MANAGEMENT DISCUSSION AND ANALYSIS
for the nine month period ended December 31, 2009

The following Management Discussion and Analysis ("MD&A") for Timmins Gold Corp. ("Timmins" or the "Company") is prepared as of February 25, 2010, and should be read in conjunction with the unaudited Consolidated Financial Statements ("Financial Statements") and related notes for the nine month period ended December 31, 2009 and the comparative period ended December 31, 2008. 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, 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 US$30.5 million on capital expenditures at the Mine. The Company estimates that it will spend an additional approximately US$10.7 million 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 comprises $1 million spent on increasing the capacity of the primary crusher, US$1 million paid to the Ejido for land acquisition, and US$3.2 million in IVA. These expenditures were not included in the total projected cost in the Study.

On January 29, 2010, the Company announced that it had closed its financing with Sprott Asset Management LP, for and on behalf of certain of the Sprott funds, to provide US$15 million financing in Senior Secured Notes (the "Notes"). The Notes will be used to pay down US$3,500,000 in existing debt, and to pay for existing equipment and general working capital for operations at the Mine. The Notes provide the Company with the financial and operational flexibility to advance the Mine without resorting to hedging and other restrictions on operations.

The Notes shall be repaid in 12 equal monthly instalments commencing in August, 2010. Each payment is equal to the value at the time of payment of 1,667 ounces of gold (20,004 ounces total). The Company has also guaranteed a minimum rate of return of 15% per annum. In addition, the Noteholders have been granted an aggregate of 3 million share purchase warrants exercisable for a period of 24 months at a strike price of CDN$0.80 per share. The Notes, the warrants and any shares issued on exercise of the warrants are subject to a hold period expiring May 27, 2010. A cash finder's fee of 2% of the proceeds has been paid to an arm's length party, and a closing fee of US$179,000 has been paid to the CPM Group under the Financial Services Agreement dated February 3, 2009, between CPM Group and the Company.

The ramp-up to full production at the Mine is proceeding as planned. All mining equipment including two Komatsu shovels, one Caterpillar loader, and eleven 100 ton caterpillar trucks are on site for full scale open pit extraction of material, including ore and waste, at an average rate of 40,000 metric tonnes per day. The Company has been prestripping waste from the surface area and crushing ore when available during the ramp-up period. Prestripping is 64% complete and is scheduled for completion before the end of March with full commercial production ramping up until May. At that time production is scheduled to reach 12,000 tonnes of ore per day to the heap leach pads.

The crushing system is fully operational and is being optimized to achieve a rate in excess of 12,000 tonnes per day. The crush size of the ore being stacked on the heap leach pads is 100% less than ½ inch, which is the size required for maximum recoveries. The current recoveries are projected at 70%. Inventory has been calculated using a 45 day leach cycle.

Leach extraction is proceeding with no visible pooling or channelling. Initial indications are that metallurgical recoveries to date will reach the projected recoveries of 70%. An update on leach extraction and metallurgical recoveries will be available once steady state conditions have been reached.

Approximately 477,229 tonnes of ore at an average grade of 0.64 g/t gold which are part of the prestrip have been placed on the heap leach pads as at January 31, 2010. 3,662 ounces of gold and 1,951 ounces of silver have been poured and sold. The proceeds of these sales are being used to fund operations.

By December 31, 2009, the Company had sold 1,978 oz of gold and 495 oz of silver for approximately US$2,000,000. US$1,000,000 of this is recorded as an account receivable as at December 31, 2009.

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 re-commission the Mine included, 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.

Management has prepared these Financial Statements on a going concern basis. However, should capital market volatility continue to erode investor and creditor confidence and/or should gold prices decline significantly, the Company's operations at the Mine may not become or remain self-sustaining. 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, and ramp up production at the San Francisco Mine to full capacity, and achieve positive cash flow from operations. All plant and equipment necessary for operations are in place and tested. Working capital for ongoing operations at the Mine was being provided from cash received from warrants and options exercised, and is now being provided by the Sprott loan.

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 - interest	$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 was interest received and was therefore a direct reflection of the amount of cash the Company had available in the bank throughout the period. The increase in net loss from 2007 to 2008 showed the increase in expenditure as the Company moved toward being an operating entity, as opposed to being solely an

exploration and development stage entity. The increase in total assets and total liabilities from 2007 to 2008 both reflected 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 total assets was a direct reflection of the progress made in the construction and refurbishment of the San Francisco Mine. The decrease in long term liabilities was 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 calendar year.

Results of Operations

The Company's activities during the current quarter focused on concluding the Sprott Notes, as well as readying the Mine for the ramp up to full production. The Company maintained its interest in all its properties by making the option payments that fell due during the quarter. Limited exploration work was undertaken on all of the properties other than at San Francisco. Approximately $2.8 million was spent on further development expenditures at the Mine, while funds were also spent on machinery and equipment.

San Francisco Gold Project

The mineral resource and mineral reserve at the Property were published in the following report: NI 43-101 F1 technical report on the preliminary feasibility study for the San Francisco Gold Project ,Sonora, Mexico , prepared by William J. Lewis, B.Sc., P.Geo., Michael G. Hester, FAusIMM, R. James Leader, P.Eng., Christopher A. Jacobs, CEng MIMMM, Ian R. Ward, P.Eng., dated March 31, 2008, and amended January 13, 2009, and are disclosed 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

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**

The Company is continuing with its drill program designed to extend the San Francisco pit. Three reverse circulation drills have been operational since December 2009, and a further 6,746 meters of drill results for the period from December 2009 through January 31, 2010 have been sent for assay. Assay results are expected shortly. The results from the current 6,746 meters will be combined with the 6,515 meters of drilling reported in

December 2009 and used to produce a revised resource estimate which is expected by early April. The updated resource estimate will also be used to produce a new mine plan. Drill results to date indicate that the zone of mineralization extends to the West, Northwest and Southeast of the currently defined resource and remains open along strike in each direction and at depth.

While final budgets for drilling and exploration have not yet been finalized for 2010, it is anticipated that the next phase of drilling will be comprised of a minimum of 50,000 meters of reverse circulation drilling designed to further extend the San Francisco open pit mine along strike to the West, Northwest and Southeast.

Regional exploration on the Company's 70,000 hectare land package in and around the San Francisco mine is also being budgeted.

Other Properties

As mentioned previously, the Company`s focus has been on recommissioning the San Francisco Mine. The delay in obtaining financing has delayed plans for the other properties until the middle of 2010:

Summary of Quarterly Results

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

	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008
Total revenues - interest	$2,496	$NIL	$802	$96,601	$152,193	$49,642	$48,156	$32,734
Net (loss) income	($1,793,238)	($561,999)	($804,330)	($643,061)	($577,331)	($1,016,294)	($1,178,095)	($3,570,523)
Basic loss per share (1)	($0.02)	($0.01)	($0.01)	$0.00	($0.01)	($0.02)	($0.02)	($0.07)

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

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The Company`s cash expenditures, excluding those related to construction at the Mine, are usually 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 the fourth quarter of 2008). The third quarter of 2010, however, includes higher than normal financing expenses (for termination costs and legal fees relating to the cancellation of the WestLB loan) as well higher than normal payments for salaries and wages. This is, in part, due to the continued increase in the number of employees at the Mine as operations head toward being in full production, as well as the payment of bonuses in December to employees in both Canada and Mexico.

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. Now that the Company's debt facility with Sprott has closed, it is management's priority to achieve positive cash flow from its operations at the Mine. This is essential for the Company to meet its liabilities as they come due, including repayment of the Sprott loan. There can be no assurance that the Company will be able to raise attain positive cash flow from its operations, 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 $2,135,910 at December 31, 2009 compared to $700,104 at March 31, 2009. The Company had a working capital deficiency of $3,800,141 at December 31, 2009 compared to a working capital deficiency of $4,995,957 at March 31, 2009. The Company moved into a working capital deficiency position as at March 31, 2009, because the Company`s loan from the vendors of the Mine (March 31, 2009: $4,742,780) was reclassified from a long term debt to a short term debt. Although the Company raised $5,208,400 from the exercise of warrants and options in the current period, and received US$1,000,000 from the sale of gold dore, the majority of these funds were used by the Company's subsidiary to meet its obligations in connection with recommissioning the Mine as they fell due.

The Company's amounts receivable has increased to $3,009,536 (March 31, 2009: $1,264,419). The increase is primarily attributable to the increase in IVA over the prior year (which is directly related to the ongoing construction at the Mine), as well as an amount receivable of approximately $900,000 from the sale of gold dore.

The Company's accounts payable and accrued liabilities have increased to $4,963,101 (March 31, 2009: $2,321,863). A large portion of the increase can be attributable to accruals for mobilization costs, cancellation fees and remaining costs related to the cancellation of the WestLB loan, further construction costs as well as US$2,000,000 owing to Peal for mine operating costs.

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$33.8 million (excluding IVA) 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 expects 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 had limited income from operations and its operations are not generating positive cash flow. 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, if current gold prices were to decline significantly, there will be a negative impact on the economics of the San Francisco Mine Project and the long term liquidity of the Company.

The Company received $5,200,000 from the exercise of warrants and options during the quarter. These funds have been utilized in operations, for ongoing working capital, and to fund construction costs. The Company has

since received the US$15 million financing from the Sprott Notes to complete development of the Mine, as well as provide the working capital required until such time that operations become self sustaining.

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. Payment of this interest-free loan of US$3.5 million (plus 15% IVA) is due on March 11, 2010.

Capital Resources

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$600,000 due by June 20, 2010;
- Tequila - US$1,000,000 due by December 20, 2010;
- Cocula – US$150,000 due by July 18, 2010;
- El Picacho – US$15,000 due on June 11, 2010.; and
- El Picacho – US$15,000 due by December 11, 2010.

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.

The Company has entered into a mining contract with Peal. The contract is for 42 months, and is at a contracted price of US$1.59 per ton (plus IVA). This price may increase subject to the price of diesel, drilling and blasting costs, as well as hauling distance.

The contract with Peal stipulates that the Company is responsible for mobilization costs of US$600,000 (plus IVA), payable at a rate of US$100,000 (plus IVA) each month, commencing on September 30, 2009. US$300,000 has been paid as at December 31, 2009, and a further US$100,000 (plus IVA) has been recorded in accounts payable.

The Company is also responsible for demobilization costs of US$900,000 (plus IVA) payable one month prior to the end of the mining contract. These obligations have been recorded at an annualized discount rate of 6.775%, reflecting the implied interest rate, and calculated according to the formula stipulated in the contract. This obligation is recorded at $1,051,786.

The Company has no material commitments other than those disclosed above.

Transactions with Related Parties

During the period ended December 31, 2009, the Company entered into the following transactions with related parties:

a. The Company incurred $106,670 of consulting fees, including geological consulting, to Arturo Bonillas and Miguel Soto, both of whom are directors and officers of the Company. As at December 31, 2009, $1,159 was owed to these directors and officers.

b. The Company incurred $60,345 for rent and administrative expenses on behalf of a company with directors in common. As of December 31, 2009, this company owed the Company $81,249.

b. The Company advanced $1,786,695 to a nominee company incorporated in Mexico. These funds were used to pay the salaries of the Company`s Mexican employees. As of December 31, 2009, $15,072 was advanced to this company.

c. The Company paid $55,200 as consulting fees to Eugene Hodgson, the Company's Chief Financial Officer, and $12,000 as director's fees to Larry Dick, the Company's independent director.

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

Nine month comparison

The Company recorded a net loss for the nine month period ended December 31, 2009 of $3,159,567 ($0.03 per share), compared with a net loss for the same period in 2008 of $2,771,720 ($0.04 per share).

The major items for the nine months ended December 31, 2009, compared to December 31, 2008, were:

a. Stock-based compensation of $454,364 (2008: $1,028,770) decreased primarily due to the Company issuing fewer options in 2009.

b. Consulting charges of $339,595 (2008: $198,399) for the current nine month period includes the following expenses which were not incurred in the comparative quarter: fees paid to the Company's mining consultant, consulting fees paid to the Company's Chief Financial Officer, and consulting fees paid to a financial advisor who assisted the Company's with decisions for the Mine financing. Similar expenses were not incurred in the comparative period.

c. Financing expenses of $1,323,251 (2008: $Nil) were incurred during the nine month period. These expenses all relate to the WestLB agreement and financing, which was ultimately not finalized, as the Company decided to obtain the necessary funds from Sprott instead. This matter has been settled and no further payments related to the termination will be made.

d. Salaries and wages expense totaled $783,739 (2008: $451,635) as the Company paid bonuses to certain of its employees, as well as ceased capitalizing the salaries of those employees no longer involved with re-commissioning the Mine.

e. No deferred exploration expenditures were written off in 2009. Deferred exploration expenditures relating to the written-off Las Coloradas property amounted to $203,331 in the comparative period in 2008.

f. Foreign exchange gain of $1,157,942 (2008: $107,146 foreign exchange gain) primarily as a result of the improvement in the Canadian dollar against the US dollar and the Mexican peso during the nine month period from March 31, 2009. This particularly affected the amount of the vendor loan and of the future income tax liability, which are the Company's largest liabilities denominated in foreign currencies, with a smaller financial impact on the asset retirement obligation.

g. Legal expenses of $139,230 (2008: $72,951) increased as the Company contracted the services of a corporate governance consultant. This consultant was not contracted by the Company in the comparative period.

Three month comparison

The Company recorded a net loss for the three month period ended December 31, 2009 of $1,793,238 (or $0.02 per share), compared with a net loss for the same period in 2008 of $577,331 (or $0.01 per share).

The major items for the three months ended December 31, 2009, compared to December 31, 2008, were:

a. Stock-based compensation of $350,327 (2008: $149,765) increased primarily because options were granted during the period. (Options had not been granted since December 2008.)

b. Financing expenses of $553,060 (2008: $Nil) relate to the WestLB agreement, including consulting, advisory, termination, and legal fees. This agreement was terminated, and the Company obtained the financing through the Sprott Notes. This matter has been settled and no further payments related to the termination will be made.

c. Foreign exchange gain of $142,067 (2008: $281,718 foreign exchange gain) arose primarily as a result of the improvement in the Canadian dollar against the US dollar and the Mexican peso. This particularly affected the amount of the vendor loan and of the future income tax liability, which are the Company's largest liabilities denominated in foreign currencies, with a lesser financial impact on the asset retirement obligation.

d. Salaries and wages increased to $408,525 (2008: $235,158) as the Company paid bonuses to certain of its employees, as well as ceased capitalizing the salaries of those employees no longer involved with re-commissioning the Mine.

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. The depletion of the mining property is provided on the unit-of-production basis using estimated reserves and resources expected to be converted to reserves as the depletion basis. Mining plant and equipment and related capital assets are depreciated, following the commencement of commercial production, over their expected economic lives using the unit-of-production method.

Reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves the study of geological, geophysical and economic data and the reliance on a number of assumptions. The estimates of the reserves may change, based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production. A change in the original estimate of reserves would result in a change in the rate of depletion and depreciation of the related mining assets or could result in impairment resulting in a write-down of the assets.

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 review is 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.

Commercial Production

The Company has determined that once it has reached the point of sustained production of gold dore consistent with mining and delivering ore to the heap leach pads of a minimum number of specified metric tonnes of ore per day for a period of 30 consecutive days, then the Company is no longer in the development stage and has commenced production. If production commences mid-month, it will be assumed that commercial production will have begun on the first day of the following month. It is at this point that of depletion of the mining property will commence.

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. 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.

Income Taxes

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantially enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is currently reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount. The determination of the ability of the Company to utilize tax loss carry-forwards to offset future income tax payable requires management to exercise judgment and make assumptions about the future performance of the Company. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

Effective January 1, 2008, the Mexican government introduced an alternative minimum tax known as the IETU, as a method to limit certain companies from avoiding paying taxes on their cash earnings in Mexico. Management will review its IETU obligations and its consolidated tax position at March 31, 2010, as the Company has not previously earned revenues.

Stock-based Compensation

The Company follows accounting guidelines in determining the value of stock option compensation, as disclosed in Note 6 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

Goodwill and Intangible Assets

CICA section 3064 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 adopted this section effective April 1, 2009. There was no material change to the results of operations or financial position of the Company.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009 the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" which requires the Company to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The accounting treatments provided in EIC-173 have been applied in the preparation of these financial statements and as required have been applied retrospectively without restatement of prior periods. The adoption of this standard did not have a material impact on the valuation of financial assets or liabilities.

Mining Exploration Costs

In March 2009 the CICA issued EIC-174, "Mining Exploration Costs" which provides guidance to mining enterprises related to the measurement of exploration costs and the conditions that a mining enterprise should consider when determining the need to perform an impairment review of such costs. The accounting treatments provided in EIC-174 have been applied in the preparation of these financial statements and did not have an impact on the valuation of exploration assets.

New Accounting Pronouncements

The CICA has issued new standards which may affect the financial disclosures and results of operations of the Company. 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.

Business combinations, consolidated financial statements and non-controlling interests

CICA sections 1582, 1601 and 1602 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 - Disclosures

In June 2009 the CICA amended Section 3862, Financial Instruments-Disclosures, to include enhanced disclosures on the liquidity risk of financial instruments and new disclosures on fair value measurements of financial instruments. The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009, with early adoption permitted. The Company will apply these amendments to its 2010 annual consolidated financial statements. The impact of the amendments to the fair value measurement and liquidity risk disclosure requirements of the Company are not expected to be significant.

Comprehensive revaluation of assets and liabilities

In August 2009, the CICA amended Section 1625, Comprehensive revaluation of assets and liabilities. This section has been amended as a result of issuing Business combinations, Section 1582, Consolidated financial statements, Section 1601, and Non-controlling interests, Section 1602, in January 2009. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. If the Company adopts this section for a fiscal year beginning before January 1, 2011, it also adopts Section 1582. The adoption of this standard is not expected to have a material impact on the Company's results of operations or its financial position.

Financial instruments-recognition and measurement

In August 2009, the CICA amended Section 3855, Financial Instruments-Recognition and Measurement. This Section has been amended to add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. These amendments apply to

reclassifications made on or after July 1, 2009. Earlier adoption is permitted. Also, this Section has been amended to:

- change the categories into which a debt instrument is required or permitted to be classified;
- change the impairment model for held-to-maturity financial assets to the incurred credit loss model of Impaired loans, Section 3025; and
- require reversal of previously recognized impairment losses on available-for sale financial assets in specified circumstances.

These amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008. This standard is not expected to have a material impact on the Company's financial condition or operation results.

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 conversion to IFRS is expected to impact the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also impact business activities, such as

foreign currency activities, certain contractual arrangements, capital requirements and compensation arrangements. The Company continues to evaluate the impact of IFRS, with the assistance of its auditors, 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 the first part of 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 so far under IFRS, and may change prior to the formal adoption of IFRS:

- 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 any cumulative translation differences of its foreign subsidiaries into opening retained earnings.

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 does not believe that it has any 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, labour 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 management 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.

Notwithstanding the above, the Company has contracted its auditors to assist it with determining the sufficiency of its internal and disclosure controls as the Company evolves from an exploration company into a production company. Management will make its determination of the controls required based on the information provided by its auditors.

Disclosure of Outstanding Share Capital as at February 23, 2010

Common shares	114,087,264

* This does not include the convertible preference shares.

Convertible preference shares	11,000,000

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.

Details of the options outstanding are as follows:

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	1,850,000	$0.70	May 11, 2012
Common Shares	350,000	$0.55	December 31, 2010
Common Shares	125,000	$0.50	July 18, 2012
Common Shares	1,450,000	$0.75	November 27, 2012
Common Shares	2,500,000	$1.00	November 13, 2014
Common Shares	300,000	$1.00	November 27, 2014

Details of the warrants outstanding are as follows:

	No. of Warrants	Exercise Price per Warrant	Expiry Date
Warrants	2,361,250	$0.60	April 21, 2010
Warrants	6,950,780	$0.60	June 17 , 2010
Warrants	3,000,000	$0.80	January 26, 2012