

Recommendation: Buy
Target Price: C\$1.25

Timmins Gold Corp. (TMM-TSX)

Resuming Coverage On The New Timmins

Current Price	C\$0.73	Shares Outstanding (MM)	
52 Wk High	C\$2.12	Basic	285.0
52 Wk Low	C\$0.70	Diluted	302.4
Cash (MM)	\$25.0	Mgmt. & Dir.	6.1
Debt (MM)	\$11.9	Market Cap.	C\$208.0
NAVPS	C\$1.60	EV	\$154.3
P/NAV	0.46x	Reserves	1.6 MMoz
Target Return	71.2%	Total Resource	6.6 MMoz

Fiscal YE Dec. 31		2014A	2015E	2016E
Production (000 oz)	Q1	35.4	24.2 A	27.3
	Q2	32.9	29.7	27.3
	Q3	26.7	30.7	27.3
	Q4	25.0	30.7	27.3
	FY	120.0	115.3	109.3
Cash Cost (\$/oz)	FY	\$791	\$863	\$976
AISC (\$/oz)	FY	\$936	\$944	\$1,085
CFPS, adj.	Q1	\$0.12	\$0.02 A	\$0.01
	Q2	\$0.08	\$0.03	\$0.01
	Q3	\$0.05	\$0.04	\$0.01
	Q4	\$0.01	\$0.04	\$0.01
	FY	\$0.26	\$0.14	\$0.05
P/CF		2.2x	4.3x	10.7x

Company Description:

Timmins Gold is a Vancouver-based junior gold producer with production generated at the San Francisco open-pit, heap leach mine in Sonora, Mexico. The recently acquired Caballo Blanco and Ana Paula gold projects in Mexico are major sources of growth currently being advanced to construction decisions.

Unless otherwise denoted, all figures shown in US\$

Investment Thesis:

Timmins transformed its profile with two attractive acquisitions for growth assets in Mexico that build upon existing cash flow. The company can now leverage its existing operating team, base of cash flow, access to capital, and experience in Mexico to advance the growth pipeline and drive a major rerating in the shares.

Highlights:

- **Timmins Has Been Transformed**

We are coming off research restriction following closing of the ♦Newstrike acquisition (Cormark provided a fairness opinion to Newstrike). An overview of the deal is provided in this note along with a fresh look at the company profile. Timmins is now an undervalued junior producer with one of the best growth profiles that was acquired at very attractive prices. The growth has sequencing flexibility and aligns with Timmins' financial capacity and core competencies in Mexico.

- **Stock Oversold, Transitory Factors At Play**

Timmins' shares have underperformed YTD, which is at least partially due to transitory factors related to the acquisitions (detailed in this note). Timmins is now trading at 0.46x NAV, well below producer peers averaging 0.81x and developers averaging 0.58x. Also, meaningful value previously attributed by the market to Timmins, Newstrike and Caballo Blanco prior to consolidation has disappeared, despite no asset-specific changes, the same gold price, and our view that the development assets are worth more in the hands of Timmins.

- **Resuming Coverage With Buy Rating, C\$1.25 Target**

Our NAVPS is now C\$1.60 (was C\$1.80) and we are using a blended target P/NAV multiple given the split between production and development. The blended multiple equates to 0.78x NAV (previously used 1.0x NAV and 11.0x 2016 CFPS) and our target price is now C\$1.25 (was C\$1.80). With a catalyst-heavy 2015, we believe Timmins can close the gap to our target and there is plenty of upside beyond our target as the growth is derisked.



Source: BigCharts.com, May 26, 2015 (Chart C\$)

♦During the past twenty-four months, Cormark Securities Inc. provided financial advice regarding the stock market insight and financial analysis regarding potential transactions for Newstrike Capital Inc.

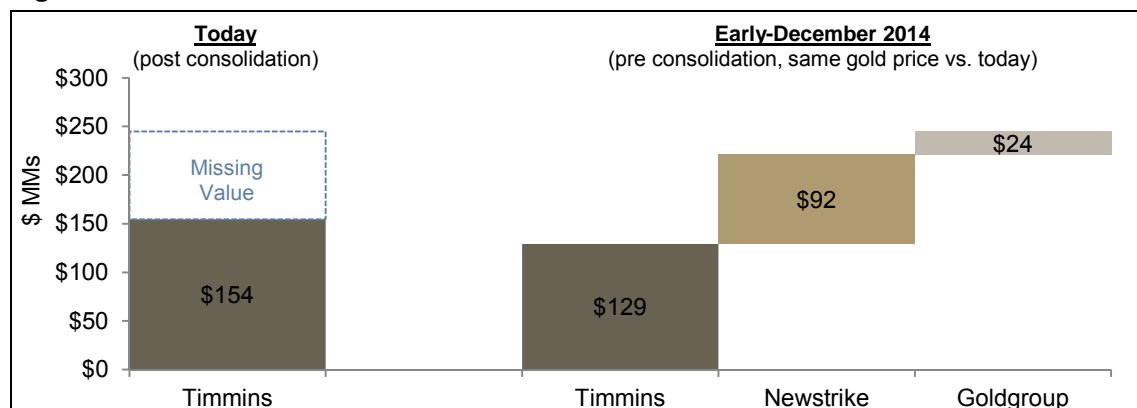
Our disclosure statements are located on the second last page of this report

Resuming Coverage On The New Timmins With Buy Rating: We are coming off research restriction following closing of the Newstrike Capital acquisition. In recent months, Timmins' profile has been transformed by the \$25 MM acquisition of Caballo Blanco in December 2014, demonstration of high grade potential at San Francisco in February 2015, and the \$108 MM acquisition of Newstrike for Ana Paula. In addition to providing an overview of Ana Paula, we are refreshing our outlook for the stock.

Profile Shifted Toward Development, But Risk-Reward Looks Great: We estimate that Timmins' NAV is now 67% exposed to development assets versus 100% exposure to production prior to the acquisitions of Caballo Blanco and Newstrike. Increased risk comes alongside pursuit of growth and a heavier developer weighting merits a lower NAV multiple, but the risk-reward proposition for Timmins is now heavily weighted in favor of a Buy rating given our view that the share price pullback and multiple rerating have overshot to the downside. Here is the evidence:

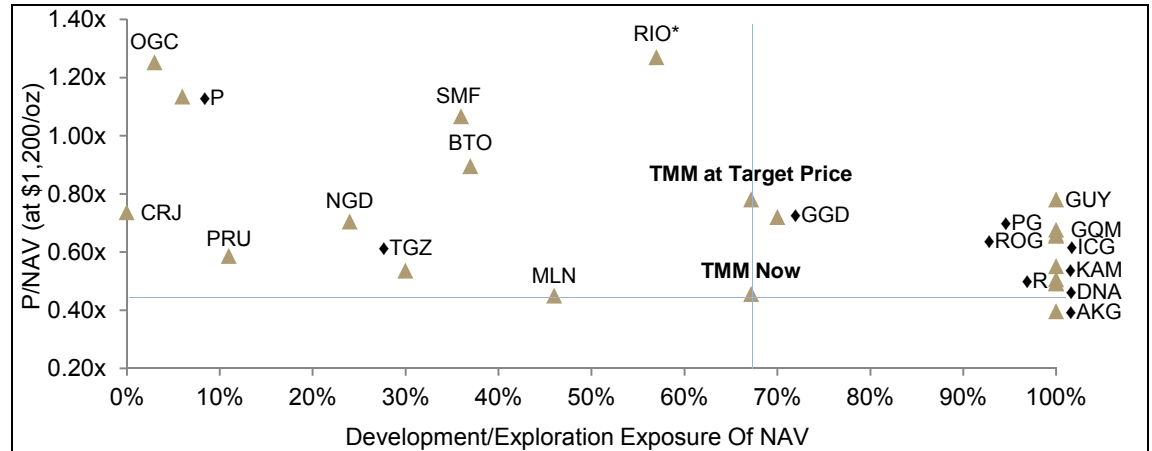
- **Value For Ana Paula & Caballo Blanco Missing** – The Timmins value proposition is evident when comparing Timmins' current EV to the standalone EVs of Timmins, Newstrike, and Goldgroup (previous owner of Caballo Blanco; nearly of all the company's value, (GGA-V, not covered)) prior to the consolidation deals, specifically in early December 2014 when gold was at the same level versus today. Since then, value attributed by the market to the San Francisco, Caballo Blanco, and Ana Paula assets has decreased \$91 MM (see Figure 1) despite no major asset-specific changes. Not only has an irrational amount of value been wiped out, we believe the acquired assets should be valued higher in the hands of Timmins given the much higher odds of advancement through to production.
- **Heavily Depressed Valuation** – Timmins' share price is down 36% YTD versus the GDX up 5% and GDJ up 6%, leaving Timmins trading at 0.46x NAV, well below junior/mid-tier producers averaging 0.81x and even below developers averaging 0.58x. Timmins' NAV is now weighted toward development, but we believe the multiple is unjustifiably low given Timmins can leverage its existing operating team, base of cash flow, access to capital, and sizable footprint/experience in Mexico to advance the development portfolio (see Figure 2 for peer P/NAV multiples in the context of development exposure weightings).
- **Acquisition Prices Leave Room For Value Creation** – Timmins capitalized on capital access constraints of developers, as well as asset-specific challenges faced by previous owners, to acquire its growth pipeline at very attractive valuations (see Figure 3). This means that Timmins can create value for shareholders through advancement of the base cases at each asset, without reliance on things like exploration success or higher gold prices to create new share price value.

Figure 1: Timmins EV Now vs. Pre-Consolidation Standalone EVs



Source: Cormark Securities, Company filings

Figure 2: Peer Valuations (P/NAV vs. Development Asset NAV Weighting)

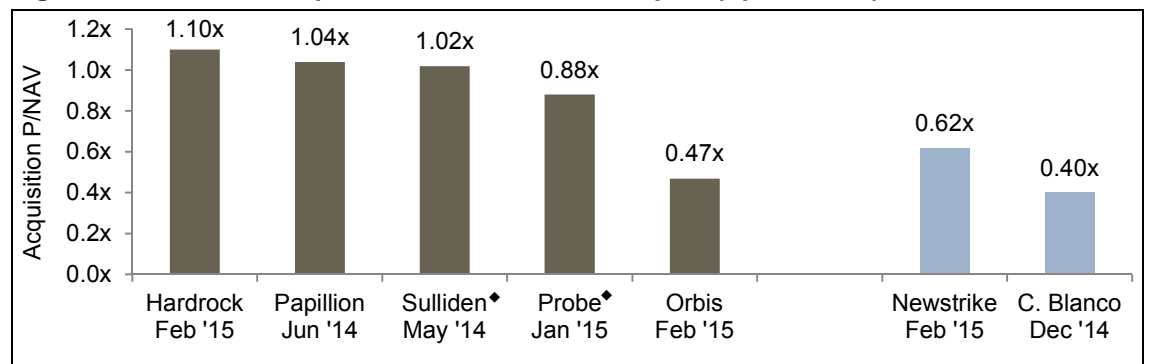


♦ During the past twenty-four months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities and /or provided financial advice regarding the stock market insight and financial analysis regarding potential transactions and/or received a fee for the non-brokered placement of securities for these companies

* RIO shown based on THO takeout valuation at the time of deal announcement; all NAVs are Cormark estimates.

Source: Cormark Securities

Figure 3: Recent Development Asset Takeout Multiples (Spot P/NAV)



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Note: P/NAVs using the approximate spot gold price on date of deal announcement; NAVs are Cormark estimates

Source: Cormark Securities

Some Transitory Factors Likely Depressing Timmins Stock: The recent period of share price underperformance for Timmins does coincide with some weak quarterly results, but we believe transitory factors are largely responsible for the extent of the share price selloff. Specifically, we note the following:

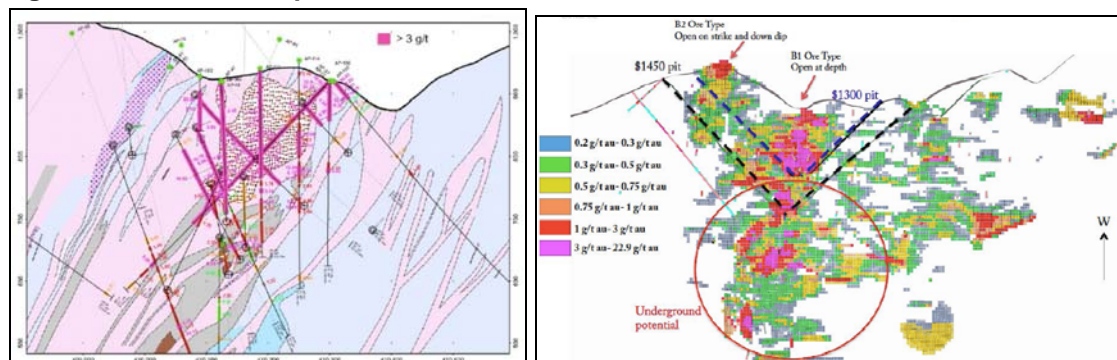
- **Recycling of shareholder base:** Transformation of Timmins from a single-asset producer and straightforward cash flow story to a junior producer with a heavy development weighting has likely triggered meaningful recycling of the shareholder registry. Also, with Timmins now being the consolidator versus the consolidated, select investors likely exited the Timmins takeout trade that was widely rumoured ahead of the Newstrike deal announcement.
- **Sizable all-share deal adds to short interest:** The Newstrike acquisition was a sizable all-share deal that has likely contributed to the multi-year high in the short interest on Timmins. While awaiting closing of the transaction, Newstrike traded at an average discount of 4% (peak of 9%) to the implied deal valuation, leaving Timmins on the short side of the trade.
- **Sizable block of Timmins eventually for sale:** The 16 MM shares of Timmins issued to Goldgroup Mining as part of the Caballo Blanco transaction came off trading restriction in late April 2015.

Overview Of The Newstrike Acquisition: Through the acquisition of Newstrike, Timmins picked up full ownership of the PEA-stage Ana Paula project plus a portfolio of early stage exploration properties, all in Mexico. The attractive takeout price (see Figure 3) reflects the stalled status of Ana Paula within Newstrike given the lack of access to capital for project advancement and willingness of the Board and shareholders of Newstrike (including major shareholder, the Lundin family) to see Ana Paula move forward within Timmins, backed by existing cash flow from the San Francisco mine and Timmins' development/production expertise in Mexico.

Key Acquired Asset Is Ana Paula: Ana Paula is located in the Guerrero Gold Belt in Mexico, beside Torex Gold (TXG-T, not covered) with the construction-stage Morelos project and Goldcorp (G-T, Buy rating, C\$35.00 target, covered by Richard Gray) with the producing Los Filos mine. A PEA for Ana Paula was released in September 2014 outlining a 6,000 tpd open-pit mining (contractor) and gravity/flotation/CIL processing operation using grid power available at site. The mine plan (17.8 MMt at 2.24 g/t for 1.29 MMoz) focuses on exploiting the central High Grade Breccia Zone, rather than the entire resource pit inventory (42.9 MMt at 1.40 g/t for 1.93 MMoz) that carries lower grades and encompasses an increasing portion of zones with metallurgical complexities. The entire resource is well drilled with only 4% of the total ounces in the inferred category and with the High Grade Breccia Zone drilled to spacing of 25-50 m.

Ana Paula Geology, High Grade Core Is Key: Known deposits in the Guerrero Gold Belt are generally related to intrusives (granodiorites) that drove mineralized fluids into amenable host rocks (limestone sediments) and along structural pathways (i.e. skarn mineralization). However, in contrast to an asset like Los Filos (P&P 6.8 MMoz at 0.85 g/t) at the southern end of the Guerrero Gold Belt where oxidation is widespread (amenable to heap leaching) with large mineralized volumes formed by percolation of fluids over extensive distances, Ana Paula has seen overprinting phases (at least two mineralizing events) of sulphide-only mineralization that often displays much richer grade in a structurally complex setting with an accompanying lower grade halo. A key host to mineralization and focus of the PEA mine plan at Ana Paula is the High Grade Breccia Zone (undiluted average composite grade of 5.4 g/t; the "B1" ore type in Figure 4), which consists of a structurally controlled, irregularly shaped and cohesive breccia core developed in local stratigraphy (undiluted average composite grade of 9.8 g/t) and an associated alteration halo (undiluted average composite grade of 3.7 g/t). The breccia core is a steeply plunging column with an average width of 55 m and a tapering geometry at depth (i.e. inverted cone shape). The associated alteration halo extends laterally 100-200 m with a diminishing grade profile as distance from the breccia core increases.

Figure 4: Ana Paula Representative Sections

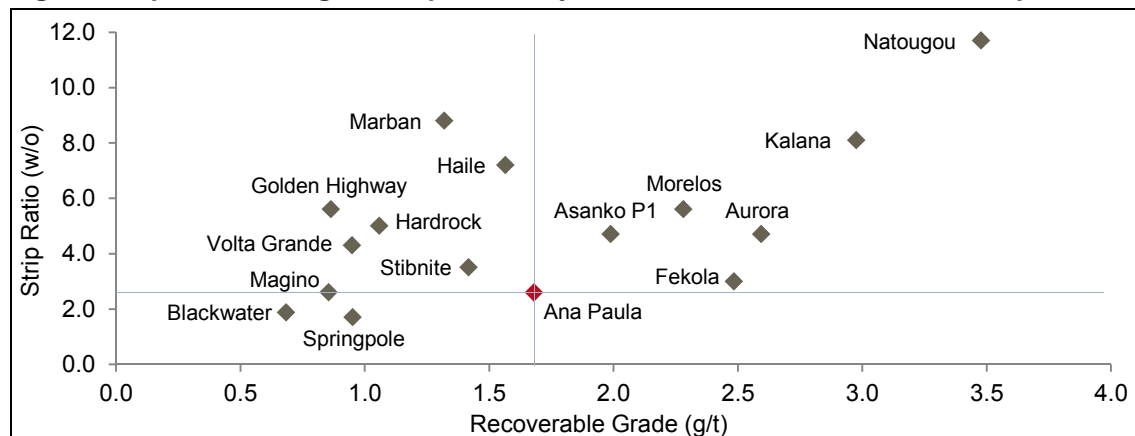


Source: Company filings

Grade More Than Offsets Challenging Metallurgy At Ana Paula: Complex geology, lack of total oxidation, multiple mineralizing events, and the presence of some refractory arsenopyrite mineralization at Ana Paula make for challenging metallurgy and flowsheet design. Using the gravity/floatation/CIL flowsheet proposed in the PEA, the target recovery is 75%. However, with the above-average, open-pit grade of 2.24 g/t and non-onerous strip ratio of 2.6 (a standout combination among peer development projects), economics are still impressive. This is shown in Figure 5, where we present “recoverable grade” (grade x recovery rate) versus strip ratio. That said, metallurgy has been, and likely remains, a key market uncertainty regarding Ana Paula (notably given the lack of clarity provided by previous project owners). Here is what we know:

- **Samples feeding met work:** PEA flowsheet assumptions are largely based on work done by SGS in 2012 and ALS in 2014. The sample used was described as representing only the first four years of mining; however, this should not be confused with being a non-representative sample given that it does capture all representative material in the smaller PEA pit (first four years was referring to the total resource pit as opposed the PEA pit focused only on the High Grade Breccia Zone).
- **Refractory mineralization:** Two rock types did exhibit refractory behavior with gold locked in arsenopyrite; however, these rock types are not meaningful components of the PEA mine plan. Specifically, the troublesome samples related to semi-massive sulphide contact replacement style mineralization (small component of the High Grade Breccia zone and 1% of PEA mine plan tonnage) as well as monolithic breccia material in the Low Grade Breccia Zone (a domain largely excluded from the PEA mine plan).
- **Non-refractory mineralization:** The remaining rock types at Ana Paula are non-refractory but do exhibit varying recovery responses to the proposed PEA flowsheet, ranging 63-83% across the breccia, hornfel, intrusion, and limestone rock types comprising the High Grade Breccia Zone. The breccia and intrusion material comprises the large majority of rock types in the High Grade Breccia Zone (~70%) and are associated with a recovery rate of 78-83%.
- **Summary results:** Results from composite sample tests suggest the PEA flowsheet should generate 41% recovery to a gravity concentrate with 91.5% recovery of the remaining gold to a floatation concentrate at a mass pull of 15-20%, with 79% recovery from the combined gravity/floatation concentrate through CIL leaching (i.e. an overall recovery rate of 75%).

Figure 5: Open-Pit Milling Development Projects – “Recoverable Grade” vs. Strip



Note: “Recoverable Grade” is grade multiplied by recovery rate.
Source: Company filings

Ana Paula Located In Troubled State Of Guerrero: Ana Paula is located in the state of Guerrero, one of the poorest and most dangerous states in Mexico that is afflicted by cartel/gang activity. Crime-related headlines are well documented in the media and have recently intensified, notably given the federal and local elections coming up on June 7, 2015. This type of environment is obviously a headwind for operating in the state; however, it is still feasible to build and operate a mine, as evidenced by the ongoing construction of Torex Gold’s Morelos mine and operations at Goldcorp’s Los Filos mine. That said, temporary shutdowns due to security threats, development timeline delays, and additional spending on site/access security are part of doing business in the Guerrero Gold Belt that must be accounted for, as they are in the Ana Paula PEA (including higher labor costs versus northern state operations in Mexico).

Our Ana Paula Mine Model Assumptions: Our Ana Paula mine model assumptions are largely linked to the PEA and we are not attempting to incorporate potential project changes post optimization work that will be completed by Timmins. Potential optimization mainly relates to the flowsheet. The PEA recovery rate of 75% is a starting point for Timmins and optimization will include revisiting grind size, reagent/additives consumption, use of pre-aeration, and use of an intense leach circuit for the gravity concentrate (1% mass pull). There is also room for some capex/opex savings (lower mill capex through procurement savings and leveraging existing relationships in Mexico). Figure 6 contains a summary of our mine models.

Figure 6: Cormark Model Assumptions By Asset

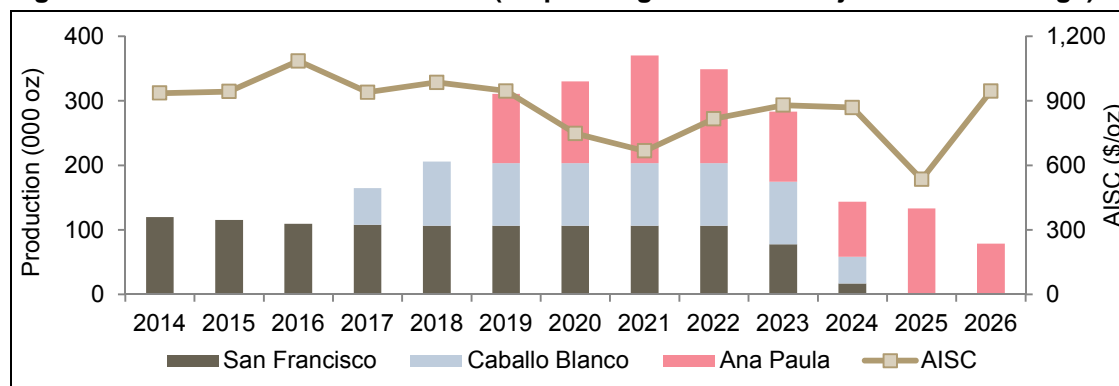
		Caballo Blanco <i>(development)</i>	Ana Paula <i>(development)</i>	San Francisco* <i>(production)</i>
Mine Plan Resource				
Tonnage	MMt	49.3	17.8	77.3
Grade	g/t	0.54	2.24	0.54
Ounces	000 oz	854	1,278	1,335
Mine Life	years	7.4	8.0	10.0
Strip Ratio	w/o	1.66	2.60	2.50
Ore Throughput	tpd	20,000	6,000	24,000
Flowsheet	type	heap leach	float/CIL	heap leach
Recovery Rate	%	80%	75%	67%
Upfront Capex	\$MM	\$76.0	\$163.9	-
Sustaining Capex	\$MM	\$53.7	\$42.3	\$89.1
LOM Production	000 oz	683	952	959
Avg. Annual Production	000 oz	92	119	96
Mining Cost LOM	\$/t rock	\$1.90	\$2.30	\$2.00
Processing Cost LOM	\$/t ore	\$4.00	\$17.75	\$4.30
G&A Cost LOM	\$/t ore	\$1.20	\$2.49	\$0.55
Cash Costs Incl. Royalties	\$/oz	\$771	\$548	\$947
Incl. Sustaining Capex	\$/oz	\$849	\$592	\$1,040
NPV (5%, after tax)				
At \$1,100/oz	\$MM	\$38.0	\$127.9	\$44.3
At \$1,200/oz	\$MM	\$73.9	\$173.0	\$102.9
At \$1,300/oz	\$MM	\$105.9	\$216.1	\$162.4
IRR (after tax)				
At \$1,100/oz	%	18.3%	24.7%	NM
At \$1,200/oz	%	28.8%	30.1%	NM
At \$1,300/oz	%	36.4%	34.9%	NM

Note: * Remaining LOM metrics Q1/15+; includes 20% inferred conversion in mine plan and low grade stockpile processing at end of mine life.

Source: Cormark Securities, Company filings

Growth Plans Have Sequence Flexibility: Timmins has multiple sources of growth with sequencing flexibility that can react to changing asset circumstances including gold prices, permitting, capital access, and local social issues at the projects. As a base case in our model (and as shown in Figures 7 and 8), we currently assume development starts with Caballo Blanco (lower capex, quicker build, open pit/heap leach operation like the San Francisco mine), but permitting faces an uncertain timeline and we would not have better visibility on the process until at least H2/15. In the event of permit headwinds at Caballo Blanco, or if capital for the larger capex and higher return build at Ana Paula is available (likely a mix of debt and equity), Ana Paula could move forward first on a quicker timeline versus our model.

Figure 7: Timmins' Production Profile (Sequencing of Growth Projects Could Change)

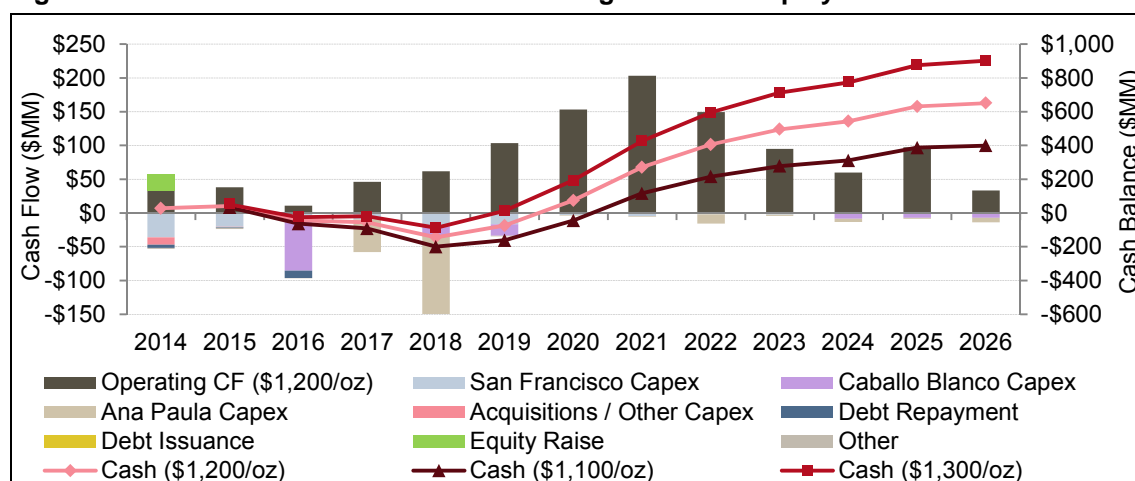


Note: AISC defined here as cash costs, royalties, sustaining capex, and corporate G&A.
Source: Cormark Securities

External Capital Requirements: Timmins has no need for external capital ahead of construction at either Caballo Blanco or Ana Paula, and cash flow from the San Francisco mine should be more than enough to cover development budgets ahead of construction decisions. Assuming construction of Caballo Blanco in 2016 and at a gold price of \$1,200/oz, we estimate that Timmins would need at least \$45 MM of external capital. Most, if not all, of this requirement could likely be satisfied with debt given the balance sheet is currently only holding \$12 MM of debt (which is scheduled to be repaid in Q1/16, and we estimate a cash balance of \$32 MM exiting Q1/16). In a separate scenario, assuming Ana Paula is prioritized for construction in 2016-17, we estimate that Timmins would need at least \$125 MM of external capital that would likely have to come from a mix of debt/equity and could even include royalty-type financing.

Obviously, delayed project construction starts, capex optimization/scope change, or higher/lower gold prices all impact the external capital needs. Using our modelled project sequencing as displayed in Figure 7 (build Caballo Blanco in 2016, build Ana Paula in 2017-18), we present the financial capacity in Figure 8 at a range of gold prices and assuming no external capital is raised.

Figure 8: Timmins' Cash Flow Profile Assuming Zero Debt/Equity Is Raised



Source: Cormark Securities, Company filings

Resuming Coverage With Buy Rating, C\$1.25 Target: The new asset base and capital structure, plus a modest upward revision to our LOM opex inputs at San Francisco, are now reflected in our model. Our new NAVPS is C\$1.60 (was C\$1.80) and we are now using a blended (and lower) target P/NAV multiple to value Timmins, given the split between production and development assets. Specifically, we are using 1.0x for the San Francisco NPV, 0.75x for the Ana Paula NPV, 0.50x for the Caballo Blanco NPV, and 1.0x for balance sheet items. This equates to a blended 0.78x target P/NAV (previously used an equal blend of 1.0x NAV and 11.0x 2016 CFPS). Our target is now C\$1.25 (was C\$1.80) and we retain a Buy rating (upside to target of 71%).

Upcoming Catalysts: News that should help Timmins' share price close the gap toward our target includes the following:

- Improved results and positive FCF from the San Francisco mine over the rest of 2015, following weak results in recent quarters.
- Release of a maiden development plan at San Francisco related to high grade resource potential as announced in mid-February 2015 (potentially higher margin ounces versus material currently getting stacked on the pad); consideration of this opportunity may also be part of an overall optimized medium-term mine plan at San Francisco focused on mining the best combination of grade and strip to boost margins and FCF levels.
- An update regarding the expected permitting timeline for Caballo Blanco, or any evidence of support from the State of Veracruz (as detailed in our December 19, 2014, Morning Note, we believe Timmins has much better odds of permitting Caballo Blanco versus past operators; we see permit receipt potential as early late 2015/early 2016).
- Clarity on development approaches, timing, and financing related to Caballo Blanco and Ana Paula following design/optimization work being completed by Timmins.

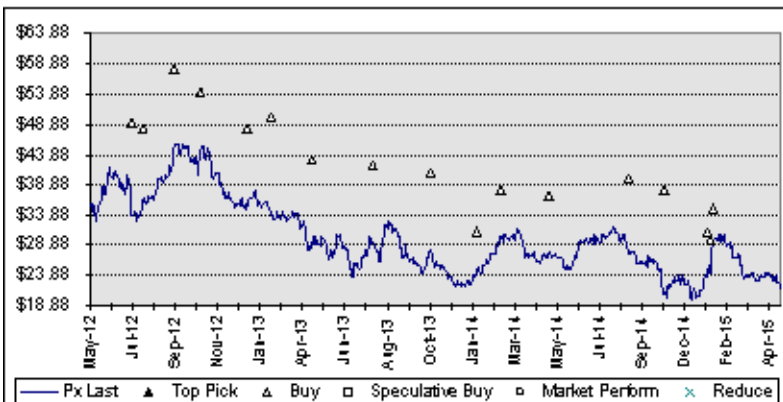
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Goldcorp Inc.

Updated May 26, 2015

Price Chart and Disclosure Statement

*Information updated monthly on or about the 5th of each month.



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Buy or Top Pick	69%	Buy or Top Pick	48%
Market Perform	20%	Market Perform	25%
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Not Rated	9%		

Recommendation / Target Chg	Date	C\$
	20-Jan-15	35.00 (B)
	14-Jan-15	30.00 (B)
	09-Jan-15	31.00 (B)
	31-Oct-14	38.00 (B)
	08-Sep-14	40.00 (B)
	02-May-14	37.00 (B)
	14-Feb-14	38.00 (B)
	09-Jan-14	31.00 (B)
	25-Oct-13	41.00 (B)
	26-Jul-13	42.00 (B)
	22-Apr-13	43.00 (B)
	15-Feb-13	50.00 (B)
	09-Jan-13	48.00 (B)
	26-Oct-12	54.00 (B)
	14-Sep-12	58.00 (B)
	27-Jul-12	48.00 (B)
	11-Jul-12	49.00 (B)

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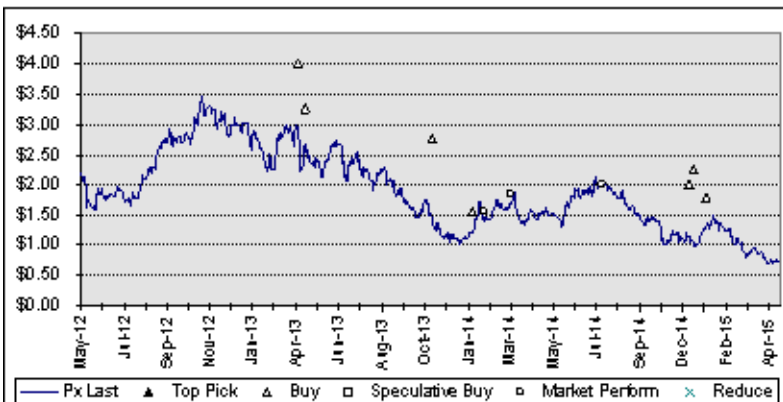
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Timmins Gold Corp.

Updated May 26, 2015

Price Chart and Disclosure Statement

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	30-Jul-14	2.00 (MP)
	10-Mar-14	1.85 (MP)
	27-Jan-14	1.55 (MP)
	09-Jan-14	1.55 (B)
	06-Nov-13	2.75 (B)
	22-Apr-13	3.25 (B)
	10-Apr-13	4.00 (B)

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