipates being in a position to fund this obligation from cash.

Capital Resources

The Company has entered into the following material contracts for various portions of construction at the Mine:

- An agreement with Sandvik Mining and Construction de Mexico, S.A. de C.V ("Sandvik") for the acquisition and installation of the crushing and screening system. The total estimated cost is US\$8,860,000. As at March 31, 2009, a total of US\$7,187,850 had been advanced to Sandvik, and an amount of US\$869,565 was recorded in accounts payable. This amount represents the payment due for work completed as at March 31, 2009. US\$843,000 is due to be paid in July 2009, with the balance within 30 days of completion; and
- The contract has signed a contract with Proyectos y Desarrollos Prodesa, S.A. de C.V. for US\$1,700,138 for the construction of the heap leach pads. The Company has also signed a contract with Petimex, S.A. de C.V. ("Petimex") for US\$398,000 for the construction of the civil works at the Mine. US\$960,233 of these contracts had been paid by March 31, 2009, and a further US\$463,617 has been paid subsequently. The Petimex contract is now complete and has been fully paid.

The Company has no other commitments other than its leases for premises.

The Company has the following option payments due within the next year on its properties. These are required to keep the option agreements in good standing:

- Tequila – US\$80,000 due by June 20, 2009 (paid subsequently);
- Tequila - US\$150,000 due by December 20, 2009;
- Cocula – US\$75,000 due by June 15, 2009 (paid subsequently);
- Cocula – US\$75,000 due by September 15, 2009; and
- El Picacho – US\$15,000 due on June 11, 2009 (paid subsequently).

Payment of the vendor loan of US\$4,025,000 (including IVA) for the mine equipment and buildings is due to be made by March 11, 2010.

Payments due on the above contracts, the property option payments, as well as payment of the vendor loan will be made from the proceeds of the private placement and the anticipated cash flows from operations.

Transactions with Related Parties

During year ended March 31, 2009, the Company entered into the following transactions with related parties:

- a. The Company incurred \$94,000 (2007 - \$56,500) for accounting services with Pacific Opportunity Capital Ltd., a private company of which a former director of the Company, Hallein Darby, was a vice-president. As of March 31, 2009, \$Nil (March 31, 2008 - \$5,250) was owed to this company. During the year, this director became an employee of the Company, and is no longer a vice president of the private company.
- b. The Company paid \$30,657 (2007 - \$252,948) of consulting fees, including geological consulting, to Arturo Bonillas and Miguel Soto, both of whom are directors and officers of the Company.
- c. The Company incurred \$103,937 (2007 - \$49,869) for rent and administrative expenses on Silvermex Resources Ltd., a company with directors in common. As of March 31, 2009, \$20,924 (March 31, 2008 - \$16,987) was owed by this company.
- d. The Company advanced \$631,129 (2008 - \$861,356) to a nominee company incorporated in Mexico. These funds were used to pay the salaries of the Company's employees.

The transactions with related parties were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the parties.

Results of Operations

The Company recorded a net loss for 2009 of \$3,414,781 (\$0.05 per share), compared with a net loss for 2008 of \$5,333,772 (\$0.10 per share).

The major items for the year ended March 31, 2009, compared to March 31, 2008, were:

- a. Stock-based compensation of \$1,050,336 (2008: \$2,351,294) decreased primarily due to the Company issuing fewer options in 2009.
- b. Investor relation charges of \$678,369 (2008: \$384,038) increased as the Company continued to increase its exposure to the capital markets in Europe and North America as it continued to source equity and debt.
- c. Salaries and wages expense totaled \$674,747 (2008: \$500,727). The increase was partially due to \$80,000 paid to former employees, directors and officers as settlements, the addition of a member of staff in the Vancouver office, and increasing the number of staff members in the Mexican offices to assist with the increased work load as the Company moves toward production.
- d. The deferred exploration expenditures relating to the Las Coloradas property amounted to \$203,331 (2008: \$1,264,182). No other properties were written off in 2009.

Operating Activities

The net loss for 2009 includes \$203,331 of exploration expenditures on the non-producing Las Coloradas mineral property which were incurred in 2009. The decision to write-off this property was made as part of the financial statement preparation process for the fiscal year ended March 31, 2008.

At March 31, 2008, the Company established an initial asset retirement obligation (“ARO”) of \$1,279,000 based on the findings of an internally prepared environmental report. Accretion of \$99,161 was charged to the income statement on this ARO for the year ended March 31, 2009. During the year the Company commissioned external consultants to prepare an independent environmental report. As a result, the Company’s estimate of its ARO decreased to \$222,236. The decrease is predominantly as a result of the exclusion of the waste dumps as it has been established that the Company’s environmental obligation does not extend to these dumps.

The vendor loan for the mine equipment and buildings acquired is interest-free. The amount of the loan is US\$3,500,000 (plus 15% IVA). This obligation has been recorded at a discounted amount and is accreted quarterly, through the income statement, to its face value through to March 11, 2010, the date by which the loan has to be repaid. This resulted in an interest charge of \$213,793 being recorded for the year ended March 31, 2009 (2008: \$183,685).

Fourth Quarter

Variances in net loss by quarter reflect overall corporate activity and factors which are not recurring each quarter, such as charges for stock based compensation, timing of the granting of options and timing of drilling, geophysical and exploration programs and other capital intensive activities. Quarters with little physical activity may occur while the Company awaits assay and/or other exploration results prior to planning and implementing the best course of action, or raises the funds required for exploration. As the Company is not engaged in commercial operations, variances in its quarterly losses are not affected by sales or production-related factors.

The Company’s expenses for the fourth quarter of 2009 were comparable with those of the comparative period in 2008, except as noted. The Company recorded accretion on the ARO of \$99,161 in the fourth quarter of 2009. No accretion was recorded in the comparable period of 2008 as the ARO liability was established and recorded as at March 31, 2008. The Company also wrote off its Las Coloradas property in the fourth quarter of 2008 (\$1,264,182); the Company did not write off any properties in the fourth quarter of 2009.

The Company's management has concentrated its funds and efforts on raising the capital and obtaining the financing to complete construction of the Mine. Consequently, the Company has performed minimal work on its exploration properties during this quarter.

Other than as discussed above, the loss for the fourth quarter of 2009 is representative of the other quarters in the fiscal year.

Proposed Transactions

On June 9, 2009, the Company announced that it had engaged WestLB AG, New York Branch ("WestLB"), as lead arranger and sole underwriter for a USD\$25 million of senior secured project finance facilities (the "Facilities") to fund the development of the Property. The Facilities are comprised of a 3½ year construction and term loan facility of US\$22 million, and a 3½ year, revolving credit facility of USD\$3 million. Completion of the debt financing is subject to WestLB's internal credit approval, due diligence and documentation. This process is continuing and completion is expected to be toward the end of July 2009.

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date, and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained, and are subject to change. The Company's accounting policies and estimates used in the preparation of the financial statements are considered appropriate in the circumstances, but are subject to judgements and uncertainties inherent in the financial reporting process.

Critical accounting estimates used in the preparation of the financial statements include the Company's estimate of recoverable value of its mineral properties and related deferred expenditures, asset retirement obligations, 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 beyond the Company's control.

Exploration and Development Expenditures

The Company capitalizes exploration and development expenditures directly related to its properties until such time that the properties are placed into production, sold, abandoned, or management determines impairment in the realizable value of the property/properties has occurred. The Company's policy to capitalize exploration costs on a project by project basis is consistent with GAAP, and that of other exploration companies that do not have established mineral reserves. If and when a mineral property is commissioned, the associated deferred costs will be amortized on a systematic basis. And if and when an impairment in value of a property is determined, the property value will be written-down to its realizable value at that time, and the write-down charged to operations. The recoverability of the recorded value of the Company's mineral properties and associated deferred expenses is based on market conditions for minerals, the underlying mineral resources associated with the properties, and future costs that may be required for ultimate realization through mining operations or by sale. The impairment reviews are made annually by management, or earlier if warranted. A write-down may also be required when a property is sold or abandoned, if exploration activity ceases on a property due to unsatisfactory results, or if there is insufficient funding to continue exploration on a property.

Asset Retirement Obligations

The Company recognizes contractual, statutory and legal obligations associated with the retirement of mining properties when those obligations result from the acquisition, construction, development or normal operation of the assets. The initial liability for the asset retirement obligation has been recognized at its fair value in the period incurred, so the corresponding asset retirement cost was added to the carrying amount of that asset. This cost will be amortized as an expense over the economic life of the related asset, once production of that asset commences. The carrying amount of the liability could be increased for the passage of time and is adjusted for changes to the amount or timing of the underlying cash flows to settle the obligation.

During the year, the Company commissioned an independent environmental assessment report to ascertain the potential cost to the Company of the future closure of the San Francisco mine, and the related reclamation and retirement obligations for mine facilities and infrastructure, as at the date of the report. In the prior year the Company assessed its asset retirement obligation at of \$1,279,000, as a result accretion of \$99,161 was recorded during the year. As a result of the independent assessment, the Company's estimated asset retirement obligation has been adjusted to \$222,236 using a credit-adjusted risk-free discount rate of 6.6738%, and an estimated inflation rate of 5% in Mexico. The waste dumps have been excluded from the Company's obligation as there is more certainty as to the ownership thereof. (The waste dumps were included in the report prepared in 2008.) All asset retirement obligations are not expected to be paid for several years in the future and are intended to be funded from cash balances at the time of the mine closure.

As at March 31, 2009, the Company has made no additional provision for site restoration costs or environmental liabilities on any of its other exploration stage properties, including the abandoned Las Coloradas property. It was determined that the potential cost of the Company's environmental obligations on these properties was negligible.

Stock-based Compensation

The Company follows accounting guidelines in determining the value of stock option compensation, as disclosed in Note 7 to the financial statements. This is a calculated amount not based on historical cost, but on subjective assumptions introduced to an option pricing model, in particular: (1) an estimate for the average expected hold period of issued stock options before exercise, expiry or cancellation, and (2) expected volatility of the Company's share price in the expected hold period, using historical volatility or comparables as a reference. As there is no market for the options and they are not transferable, the resulting calculated value is not necessarily the value which the holder of the option could receive in an arm's length transaction.

Changes in Accounting Policies including Initial Adoption

The CICA has issued new standards which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning on or after January 1, 2009. The Company will adopt the requirements on the date specified in each respective section and is considering the impact this will have on the consolidated financial statements.

Section 3064 – Goodwill and Intangible Assets

This new standard replaces the former CICA 3062 – Goodwill and other intangible assets and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. CICA 3064 is effective for interim and annual financial statements for years beginning on or after January 1, 2009. The Company believes that adoption of this section will result in no material changes to the results of operations or financial position of the Company.

Section 1582 Business combinations, Section 1601 consolidated financial statements and Section 1602 non-controlling interests

These sections replace the former CICA 1581, Business Combinations and CICA 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. These sections provide the Canadian equivalent to FASB Statements No. 141(R), Business Combinations and No. 160 Non-controlling Interests in Consolidated Financial Statements. CICA 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA 1601 and CICA 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011.

Financial Instruments and Other Instruments

The Company's financial assets and liabilities consist of cash and cash equivalents, receivables and accounts payable. The vendor loan, and accrued liabilities, some of which are denominated in US dollars and Mexican pesos. Amounts denominated in non-Canadian dollars are translated into Canadian dollars at the rates applicable to the period end date. The Company has financial gains or losses as a result of foreign exchange movements against the Canadian dollar. The Company manages its foreign exchange risk by adjusting balances in currencies other than the Canadian dollar from time to time. The Company has certain commitments to acquire assets in foreign currencies and it incurs the majority of its exploration costs in foreign currencies, either the US dollar or Mexican peso. Significant expenditures in recommissioning the Mine are denominated in these foreign currencies. The Company may acquire foreign currencies to fix such costs in Canadian funds, if management considers it advantageous.

The carrying value of financial instruments, which include cash, accounts receivable, prepaid expenses, accounts payable, the vendor loan, and accrued liabilities and advances due to/from 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.

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the mandatory changeover date to International Financial Reporting Standards ("IFRS") for Canadian profit-oriented publicly accountable entities ("PAE's") such as the Company.

The AcSB requires that IFRS compliant financial statements be prepared for annual and interim financial statements commencing on or after January 1, 2011. The Company's first audited annual financial statements will be for the year ending March 31, 2012, with comparative financial information for the year ended March 31,

2011. This also means that all the opening balance sheet adjustments relating to the adoption of IFRS must be reflected in the April 1, 2010 opening balance sheet which will be issued as part of the comparative financial information in the June 30, 2011 unaudited interim financial statements.

The Company will adopt these requirements as set out by the AcSB and other regulatory bodies. At this time, the impact of adopting IFRS cannot be reasonably quantified. The Company continues to evaluate the impact of IFRS on the Company and is in the process of developing a plan for the conversion to IFRS. If the Company decides not to early adopt the standards, the actual conversion work will occur in late 2009 and 2010, in anticipation of the preparation of the April 1, 2010 balance sheet that will be required for comparative purposes for all periods ending in 2011.

The Company has been assessing some of the optional exemptions as part of the transition process to IFRS. The following preliminary elections have been made thus far under IFRS1:

- The Company will not restate business combinations prior to the adoption of IFRS;
- The Company will continue to capitalize exploration costs on a project-by-project basis even prior to mineral reserves being established; and
- The Company will be electing to recognize all of its cumulative translation differences of its foreign subsidiaries into opening retained earnings.

These elections are preliminary and may change prior to the formal adoption of IFRS.

The Company has also identified other areas relating to IFRS that could materially affect the Company:

- Foreign currency: The adoption of IFRS will involve the identification of a functional currency. At present, it appears that the Canadian dollar is the Company's functional currency and the Mexico peso is the subsidiaries' functional currency. Upon consolidation, the presentation currency will be that of the parent's functional currency. The Company will have to examine whether its functional currency will change to the US dollar assuming the Company moves into production.
- Income taxes: Although there are many areas where GAAP is similar to IFRS, there are differences such as the differentiation between deferred tax assets and deferred tax liabilities; and whether deferred tax is to be charged to the income statement, equity or goodwill.

At present the Company has no contracts, debt covenants, capital requirements or compensation requirements that may be affected by changes to financial reporting because of IFRS.

Management is taking professional development courses relating to IFRS conversion, and it is comfortable that its accounting services company will also be adequately prepared for the conversion.

Risk Factors

The Company is engaged in the exploration for mineral deposits. These activities involve significant risks which even with careful evaluation, experience and knowledge may not, in some cases, be eliminated. The Company's success depends on a number of factors, many of which are beyond its control. The primary risk factors affecting the Company include inherent risks in the mining industry, metal price fluctuations and operating in foreign countries and currencies.

Inherent Risks Within the Mining Industry

The commercial viability of any mineral deposit depends on many factors, not all of which are within the control of management. Some of the factors that will affect the financial viability of a given mineral deposit include its size, grade and proximity to infrastructure. Government regulation, taxes, royalties, land tenure and use, environmental protection and reclamation and closure obligations could also have a profound impact on the economic viability of a mineral deposit.

Mining activities also involve risks such as unexpected or unusual geological operating conditions, floods, fires, earthquakes, other natural or environmental occurrences and political and social instability. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks as a result of high premiums or for other reasons. The Company does not currently maintain insurance against political or environmental risks. Should any uninsured liabilities arise, they could result in increased costs, reductions in profitability, and a decline in the value of the Company's securities.

There is no assurance at this time that the Company's current mineral properties will be economically viable for development and production.

Prices for Gold and Other Commodities

Metals prices are subject to volatile price fluctuations and have a direct impact on the commercial viability of the Company's exploration properties. Price volatility results from a variety of factors, including global consumption and demand for metals, international economic and political trends, fluctuations in the US dollar and other currencies, interest rates, and inflation. The Company has not hedged any of its potential future gold sales. The Company closely monitors gold prices to determine the appropriate course of action to be taken by the Company.

Foreign Currency Risks

The Company uses the Canadian dollar as its measurement and reporting currency, and therefore fluctuations in exchange rates between the Canadian dollar and other currencies may affect the results of operations and financial position of the Company. The Company does not currently have any foreign currency or commercial risk hedges in place.

The Company raises the majority of its equity financings in Canadian dollars while foreign operations are predominately conducted in Mexican pesos and US dollars. Fluctuations in the exchange rates between the Canadian dollar, US dollar and Mexican pesos may impact the Company's financial condition.

Risks Associated with Foreign Operations

The Company's investments in foreign countries such as Mexico carry certain risks associated with different political, business, social and economic environments. The Company is currently evaluating gold and/or other commodities in Mexico, but will undertake new investments only when it is satisfied that the risks and uncertainties of operating in different cultural, economic and political environments are manageable and reasonable relative to the expected benefits.

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from ambiguous conveyance and regulatory characteristics of property rights in certain foreign countries.

Future government, political, legal or regulatory changes in the foreign jurisdictions in which the Company currently operates or plans to operate could affect many aspects of the Company's business, including title to properties and assets, environmental protection requirements, labor relations, taxation, currency convertibility, repatriation of profits or capital, the ability to import the necessary materials or services, or the ability to export produced materials.

Disclosure Controls and Procedures

As required by Multilateral Instrument 52-109, management is responsible for the design, establishment and maintenance of disclosure controls and procedures over the public disclosure of financial and non-financial information regarding the Company, and internal control over financial reporting to provide reasonable assurance regarding the integrity of the Company's financial information and reliability of its financial reporting. Management maintains appropriate information systems, procedures and controls to ensure integrity of the financial statements and maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable.

The Company's designed the disclosure controls and procedures to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiary, is made known to them on a timely basis; and designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting. The Company's management believes that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Due to the inherent limitations in all controls systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

Management believes appropriate segregation of duties within the finance department have been maintained. However, where segregation of duty deficiencies exist, the Company relies on certain compensating and detection controls, including dual signatories on all cheque disbursements, review and approvals of all bank reconciliations by persons other than the preparer, and quarterly and annual review of financial statements, and other information by the Audit Committee. And, the Company's day-to-day accounting in the Vancouver office and initial preparation of the financial statements is outsourced to independent accountants.

Management believes the Company's disclosure controls and procedures were effective in providing reasonable assurance that the material information relating to the Company was made known to them on a timely basis and was processed and disclosed within the appropriate reports and time periods. The Company's management, also believes that the Company's internal controls over financial reporting were effective.

Disclosure of Outstanding Share Capital as at July 6, 2009

Common shares	103,593,014
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* This does not include the convertible preference shares.

Convertible preference shares	11,000,000
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Containing information as at July 6, 2009

These shares have no preferential rights on dissolution, bankruptcy or similar events. They also have no voting rights and are not entitled to the payment of dividends.

Designation of Securities under Option	No. of Securities to be Acquired Upon Exercise	Exercise Price per Share	Expiry Date
Common Shares	200,000	\$1.20	April 7, 2010
Common Shares	1,200,000	\$0.35	July 25, 2011
Common Shares	2,100,000	\$0.70	May 11, 2012
Common Shares	500,000	\$0.50	December 31, 2010
Common Shares	175,000	\$0.50	July 18, 2012
Common Shares	487,500	\$0.50	October 5, 2009
Common Shares	1,450,000	\$0.75	November 27, 2012
Common Shares	50,000	\$0.60	October 22, 2010

Details of the warrants outstanding are as follows:

	No. of Warrants	Exercise Price per Warrant	Expiry Date
Warrants	3,125,000	\$0.60	March 16, 2010
Warrants	2,994,750	\$0.60	April 21, 2010
Warrants	12,936,530	\$0.60	June 18, 2010