

TIMMINS GOLD CORP.
(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended June 30, 2007

NOTICE OF AUDITORS' REVIEW OF
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

TIMMINS GOLD CORP.
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS

| | June 30, 2007 (Unaudited) | March 31, 2007 (Audited) |
|-------------------------------------|---------------------------------|--------------------------------|
| <u>ASSETS</u> | | |
| Current | | |
| Cash and cash equivalents | \$ 1,684,649 | \$ 57,773 |
| Accounts receivable | 244,321 | 144,344 |
| Prepaid expenses | - | 11,000 |
| | <u>1,928,970</u> | <u>213,017</u> |
| Cash – restricted (Note 3) | 77,276 | 77,276 |
| Equipment (Note 5) | 4,107,529 | 96,514 |
| Resource properties (Note 6) | <u>14,740,862</u> | <u>2,602,038</u> |
| | <u>\$ 20,854,637</u> | <u>\$ 2,988,845</u> |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--|----------------------|---------------------|
| Current | | |
| Accounts payable and accrued liabilities | \$ 105,313 | \$ 217,556 |
| Due to related parties (Note 8) | 1,345 | 70,534 |
| Short term debt | 2,648,250 | - |
| | <u>2,754,908</u> | <u>288,090</u> |
| Long Term debt | 3,707,550 | - |
| Shareholders' equity | | |
| Share capital (Note 7) | 15,087,507 | 3,530,082 |
| Contributed surplus (Note 7) | 392,129 | 262,535 |
| Deficit, per accompanying statement | <u>(1,087,457)</u> | <u>(1,091,862)</u> |
| | <u>14,392,179</u> | <u>2,700,755</u> |
| | <u>\$ 20,854,637</u> | <u>\$ 2,988,845</u> |

Nature and continuance of operations (Note 1)

Subsequent events (Note 12)

On behalf of the Board:

“Bruce Bragagnolo”

Director

“Darcy Krohman”

Director

The accompanying notes are an integral part of these consolidated financial statements.

TIMMINS GOLD CORP.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Unaudited)

| | Three months ended June 30, 2007 | Three months ended June 30, 2006 |
|---|-------------------------------------|-------------------------------------|
| GENERAL AND ADMINISTRATIVE EXPENSES | | |
| Accounting and audit | \$ 15,303 | \$ 2,500 |
| Amortization | 7,266 | 2,738 |
| Consulting | 37,745 | 26,307 |
| Foreign exchange loss | (600,487) | 4,053 |
| Investor relations | 55,256 | 2,384 |
| Interest and bank charges | 1,213 | 32,270 |
| Legal | 16,899 | 10,000 |
| Office and miscellaneous | 30,289 | 5,391 |
| Rent | 11,507 | 10,173 |
| Salaries and wages | 206,607 | 15,000 |
| Stock-based compensation (Note 7) | 154,895 | 0 |
| Telephone | 10,019 | 707 |
| Transfer and listing fees | 53,537 | 16,865 |
| Travel | 13,988 | 11,916 |
| | <u>(14,037)</u> | <u>(140,304)</u> |
| OTHER ITEMS | | |
| Interest income | 18,442 | - |
| | <u>18,442</u> | <u>-</u> |
| Income (Loss) for the period | 4,405 | (140,304) |
| Deficit, beginning of the period | (1,091,862) | (238,298) |
| Deficit, end of the period | (1,087,457) | (378,602) |
| Earnings (Loss) per share – basic and diluted | 0.00 | (0.01) |
| Weighted average number of shares outstanding- basic | 29,623,834 | 10,948,633 |
| Weighted average number of shares outstanding- diluted | 50,802,789 | N/A |

The accompanying notes are an integral part of these consolidated financial statements.

TIMMINS GOLD CORP.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Three months ended June 30, 2007 | Three months ended June 30, 2006 |
|---|-------------------------------------|-------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income (Loss) for the period: | 4,405 | (140,304) |
| Items not affecting cash: | | |
| Amortization | 7,266 | 2,737 |
| Stock-based compensation | 154,895 | 30,000 |
| Foreign exchange adjustment | (415,800) | - |
| Changes in non-cash working capital items: | | |
| Accounts receivable | (100,077) | (14,443) |
| Prepaid expenses | 11,000 | (27,074) |
| Accounts payable and accrued liabilities | (112,243) | 47,900 |
| Due to related parties | (69,189) | (49,859) |
| Cash flows used in operating activities | <u>(519,743)</u> | <u>(151,043)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of common shares | 6,724,494 | - |
| Share issuance costs | (487,370) | - |
| Proceeds from convertible promissory note | - | 125,000 |
| Proceeds from related party promissory note | - | 175,000 |
| Cash flows provided by financing activities | <u>6,237,124</u> | <u>300,000</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of equipment for cash | (68,181) | (71,861) |
| Expenditures on resource properties | (4,022,324) | (74,224) |
| Cash flows used in investing activities | <u>(4,090,505)</u> | <u>(146,085)</u> |
| Increase in cash during the period | 1,626,876 | 2,872 |
| Cash, beginning of year | 135,049 | 2,996 |
| Cash, end of period | 1,761,925 | 5,868 |
| Cash consists of: | | |
| Cash and cash equivalents | \$ 1,684,649 | \$ 57,773 |
| Cash - restricted | 77,276 | 77,276 |
| | <u>\$ 1,761,925</u> | <u>\$ 135,049</u> |

Supplemental disclosure with respect to cash flows (Note 9)

The accompanying notes are an integral part of these consolidated financial statements.

TIMMINS GOLD CORP.

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007

1. NATURE AND CONTINUANCE OF OPERATIONS

Timmins Gold Corp. (the "Company") was incorporated on March 17, 2005 under the laws of the Province of British Columbia. The Company is in the business of acquiring, exploring and evaluating mineral resource properties in Mexico, through its wholly-owned subsidiary, Timmins Goldcorp Mexico, S.A. de C.V. {"Subsidiary"}, and the Subsidiary's wholly-owned subsidiary, Molimentales del Noroeste, S.A. de C.V. ("MdN"). The Company is listed for trading on the TSX Venture Exchange ("TSX-V"). The Company is in the exploration and development stage. The recovery of the Company's investment in its resource properties is dependent upon the discovery, development and sale of mineral products, and the ability to raise sufficient capital to finance this activity

These 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. Management will need to target sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which could assure continuation of the Company's operations and exploration programs. The Company is dependent upon its ability to generate such financing 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.

| | June 30,2007 | March 31, 2007 |
|----------------------------|---------------|----------------|
| Working capital deficiency | \$(825,938) | \$(75,073) |
| Deficit | \$(1,087,457) | \$(238,298) |

2. SIGNIFICANT ACCOUNTING POLICIES**Basis of presentation**

The financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and follow the same accounting policies and methods of their application as the annual financial statements. These interim financial statements do not include in all respects the annual disclosure requirements of GAAP and should be read in conjunction with the most recent annual statements. The accounting principles used include:

Principle of consolidation

These financial statements include the accounts of the Company and its wholly-owned subsidiaries. The Subsidiary was incorporated on March 23, 2005. All significant inter-company balances and transactions have been eliminated.

Cash and cash equivalents

Cash and cash equivalents are highly liquid investments, such as term deposits with major financial institutions, having a maturity of 12 months or less at acquisition, that are readily convertible to contracted amounts of cash. Unrestricted cash of \$1,684,649 as of June 30, 2007, consist of deposits in bank accounts with no restriction for disposals of cash flow.

TIMMINS GOLD CORP.

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**Equipment**

Equipment is recorded at cost less accumulated amortization. Additions made during the year are amortized at one-half rates. Amortization is provided annually over the estimated useful life using the following methods:

| | |
|--------------------------------|------------------------------------|
| Computer equipment | 45% declining balance method |
| Leasehold improvements | 20% straight line method |
| Office furniture and equipment | 10% - 20% declining balance method |
| Vehicles | 25% declining balance method |
| Mine equipment and buildings | Units of production method* |

* The costs of these capital assets will be amortized based on the units of production method once the total mineral reserve base has been determined if and when production commences.

Resource properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and the costs of abandoned properties are written-off in the period in which the decision by management is made. Proceeds received on the sale of interests in mineral properties will be credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to an impairment in value will be charged to operations.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on a periodic basis and will recognize an impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property, or from the sale of the property. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

Property investigation expenses and administrative

Property investigation expenses are the costs of investigating prospective property acquisitions; administrative expenses are the costs required to maintain the Company and allow it to carry on its other activities. Both of these expenses include salaries and wages, travel, consulting, accounting and legal fees, office rent and utilities, among others, and are included in the statement of loss and deficit.

Income taxes

Future income taxes are recorded using the asset and liability method. Using this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company provides a valuation allowance against the excess to the extent that it does not consider it more likely than not a future tax asset will be recovered. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

TIMMINS GOLD CORP.
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of long-lived assets

An impairment loss is recognized for long-lived assets including mineral properties and deferred expenditures, mine equipment and buildings, when events or changes in circumstances causes its carrying value to exceed the total undiscounted future cash flows expected from its use and eventual disposition. The impairment loss is calculated by deducting the fair value of the asset from its carrying value.

Commitments and contingencies

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the financial statements. Contingent revenues, earnings or assets are not recognized until their realization is virtually assured.

Foreign currency translation

The subsidiary's financial statements were prepared in Mexican pesos, and have been translated into Canadian dollars using the temporal method. Any conversion differences have been reported as exchange gains or losses in the statement of loss and deficit. The temporal method involves of translating assets, liabilities, revenues and expenses in a manner that retains their basis of measurement in terms of the Canadian dollar, the parent company's reporting currency. Under this method:

- i) Monetary items are translated at the exchange rate in effect at the balance date;
- ii) Non-monetary items, principally the resource properties, are translated at historical exchange rates; and
- iii) Revenue and expenses are translated at the average rates of exchange during the period, other than depletion and amortization which are translated at historical rates.

Use of estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates.

Loss per share

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon the exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year.

Cost of maintaining resource properties

The Company does not accrue the estimated future costs of maintaining its resource properties in good standing.

Stock-based compensation

The Company accounts for options granted under its fixed stock option plan using the fair value based method of accounting for stock-based compensation. Accordingly, the fair value of the options at the date of the grant is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

TIMMINS GOLD CORP.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial instruments**

Effective April 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments - Recognition and Measurement; and Section 3865, Hedges, retroactively without restatement. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. Under the new standards, policies followed for periods prior to the effective date generally are not revised and therefore, the comparative figures have not been restated. The adoption of these Handbook Sections had no impact on opening deficit.

Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading, financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income.

Upon adoption of these new standards, the Company designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities and due to/from related parties are classified as other financial liabilities. The Company had neither available-for-sale, nor held-to-maturity instruments during the financial period ended June 30, 2007.

The Company had no "other comprehensive income or loss" transactions during the financial period ended June 30, 2007, and no opening or closing balances for accumulated other comprehensive income or loss.

Environmental expenditures and asset retirement obligations

The operations of the Company may be affected by changes in environmental regulations, including those relating to future reclamation and site restoration. Both the likelihood of new regulations and their overall effect upon the Company are unknown and unpredictable. The fair value of a liability for an asset retirement obligation will be recognized in the year in which it is incurred, if a reasonable estimate of fair value can be made. The associated asset retirement costs will be capitalized as part of the carrying amount of the long-lived asset and will subsequently be amortized over the asset's useful life. As at June 30, 2007, the Company has made no provision for site restoration costs or potential environmental liabilities as all its properties are still in the exploration stage. Factors such as further exploration, inflation and changes in technology may materially change a cost estimate previously made.

3. CASH - RESTRICTED

Pursuant to an employment agreement with a director and officer of the Company, funds were placed in trust in accordance with the terms of the agreement. These funds will only be distributed to this director and officer if certain specified events occur.

TIMMINS GOLD CORP.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007

4. ACQUISITION OF SAN FRANCISCO MINE

On April 20, 2007, the Company's Subsidiary acquired (the "Acquisition Agreement") 100% of the outstanding voting shares of MdN, a Mexican company that acquired from Geomaque de Mexico, S.A. de C.V. the mineral concessions, all legal permits and other rights associated with the properties constituting the San Francisco Gold Property (collectively the "San Francisco Property"). The Acquisition Agreement supersedes the option agreement (Note 6a). The purchase price for the San Francisco Property is US\$5,000,000 and 10,000,000 common shares of the Company (issued, Note 7f). US\$2.5 million was paid on closing of the acquisition with a further US\$2,500,000 due by October 31, 2007. As guarantee until payment of the final cash installment, the vendors retain a reversionary interest of 25.2% in the outstanding shares of MdN. The shares of the Company issued for the acquisition are subject to a hold period that will expire on September 9, 2007, and a pooling agreement that governs the release of the shares, in equal increments, in six month intervals over a three year period (Note 7). Under the Acquisition Agreement the Company was also required to purchase certain mine equipment and buildings from the vendor for US\$3,500,000 (Note 5). Payment for the mine equipment and buildings may be made at any time over a three year period from the time of closing of the acquisition, without interest.

The purchase price equation for 100% of the shares of MdN:

| | US\$ | Cdn\$ |
|------------------------------|---------------------|---------------------|
| <u>Consideration:</u> | | |
| Cash | 5,000,000 | 5,701,260 |
| Common shares | 4,432,000 | 5,000,000 |
| Promissory note | 3,500,000 | 3,950,100 |
| | | |
| Total purchase price | <u>\$13,758,000</u> | <u>\$14,651,360</u> |
| <u>Assets acquired:</u> | | |
| San Francisco mine property | \$10,258,000 | \$10,701,260 |
| Mine equipment and buildings | 3,500,000 | 3,950,100 |
| | | |
| Total assets acquired | <u>\$13,758,000</u> | <u>\$14,651,360</u> |

5. EQUIPMENT

| | June 30, 2007 | | | March 31, 2007 | | |
|---|---------------------|-----------------------------|---------------------|-------------------|-----------------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Computer equipment | \$ 29,935 | \$ 7,501 | \$ 22,434 | \$ 22,189 | \$ 5,649 | \$ 16,540 |
| Leasehold improvements | 8,259 | 1,239 | 7,020 | 8,259 | 826 | 7,433 |
| Office furniture and equipment | 46,244 | 6,291 | 39,953 | 46,198 | 4,287 | 41,911 |
| Mine equipment and buildings* (Note 4) | 3,950,100 | - | 3,950,100 | - | - | - |
| Vehicles | 96,412 | 8,390 | 88,022 | 35,954 | 5,324 | 30,630 |
| | <u>\$ 4,130,950</u> | <u>\$ 23,421</u> | <u>\$ 4,107,529</u> | <u>\$ 112,600</u> | <u>\$ 16,086</u> | <u>\$ 96,514</u> |

* The costs of these capital assets will be amortized based on a units of production method once the total mineral reserve base has been determined if and when production commences.

TIMMINS GOLD CORP.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007

6. RESOURCE PROPERTIES

Capitalized costs are as follows:

| | Mar 31, 2006 | Additions | Mar 31, 2007 | Additions | June 30, 2007 |
|---|--------------|-----------|--------------|---------------|---------------|
| San Francisco Property (Note 6a) | | | | | |
| Acquisition and holding costs | | | | | |
| Acquisition cost | \$ 31,345 | \$ - | \$ 31,345 | \$ 10,699,173 | \$ 10,730,518 |
| Claim staking | 14,410 | 25,032 | 39,442 | (220) | 39,222 |
| Mining taxes and assessments | 37,479 | 228,075 | 265,554 | 5,936 | 271,490 |
| Surface rights | 68,369 | 67,165 | 135,534 | (780) | 134,754 |
| | 151,603 | 320,272 | 471,875 | 10,704,109 | 11,175,984 |
| Deferred exploration costs | | | | | |
| Administration | 1,265 | 1,571 | 2,836 | (32) | 2,804 |
| Assays | 30,405 | 90,574 | 120,979 | 34,124 | 155,103 |
| Camp and field costs | 15,863 | 24,606 | 40,469 | 1,986 | 42,455 |
| Communication | 2,529 | 3,685 | 6,214 | 1,979 | 8,193 |
| Drilling | 76,349 | 644,363 | 720,712 | 121,673 | 842,385 |
| Engineering and feasibility | - | 52,441 | 52,441 | 10,311 | 62,752 |
| Field work and geological consulting | 273,233 | 597,714 | 870,947 | 50,465 | 921,412 |
| Geophysics | - | - | - | 21,200 | 21,200 |
| Legal and filing fees | - | 163,689 | 163,689 | 93,632 | 257,321 |
| Miscellaneous exploration | 20,543 | 78,860 | 99,403 | 88,860 | 188,263 |
| Property investigation | 11,216 | - | 11,216 | (811) | 10,405 |
| Reports, drafting and maps | 1,764 | 3,612 | 5,376 | 465 | 5,841 |
| Travel and accommodation | 10,411 | 25,469 | 35,880 | 17,688 | 53,568 |
| Salaries and consulting fees | - | - | - | 160,105 | 160,105 |
| | 443,578 | 1,686,584 | 2,130,162 | 601,645 | 2,731,808 |
| Total acquisition and exploration costs | 595,181 | 2,006,856 | 2,602,037 | 11,305,754 | 13,907,792 |
| Los Coloradas Property (Note 6b) | | | | | |
| Acquisition cost | - | - | - | 696,375 | 696,375 |
| Drafting, reporting | - | - | - | 490 | 490 |
| Legal fees | - | - | - | 1,085 | 1,085 |
| Miscellaneous exploration expenses | - | - | - | 2,017 | 2,017 |
| Salaries and consulting fees | - | - | - | 526 | 526 |
| Travel | - | - | - | 2,866 | 2,866 |
| Total exploration costs | - | - | - | 703,359 | 703,359 |
| Tequila Property (Note 6c) | | | | | |
| Acquisition cost | - | - | - | 57,638 | 57,638 |
| Drafting, reporting | - | - | - | 2,328 | 2,328 |
| Legal fees | - | - | - | 65 | 65 |
| Miscellaneous exploration expenses | - | - | - | 19,089 | 19,089 |
| Salaries and consulting fees | - | - | - | 7,759 | 7,759 |
| Travel | - | - | - | 418 | 418 |
| | - | - | - | 2,221 | 2,221 |
| Total exploration costs | - | - | - | 89,518 | 89,518 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

6. RESOURCE PROPERTIES (continued)

| | Mar 31, 2006 | Additions | Mar 31, 2007 | Additions | June 30, 2007 |
|------------------------------------|-------------------|---------------------|---------------------|----------------------|---------------------|
| EI Capomo Property | | | | | |
| Acquisition cost | - | - | - | 985 | 985 |
| Drafting and reporting | - | - | - | 3,209 | 3,209 |
| Legal fees | - | - | - | 1,780 | 1,780 |
| Miscellaneous exploration expenses | - | - | - | 180 | 180 |
| Salaries and consulting fees | - | - | - | 16,185 | 16,185 |
| Travel | - | - | - | 93 | 93 |
| Total exploration costs | - | - | - | 22,432 | 22,432 |
| Cocula Property (Note 13d) | | | | | |
| Acquisition cost | - | - | - | 11,480 | 11,480 |
| Drafting and reporting | - | - | - | 56 | 56 |
| Assay | - | - | - | 215 | 215 |
| Legal fees | - | - | - | 922 | 922 |
| Miscellaneous exploration expenses | - | - | - | 1,346 | 1,346 |
| Salaries and consulting fees | - | - | - | 3,742 | 3,742 |
| Total exploration costs | - | - | - | 17,761 | 17,761 |
| Total property expenditures | \$ 595,181 | \$ 2,006,856 | \$ 2,602,037 | \$ 12,138,824 | \$14,740,862 |

a) San Francisco Project - Mexico

By option agreement dated April 15, 2005, and amended February 13, 2006, the Company acquired a 50% interest in five mineral titles located in the State of Sonora, Mexico by undertaking to incur exploration expenditures of US\$2,500,000 as follows: US\$1,000,000 on or before April 15, 2006, and an additional US\$1,500,000 on or before April 15, 2007. This option agreement terminated on April 20, 2007, when it was superseded by the Acquisition Agreement (Note 4). During the year ended March 31, 2007, the Company received property title to the Timmins and Timmins II concessions and the Timmins III fraction 1 and 2 issued by the Ministry of Economy in Mexico. These concessions are located in Santa Ana in the State of Sonora, Mexico and have been included in the San Francisco Property.

b) Los Coloradas Property

On May 10, 2007, the Company entered into an option agreement to acquire a 100% interest in the Las Coloradas property and mill located in Durango, Mexico. The terms of the option agreement required the Company to pay US\$350,000 (paid) and issue 500,000 common shares (issued, Note 7f), and pay a further US\$350,000 and issue a further 1,500,000 common shares on or before December 31, 2007 (1,000,000 of these common shares will be subject to a restrictive legend that will expire on December 31, 2008). The vendor also retains a 2.5% net smelter return interest, 1% of which can be purchased for US\$1,000,000.

c) Tequila Property

On June 19, 2007, the Company entered into an option agreement to acquire a 100% interest in the Tequila property located in Jalisco, Mexico. The terms of the agreement require the Company to pay a total of US\$2,000,000 over three years with a payment of US\$50,000 on acceptance by the TSX-V, a further US\$350,000 in stages over the next 24 months, payment of US\$600,000 within the next 30 months, and US\$1,000,000 within the 36 months thereafter. Half of the final payment may be made, at the election of the Company, in shares. The vendor will retain a 2% net smelter return interest, which may be purchased for US\$1,000,000.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS

Authorized: unlimited number of common shares without par value

| | Number of Shares | Amount | Contributed Surplus |
|--|---------------------|---------------|------------------------|
| Issued: | | | |
| Balance, March 31, 2006 | 10,948,633 | \$ 685,516 | \$ 92,625 |
| For cash | | | |
| Pursuant to IPO (Note 7a) | 9,000,000 | 3,150,000 | - |
| Pursuant to issue of agent's corporate finance shares (Note 7a) | 75,000 | 26,250 | - |
| Pursuant to options exercised (Note 7b) | 200,000 | 70,000 | - |
| Pursuant to warrants exercised (Note 7a) | 107,500 | 53,750 | - |
| Share issue costs (Note 7a) | - | (602,664) | 165,758 |
| Conversion of promissory note (Note 7c) | 285,000 | 99,750 | - |
| Fair value on stock options exercised (Note 7b) | - | 47,480 | (47,480) |
| Stock-based compensation | - | - | 51,632 |
| Balance, March 31, 2007 | 20,616,133 | 3,530,082 | 262,535 |
| Issued: | | | |
| Pursuant to private placement (Note 7d) | 12,627,000 | 6,313,500 | - |
| Pursuant to issue of agent's corporate finance shares (Note 7d) | 180,414 | 90,207 | - |
| Pursuant to warrants exercised (Note 7a) | 639,251 | 242,037 | - |
| Pursuant to options exercised (Note 7e) | 225,000 | 78,750 | - |
| Pursuant to property acquisition (Note 7f) | 10,000,000 | 5,000,000 | - |
| Pursuant to property acquisition (Note 7f) | 500,000 | 295,000 | - |
| Share issue costs (Note 7d) | - | (634,394) | 147,024 |
| Fair value on stock options and agent's warrants exercised (Notes 7a and e) | - | 172,325 | (172,325) |
| Stock-based compensation | - | - | 154,895 |
| Balance, June 30, 2007 | 44,787,798 | \$ 15,087,507 | \$ 392,129 |

- a) On July 20, 2006, the Company completed its initial public offering and issued 9,000,000 units at a price of \$0.35 per unit for gross proceeds of \$3,150,000. Each unit consisted of one common share and one non-transferable common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company for one year at \$0.50 on or before July 25, 2007.

The Company paid an agent's fee of \$252,000 in cash, and issued 1,080,000 agent's warrants which are exercisable into one common share at a price of \$0.35 up to July 25, 2007. The fair value of the agent's warrants of \$165,758 using Black-Scholes was recognized. The agent was also paid a corporate finance fee of 75,000 units under the same terms as the units issued for the IPO. 107,500 share purchase warrants issued under the IPO were exercised for total proceeds of \$53,750 in fiscal 2007, 122,000 share purchase warrants for total proceeds of \$61,000 were exercised in the period ended June 30, 2007, 8,391,000 share purchase warrants for total proceeds of \$4,195,500 were exercised in the period subsequent to June 30, 2007 and 739,500 share purchase warrants expired (Note 12c). During the period ended June 30, 2007, 517,251 agent's warrants were exercised and the fair value of \$79,389 was transferred from contributed surplus on the exercise of these agent's warrants. Subsequent to June 30, 2007, a further 562,749 agent's warrants were exercised (Note 12c).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

- b) During the year ended March 31, 2007, 200,000 stock options at a price of \$0.35 were exercised for gross proceeds of \$70,000. The fair value of these options at the date of grant of \$47,480 was transferred from contributed surplus on the exercise of these options.
- c) During the year ended March 31, 2007, the Company issued 285,000 units at a price of \$0.35 per unit to settle \$99,750 of a \$125,000 convertible promissory note. Each unit consisted of one common share and one non-transferable common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company for one year at \$0.50 on or before July 27, 2007.
- d) On April 25, 2007, the Company closed a brokered private placement of 12,627,000 units at a price of \$0.50 per Unit (the "Units"), for total gross proceeds of \$6,313,500. Each Unit consists of one common share and one-half non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.70 until October 31, 2007. The Company paid a commission of \$362,680 in cash and issued 180,414 agents' Units. A total of 1,207,000 broker's warrants were issued on this private placement. Each broker's warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.70 until October 31, 2007. The fair value of the broker's warrants of \$147,024 using Black-Scholes was recognized. A finder's fee of \$11,250 was also paid. The securities issued pursuant to this private placement are subject to restrictive legends expiring on August 29, 2007.
- e) During the period ended June 30, 2007, 225,000 stock options were exercised at \$0.35 per share. A fair value expense of \$92,937 was recognized on the exercise of these options and was transferred from contributed surplus into share capital.
- f) During the period ended June 30, 2007, the Company issued 10,000,000 common shares on acquisition of San Francisco property valued at \$0.50 per share and 500,000 common shares on acquisition of the Las Coloradas property valued at \$0.59 per share based on the fair value on the date of issuance.

Options

The Company has an incentive stock option plan in place under which it is authorized to grant options to executive officers, directors, employees and consultants. The Company at no time may have more than 10% of the outstanding issued common shares reserved for incentive stock options granted to any one individual. Options granted under the plan will have a term not to exceed five years, have an exercise price equal to the market price on the date of the grant and may be subject to vesting terms as determined by the board of directors. Options granted to consultants performing investor relations activities vest over a period of twelve months.

Stock option transactions and the number of stock options outstanding are summarized as follows:

| | Shares | Weighted Average Exercise Price |
|-----------------------------|-----------|------------------------------------|
| Outstanding, March 31, 2006 | 1,500,000 | \$0.35 |
| Granted | 500,000 | 0.35 |
| Exercised | (200,000) | 0.35 |
| Cancelled | (100,000) | 0.35 |
| Outstanding, March 31, 2007 | 1,700,000 | 0.35 |
| Granted | 2,500,000 | 0.70 |
| Cancelled | (100,000) | 0.35 |
| Exercised | (225,000) | 0.35 |
| Outstanding, June 30, 2007 | 3,875,000 | \$0.58 |
| Vested, June 30, 2007 | 1,325,000 | \$0.35 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

Stock options outstanding at June 30, 2007 are as follows:

| Number of Options | Exercise Price | Expiry Date |
|----------------------|-------------------|--------------------|
| 1,200,000 | \$ 0.35 | July 25, 2011 |
| 175,000 | \$ 0.35 | September 6, 2011* |
| 2,500,000 | \$ 0.70 | May 11, 2012 |
| <u>3,875,000</u> | | |

*Subsequently, these options were exercised (Note 13b).

Stock-based compensation

The Company recognizes compensation expense for all stock options granted using the fair value based method of accounting. The fair value of stock option granted is recognized in income on a straight line basis over the vesting period. Total fair value of stock options vested during the period ended June 30, 2007 was \$154,895 (2006 - \$Nil).

The following weighted average assumptions were used for the Black-Scholes valuation of stock options and agents' compensation options granted during 2007 and 2006:

| | 2007 | 2006 |
|--------------------------|---------|---------|
| Risk-free interest rate | 4.13% | 4.01% |
| Expected life of options | 5 years | 5 years |
| Annualized volatility | 97% | 113% |
| Dividend rate | 0.00% | 0.00% |

Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

| | Number of Warrants | Weighted Average Exercise Price |
|-----------------------------|-----------------------|---------------------------------------|
| Outstanding, March 31, 2006 | - | \$ - |
| Granted | 10,440,000 | 0.48 |
| Exercised | (107,500) | 0.50 |
| Outstanding, March 31, 2007 | 10,332,500 | 0.48 |
| Granted | 7,610,707 | 0.70 |
| Exercised | (639,251) | 0.38 |
| Outstanding, June 30, 2007 | 17,303,956 | \$ 0.58 |

TIMMINS GOLD CORP.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

Warrants outstanding at July 30, 2007 are as follows:

| Number of Warrants | Exercise Price | Expiry Date |
|-----------------------|-------------------|------------------|
| 9,130,500 | \$ 0.50 | July 25, 2007* |
| 562,749 | 0.35 | July 25, 2007** |
| 7,610,707 | 0.70 | October 31, 2007 |
| 17,303,956 | | |

* Subsequently, 8,130,500 warrants were exercised and 739,500 warrants expired (Note 13c).

** Subsequently, these agent's warrants were exercised (Note 13c).

Escrow and pooling

6,000,000 shares were placed in escrow in accordance with the escrow agreement dated February 17, 2006. At June 30, 2007, 1,500,000 shares were released leaving a balance of 4,500,000 shares held in escrow. Subsequent to the period end, a further 900,000 shares were released.

10,000,000 shares are subject to a pooling agreement dated April 21, 2007. 1,000,000 shares were released during the period ended June 30, 2007.

8. RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2007, the Company entered into the following transactions with related parties:

- During the period ended June 30, 2007, \$20,000 of consulting fees was incurred by a director and an officer of the Company. As of June 30, 2007, the Company owed \$224 (March 31, 2007 - \$70,534) to this director and officer for expense advances.
- The Company incurred \$Nil of legal fees (2006 - \$10,000) to a company controlled by a director and an officer. As of June 30, 2007, \$1,000 (March 31, 2007 - \$1,000) included in accounts payable was owed to this company, and \$647 (March 31, 2007 - \$647) was held in trust by this company.
- During the three months ended June 30, 2007, the Company incurred \$7,500 (2006 - \$Nil) with a private company of which a director of the Company is a vice-president. As of June 30, 2007, \$Nil (March 31, 2007 - \$Nil) is owed to that company.
- During the three year ended March 31, 2007, \$90,000 was placed in trust with a legal firm pursuant to the Company's employment agreement with a director and officer. As of June 30, 2007, \$77,276 (March 31, 2007 - 77,276) was held in trust by the legal company.
- During the three months ended June 30, 2007, \$11,703 of geological consulting fees (2006 - \$28,591) were incurred by a director of the Company. As of June 30, 2007, \$Nil is owed to that 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions during the three months ended June 30, 2007, were as follows:

| | June 30, 2007 | March 31, 2007 |
|--|------------------|-------------------|
| Shares issued on property acquisition | \$ 5,295,000 | \$ - |
| Accrual of short term obligations for property acquisition | 2,821,500 | - |
| Accrual of long term obligations for capital assets | 3,950,100 | - |
| Fair value of broker's warrants | 147,024 | - |
| Fair value of agent's warrants and options exercised | (172,325) | - |

10. COMMITMENTS

- (a) The Company has lease commitments for office premises and equipment, which require future minimum lease payments for the fiscal years ended:

| | |
|----------------|-----------|
| March 31, 2008 | \$ 45,773 |
| 2009 | \$ 45,773 |
| 2010 | \$ 45,773 |
| 2011 | \$ 45,773 |

- (b) On May 1, 2007, the company entered into a consulting agreement with Freeform Communications Inc. (the "Freeform") to perform public and investor relations and communications. The Company will pay Freeform consulting fees of \$6,500 per month for an initial term of four months (which shall automatically renew for a further four month term if both parties agree).

11. CONTINGENCIES

A former director, officer and employee, and a former consultant of the Company have separately initiated action against the Company for damages for breach of contract/wrongful dismissal and for the right to the exercise their stock options originally granted under the Company's stock option plan. The Company cancelled these options when the individuals were dismissed. The Company has commenced an action against the former director, officer and employee and the Company's transfer agent seeking cancellation of performance shares granted to this individual. Legal counsel to the Company is unable to assess the Company's potential liability, if any, resulting from these actions. Any settlement will be reflected as a charge to deficit in the year incurred. No provision for possible loss has been included in these financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007

12. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, being the acquisition, exploration and development of mineral properties located in two geographical segments, Canada and Mexico. Geographic information is as follows:

| | Total Assets | Equipment | Mineral Properties | Other Assets |
|-----------------------|----------------------|---------------------|-----------------------|---------------------|
| June 30, 2007 | | | | |
| Canada | \$ 1,139,949 | \$ 57,017 | \$ - | \$ 1,082,932 |
| Mexico | 19,714,688 | 4,050,512 | 14,740,862 | 923,314 |
| | <u>\$ 20,854,637</u> | <u>\$ 4,107,529</u> | <u>\$ 14,740,862</u> | <u>\$ 2,006,246</u> |
| March 31, 2007 | | | | |
| Canada | \$ 211,682 | \$ 60,801 | \$ - | \$ 150,881 |
| Mexico | 2,777,163 | 35,713 | 2,602,038 | 139,412 |
| | <u>\$ 2,988,845</u> | <u>\$ 96,514</u> | <u>\$ 2,602,038</u> | <u>\$ 290,293</u> |

13. SUBSEQUENT EVENTS

- (a) On July 18, 2007, the Company granted 200,000 stock options at a price of \$0.50 per share exercisable until July 18, 2012.
- (b) Subsequently, a total of 125,000 stock options were exercised at \$0.35 per share.
- (c) Subsequently, 8,391,000 warrants at a price of \$0.50 and 562,749 agent's warrants at a price of \$0.35 were exercised, and 739,500 warrants at a price of \$0.50 expired.
- (d) On July 18, 2007, the Company finalized the option agreement to acquire the Cocula Property. The terms of the option agreement require the Company to pay a total of US\$1,500,000 over four years, as follows:
- US\$50,000.00 on signing the option agreement (US\$10,000 paid);
 - US\$50,000.00, on or before January 18, 2008;
 - US\$50,000.00, on or before July 18, 2008;
 - US\$150,000.00, on or before July 18, 2009;
 - US\$150,000.00, on or before July 18, 2010; and
 - US\$1,050,000.00, on or before July 18, 2011.
- (e) On August 1, 2007, the Company entered into an agreement to retain the services of Grandich Publications LLC ("Grandich Publications") to provide an investor relations and communications program for a period of one year. Grandich Publications was granted 100,000 stock options for a period of five years and will receive a fee of US\$2,000 per month. The options are exercisable at \$0.50 per share and vest as to 25% every three months during the first year. The agreement is subject to the acceptance of the TSX-V. The Company and Grandich Publications are at arm's length.