

**TIMMINS GOLD CORP.**  
**(An Exploration Stage Company)**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2008**  
**(Unaudited)**

**TIMMINS GOLD CORP.**  
(An Exploration Stage Company)  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited in Canadian dollars)

	September 30, 2008	March 31, 2008
<b><u>ASSETS</u></b>		
<b>Current</b>		
Cash and cash equivalents	\$ 4,787,515	\$ 2,471,042
Amounts receivable	2,141,377	1,061,456
Prepaid expenses	59,155	63,473
Due from related party (Note 6)	93,400	16,987
	<u>7,081,447</u>	<u>3,612,958</u>
<b>Equipment</b> (Note 4)	13,419,867	4,227,501
<b>Resource properties</b> (Note 5)	<u>29,745,131</u>	<u>25,522,787</u>
	<u>\$ 50,246,445</u>	<u>\$ 33,363,246</u>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 85,429	\$ 493,525
Due to related parties (Note 6)	4,017	234
	<u>89,446</u>	<u>493,759</u>
<b>Long term debt</b> (Note 3)	3,856,468	3,726,248
<b>Future income tax</b> (Note 3)	4,940,389	4,940,389
<b>Asset retirement obligation</b> (Note 3)	<u>1,322,915</u>	<u>1,279,000</u>
	<u>10,209,218</u>	<u>10,439,396</u>
<b>Shareholders' equity</b>		
Share capital (Note 7)	31,213,181	27,084,420
Preference shares (Note 7)	14,300,000	-
Contributed surplus (Note 7)	3,144,069	2,265,064
Deficit, per accompanying statement	<u>(8,620,023)</u>	<u>(6,425,634)</u>
	<u>40,037,227</u>	<u>22,923,850</u>
	<u>\$ 50,246,445</u>	<u>\$ 33,363,246</u>

**Nature and continuance of operations** (Note 1)  
**Commitments** (Note 10)  
**Contingencies** (Note 11)  
**Subsequent event** (Note 14)

**Approved by the Directors**

"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, COMPREHENSIVE LOSS AND DEFICIT**

(Unaudited in Canadian dollars, except for share amounts)

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
Accounting and audit	\$ 26,928	\$ 17,000	\$ 41,928	\$ 32,303
Amortization	16,368	12,130	30,872	19,396
Consulting	28,983	34,894	88,437	72,639
Directors' fees	4,500	-	4,500	-
Exploration expenditures	-	-	203,331	-
Foreign exchange loss (gain)	167,349	(486,825)	174,572	(1,087,312)
Interest and bank charges	58,003	44,172	116,338	45,385
Investor relations	144,270	48,926	275,881	104,182
Insurance	12,682	-	12,682	-
Legal	30,728	21,911	63,884	38,810
Office and miscellaneous	33,132	53,595	71,302	83,884
Rent	11,172	9,394	21,890	20,901
Salaries and wages	130,992	172,452	216,477	379,059
Stock-based compensation (Note 7)	348,637	320,851	879,005	475,746
Telephone	8,461	14,486	18,262	24,505
Transfer and listing fees	22,975	15,225	25,298	68,762
Travel	20,756	6,951	47,528	20,939
	(1,065,936)	(285,162)	(2,292,187)	(299,199)
<b>OTHER ITEMS</b>				
Interest income	49,642	41,199	97,798	59,641
<b>Net loss and comprehensive loss for the period</b>	(1,016,294)	(243,963)	(2,194,389)	(239,558)
<b>Deficit, beginning of the period</b>	(7,603,729)	(1,087,457)	(6,425,634)	(1,091,862)
<b>Deficit, end of the period</b>	\$ (8,620,023)	\$ (1,331,420)	\$ (8,620,023)	\$ (1,331,420)
<b>Loss per share – basic and diluted</b>	\$ (0.02)	\$ (0.00)	\$ (0.03)	\$ (0.01)
<b>Weighted average number of shares outstanding – basic</b>	65,675,019	51,372,471	64,421,877	42,810,704
<b>Weighted average number of shares outstanding – diluted</b>	65,675,019	51,372,471	64,421,877	42,810,704

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 in Canadian dollars)

	<b>Three months ended September 30,</b>		<b>Six months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM (TO) OPERATING ACTIVITIES</b>				
Loss for the period:	\$ (1,016,294)	\$ (243,963)	\$ (2,194,389)	\$ (239,558)
Items not affecting cash:				
Amortization	16,368	12,130	30,872	19,396
Interest on debt (Note 3)	56,618	-	113,236	-
Stock-based compensation	348,637	320,851	879,005	475,746
Foreign exchange adjustment	-	(356,690)	-	(772,460)
	(594,671)	(267,672)	(1,171,276)	(516,906)
Changes in non-cash working capital items:				
Amounts receivable	81,665	(192,688)	(1,062,936)	(292,765)
Prepaid expenses	(16,234)	(13,215)	4,318	(2,215)
Accounts payable and accrued liabilities	(439,398)	(672)	(408,096)	(112,915)
Due to related parties	(68,971)	(1,111)	(72,631)	(70,300)
Cash flows used in operating activities	(1,037,609)	(475,358)	(2,710,621)	(995,101)
<b>CASH FLOWS FROM (TO) FINANCING ACTIVITIES</b>				
Shares issued for cash	14,300,000	4,453,714	19,300,000	11,178,207
Share issue costs	(236,627)	(120,000)	(871,239)	(607,369)
Cash flows provided by financing activities	14,063,373	4,333,714	18,428,761	10,570,838
<b>CASH FLOWS TO INVESTING ACTIVITIES</b>				
Purchase of equipment	(6,621,482)	(20,988)	(9,223,238)	(89,169)
Expenditures on resource properties	(2,767,138)	(1,347,678)	(4,178,429)	(5,370,002)
Cash flows used in investing activities	(9,388,620)	(1,368,666)	(13,401,667)	(5,459,171)
<b>Increase in cash and cash equivalents during the period</b>	<b>3,637,144</b>	<b>2,489,690</b>	<b>2,316,473</b>	<b>4,116,566</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>1,150,371</b>	<b>1,761,925</b>	<b>2,471,042</b>	<b>135,049</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 4,787,515</b>	<b>\$ 4,251,615</b>	<b>\$ 4,787,515</b>	<b>\$ 4,251,615</b>
<b>Cash consists of:</b>				
Cash	\$ 4,764,515	\$ 4,150,719	\$ 4,764,515	\$ 4,150,719
Short – term deposits	23,000	23,000	23,000	23,000
Cash – restricted	-	77,896	-	77,896
	\$ 4,787,515	\$ 4,251,615	\$ 4,787,515	\$ 4,251,615

**Supplemental disclosure with respect to cash flows (Note 8)**

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**

September 30, 2008

(Unaudited in Canadian dollars)

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**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, evaluating and developing 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 (“Exchange”). 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 arrange additional financing through issuances of equity, 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 complete such financing arrangements in order for it to meet its liabilities as they come due, and to continue its operations. There can be no assurance that the Company will be able to raise funds, in which case the Company may be unable to meet its obligations. The net realizable value of the Company’s assets may be materially less than the amounts recorded in these financial statements should the Company be unable to realize its assets and discharge its liabilities in the normal course of business. The Company completed a private placement for gross proceeds of \$19,300,000 (Note 7e).

**2. CHANGES IN ACCOUNTING POLICIES****Basis of presentation**

These unaudited interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“GAAP”). The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements. These unaudited 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 audited annual statements. The accounting principles used include:

**Principles of consolidation**

These unaudited interim financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant inter-company balances and transactions have been eliminated.

**Changes in accounting policies**

On April 1, 2008, the Company adopted the following new presentation and disclosure standards issued by the Canadian Institute of Chartered Accountants (“CICA”). There was no material impact on the Company’s financial condition or operating results as a result of the adoption of these new standards:

- (a) Section 3862 – Financial Instruments – Disclosures, which replaces Section 3861 and provides expanded disclosure requirements that provide additional detail by financial asset and liability categories.
- (b) Section 3863 – Financial Instruments – Presentation, to enhance financial statement users’ understanding of the significance of financial instruments to an entity’s financial position, performance and cash flows (Note 9).
- (c) Section 1535 – Capital Disclosures, which establishes standards for disclosing information about an entity’s capital and how it is managed (Note 13). Under this standard, the Company will be required to disclose the following:

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**2. CHANGES IN ACCOUNTING POLICIES (continued)**

- qualitative information about its objectives, policies and processes for managing capital;
- summary quantitative data about what it manages as capital;
- whether during the period it complied with any externally imposed capital requirement to which it is subject; and
- when the Company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

(d) Section 1400 – General Standards of Financial Statement Presentation, to include requirements for management to assess and disclose an entity’s ability to continue as a going concern (see Note 1).

**Convergence with International Financial Reporting Standards**

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company’s reporting no later than in the first quarter of 2011, with restatement of comparative information presented. The conversion to IFRS will 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 is currently evaluating the future impact of IFRS on its financial statements and will continue to invest in training and additional resources to ensure a timely conversion.

**3. 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 5a). The purchase price for the San Francisco Property was US\$5,000,000 (US\$2,500,000 was paid on closing of the acquisition with a further US\$2,500,000 paid on October 29, 2007) and 10,000,000 common shares of the Company (Note 7d). These shares are subject to a pooling agreement that governs the release of the shares, in equal increments, in six month intervals over a three year period (Note 7).

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

<u>Consideration:</u>	
Cash	\$5,205,753
Common shares	7,000,000
Total purchase price	<u><u>\$12,205,753</u></u>
<u>Assets and liabilities acquired:</u>	
San Francisco mine property	\$18,425,142
Future Income Tax	(4,940,389)
Asset Retirement Obligation	(1,279,000)
	<u><u>\$12,205,753</u></u>

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**3. ACQUISITION OF SAN FRANCISCO MINE (continued)**

Under the Acquisition Agreement the Company was also required to purchase certain mine equipment and buildings from the vendor for US\$3,500,000 plus IVA, the Mexican equivalent of value added tax, of US\$525,000. 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. As a result, the full acquisition price of the US\$ denominated debt has been discounted at an annualized rate of 6.775% to reflect the implied interest rate, resulting in an interest charge of \$194,578 during the year ended March 31, 2008 and \$130,220 for the six months ended September 30, 2008. The mine and equipment have been recorded at a cost of \$3,045,638.

**4. EQUIPMENT**

	September 30, 2008			March 31, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 151,939	\$ 30,504	\$ 121,435	\$ 51,070	\$ 19,307	\$ 31,763
Machinery and equipment	9,214,315	2,215	9,212,100	406,043	932	405,111
Leasehold improvements	8,259	3,304	4,955	8,259	2,478	5,781
Mine equipment and buildings (Note 3)	3,684,951	-	3,684,951	3,602,217	-	3,602,217
Office furniture and equipment	145,580	18,996	126,584	69,939	13,679	56,260
Vehicles	323,926	54,084	269,842	153,192	26,823	126,369
	<u>\$ 13,528,970</u>	<u>\$ 109,103</u>	<u>\$ 13,419,867</u>	<u>\$ 4,290,720</u>	<u>\$ 63,219</u>	<u>\$ 4,227,501</u>

Mine equipment and buildings were not depreciated during the period as they have not been put into use and commercial production has not commenced.

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(Unaudited in Canadian dollars)

**5. RESOURCE PROPERTIES**

	March 31, 2007	Additions	March 31, 2008	Additions	September 30, 2008
<b>San Francisco Property (Note 5a)</b>					
Acquisition cost (Note 3)	\$ 31,345	\$ 18,425,142	\$ 18,456,487	\$ 1,104,379	\$ 19,560,866
Claim staking	39,442	-	39,442	-	39,442
Mining taxes and assessments	265,554	62,287	327,841	25,954	353,795
Surface rights	135,534	-	135,534	-	135,534
<i>Total acquisition and holding costs</i>	471,875	18,487,429	18,959,304	1,130,333	20,089,637
Administration	2,836	-	2,836	-	2,836
Assays	120,979	107,600	228,579	87,963	316,542
Camp and field costs	40,469	13,953	54,422	11,783	66,205
Communication	6,214	7,317	13,531	2,880	16,411
Drilling	720,712	736,037	1,456,749	25,492	1,482,241
Engineering and feasibility	52,441	-	52,441	6,000	58,441
Pre-feasibility expenses	-	1,307,839	1,307,839	-	1,307,839
Pre-operating expenses	-	-	-	1,017,834	1,017,834
Field work and geological consulting	870,947	15,661	886,608	-	886,608
Geophysics and metallurgy	-	77,638	77,638	-	77,638
Legal and filing fees	163,689	148,132	311,821	3,316	315,137
Miscellaneous exploration expenses	99,403	173,557	272,960	58,320	331,280
Property investigation	11,216	-	11,216	-	11,216
Reports, drafting and maps	5,376	10,165	15,541	1,351	16,892
Travel and accommodation	35,881	89,101	124,982	46,552	171,534
Salaries and consulting fees	-	672,486	672,486	405,587	1,078,073
<i>Deferred exploration costs</i>	2,130,163	3,359,486	5,489,649	1,667,078	7,156,727
<i>Total acquisition and exploration costs</i>	2,602,038	21,846,915	24,448,953	2,797,411	27,246,364
<b>Tequila Property (Note 5b)</b>					
Acquisition cost	-	104,081	104,081	50,643	154,724
Assays	-	21,214	21,214	36,224	57,438
Camp and field costs	-	14,874	14,874	14,231	29,105
Drafting, reporting	-	779	779	2,484	3,263
Drilling	-	89,378	89,378	459,208	548,586
Legal fees	-	96	96	-	96
Mining taxes	-	3,033	3,033	1,026	4,059
Miscellaneous exploration expenses	-	126,452	126,452	72,283	198,735
Salaries and consulting fees	-	181,288	181,288	154,640	335,928
Travel	-	10,954	10,954	6,348	17,302
Trenching and road work	-	64,875	64,875	38,012	102,887
<i>Total acquisition and exploration costs</i>	-	617,024	617,024	835,099	1,452,123

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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(Unaudited in Canadian dollars)

**5. RESOURCE PROPERTIES (continued)**

	March 31, 2007	Additions	March 31, 2008	Additions	September 30, 2008
<b>El Capomo Property (Note 5c)</b>					
Assays	-	5,031	5,031	7,918	12,949
Claim staking	-	18,512	18,512	-	18,512
Camp and accommodation	-	6,885	6,885	4,555	11,440
Drafting and reporting	-	455	455	53	508
Mining taxes	-	28,999	28,999	22,182	51,181
Miscellaneous exploration expenses	-	21,167	21,167	5,466	26,633
Salaries and consulting fees	-	104,038	104,038	74,182	178,220
Travel	-	1,400	1,400	-	1,400
Total acquisition and exploration costs	-	186,487	186,487	114,356	300,843
<b>Cocula Property (Note 5d)</b>					
Acquisition cost	-	99,712	99,712	46,603	146,315
Assays	-	1,132	1,132	99,177	100,309
Camp and accommodation	-	2,770	2,770	6,948	9,718
Drafting and reporting	-	482	482	402	884
Drilling	-	-	-	20,414	20,414
Legal fees	-	96	96	-	96
Mining taxes	-	26,117	26,117	2,390	28,507
Miscellaneous exploration expenses	-	12,513	12,513	18,430	30,943
Salaries and consulting fees	-	75,194	75,194	143,644	218,838
Travel	-	577	577	3,496	4,073
Trenching and road work	-	-	-	19,590	19,590
Total acquisition and exploration costs	-	218,593	218,593	361,094	579,687
<b>Other Properties (Note 5e and Note 5f)</b>					
Acquisition cost	-	15,153	15,153	15,114	30,267
Assays	-	-	-	1,978	1,978
Claim staking	-	1,294	1,294	-	1,294
Camp and accommodation	-	-	-	629	629
Legal fees	-	1,405	1,405	-	1,405
Mining taxes	-	23,605	23,605	63,891	87,496
Exploration expenses	-	3,813	3,813	3,510	7,323
Salaries and consulting fees	-	6,460	6,460	29,262	35,722
Total acquisition and exploration costs	-	51,730	51,730	114,384	166,114
<b>Total property expenditures</b>	<b>\$ 2,602,038</b>	<b>\$22,920,749</b>	<b>\$ 25,522,787</b>	<b>\$ 4,222,344</b>	<b>\$ 29,745,131</b>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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(Unaudited in Canadian dollars)

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**5. RESOURCE PROPERTIES (continued)****a) San Francisco Property**

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 was terminated on April 20, 2007, when it was superseded by the Acquisition Agreement (Note 3). 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 are included in the San Francisco Property.

**b) 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 as follows:

US\$50,000 (paid);  
US\$50,000 on December 20, 2007 (paid);  
US\$50,000 on June 20, 2008 (paid);  
US\$100,000 on December 20, 2008;  
US\$150,000 on June 20, 2009;  
US\$600,000 on December 20, 2009; and  
US\$1,000,000 by June 20, 2010. The Company may elect to make half of the final payment in shares.

The vendor will retain a 2% net smelter return interest, which may be purchased for US\$1,000,000.

**c) El Capomo Property**

The Company has acquired the mineral rights to 60,000 hectares in four claim blocks by staking the Capomo Property in Nayarit, Mexico.

**d) Cocula Property**

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 on signing the option agreement (paid);  
US\$50,000 on or before January 18, 2008 (paid)  
US\$50,000 on or before July 18, 2008 (paid);  
US\$150,000 on or before July 18, 2009;  
US\$150,000 on or before July 18, 2010; and  
US\$1,050,000 on or before July 18, 2011.

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**5. RESOURCE PROPERTIES (continued)****e) El Picacho Property**

On December 11, 2007, the Company entered into an exploration agreement with the option to acquire a 100% interest in the 11 mining properties that comprise the Picacho Project, in Sonora, Mexico. The agreement requires the Company to pay the vendor a total of USD 1,500,000.00 over four years, as follows:

US\$15,000 on signing the option agreement (paid);

US\$15,000 on June 11, 2008 (paid);

US\$15,000 on December 11, 2008;

US\$15,000 on June 11, 2009;

US\$15,000 on December 11, 2009;

US\$15,000 on June 11, 2010;

US\$15,000 on December 11, 2010, and

US\$1,395,000 on December 11, 2011.

The vendor will retain a 1.5% net smelter return interest, which is limited to US\$1,500,000.00. The vendor is obligated to sell or transfer to the Company his right to the royalty at any time, upon the Company's request, for which the Company will pay US\$500,000.00 for every half per cent (0.50%), to a maximum of US\$1,500,000.

The Company has also staked an additional 6,500 hectares encompassing the claims and now controls over 7,200 hectares in the Picacho area.

**f) Other Properties**

The Company is awaiting the issuance of the mining title/certificate to a claim. The Company also received title to the Patricia and Norma concessions, located in the Municipality of Trincheras, Sonora, Mexico.

**6. RELATED PARTY TRANSACTIONS**

During the six months ended September 30, 2008, the Company entered into the following transactions with related parties:

- (a) The Company paid \$Nil (2007 - \$20,000) as consulting fees to a director and an officer of the Company. As of September 30, 2008, \$9,766 (March 31, 2008 - \$9,766) was owed by this director and officer for expense advances.
- (b) As of September 30, 2008, \$647 (2007 - \$647) was held in trust by the legal firm controlled by a director and an officer of the Company.
- (c) The Company incurred \$32,000 (2007 - \$24,000) for accounting services with a private company of which a director of the Company was a vice-president. As of September 30, 2008, \$3,783 (March 31, 2008 - \$5,250) was owed to this company.
- (d) The Company paid \$4,500 (2007 - \$Nil) as director's fees to directors of the Company.
- (e) The Company incurred \$47,807 (2007 - \$90,275) of consulting fees, including geological consulting, by directors and officers of the Company. As of September 30, 2008, \$2,791 (March 31, 2008 - \$3,430) was advanced to these directors and officers.

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**6. RELATED PARTY TRANSACTIONS (continued)**

- (f) The Company incurred \$56,649 (2007 - \$23,931) for rent and administrative expenses on behalf of a company with directors in common. As of September 30, 2008, \$93,400 (March 31, 2008 - \$16,987) was owed by this company.

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.

**7. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

Authorized: unlimited number of common shares without par value  
unlimited number of convertible preference shares without par value, with the same rights as the common shares on dissolution and similar events. These shares have no voting rights and are not entitled to dividend payments

	Number of Common Shares	Amount	Number of Convertible Preference Shares	Amount	Contributed Surplus
<b>Balance, March 31, 2007</b>	<b>20,616,133</b>	<b>\$ 3,530,082</b>	<b>-</b>	<b>\$ -</b>	<b>\$ 262,535</b>
Issued:					
Pursuant to private placement (Note 7b)	12,627,000	6,313,500	-	-	-
Pursuant to issue of agent's corporate finance shares (Note 7b)	180,414	90,207	-	-	-
Pursuant to warrants exercised (Notes 7a and b)	14,907,407	8,732,585	-	-	-
Pursuant to options exercised (Note 7c)	437,500	158,750	-	-	-
Pursuant to agent's and broker's warrants exercised (Notes 7a and b)	2,287,000	1,222,900	-	-	-
Pursuant to property acquisitions (Note 7d)	10,500,000	7,345,000	-	-	-
Share issue costs (Notes 7a and b)	-	(804,394)	-	-	147,025
Fair value on stock options and agent's warrants exercised (Notes 7a, b and c)	-	495,790	-	-	(495,790)
Stock-based compensation	-	-	-	-	2,351,294
<b>Balance, March 31, 2008</b>	<b>61,555,454</b>	<b>27,084,420</b>	<b>-</b>	<b>-</b>	<b>2,265,064</b>
Issued:					
Pursuant to private placement (Note 7e)	4,000,000	5,000,000	11,000,000	14,300,000	-
Share issue costs (Note 7e)	-	(871,239)	-	-	-
Stock-based compensation	-	-	-	-	879,005
<b>Balance, September 30, 2008</b>	<b>65,555,454</b>	<b>\$ 31,213,181</b>	<b>11,000,000</b>	<b>\$ 14,300,000</b>	<b>\$ 3,144,069</b>

- a) In fiscal 2008, 8,513,000 (including 75,000 warrants issued on corporate finance units) share purchase warrants were exercised for total proceeds of \$4,256,500 and 1,080,000 agent's warrants were exercised for total proceeds of \$378,000. The fair value of \$165,758 was transferred from contributed surplus on the exercise of agent's warrants. \$120,000 of share issue costs were incurred on exercised warrants.

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**7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)**

- b) 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 entitled 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 1,207,700 broker's warrants were issued on this private placement. Each broker's warrant entitled 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 \$147,025 using Black-Scholes was recognized. A finder's fee of \$11,250 was also paid.

During fiscal 2008, 6,394,407 warrants (including 90,207 warrants issued on agents' Units) and 1,207,000 broker's warrants were exercised for the total proceeds of \$5,320,985, and 10,000 warrants expired. The fair value of \$147,025 was transferred from contributed surplus on the exercised broker's warrants. \$50,000 of share issue costs were incurred on the exercised warrants.

- c) During fiscal 2008, 400,000 stock options were exercised at \$0.35 per share and 37,500 stock options were exercised at \$0.50 per share. The fair value of these options at the date of grant was \$183,092. An equivalent amount was transferred from contributed surplus.
- d) During fiscal 2008, the Company issued 10,000,000 common shares for the acquisition of the San Francisco property, valued at \$0.70 per share (Note 3), and 500,000 common shares on acquisition of the Las Coloradas property valued at \$0.69 per share (Note 5b). The shares were valued based on the fair value of the Company's shares on the date of Exchange acceptance of the acquisitions.
- e) During fiscal 2008, the Company closed a private placement financing with Pacific Road Resources Fund ("PRRF") totalling \$19,300,000. The financing occurred in two stages. The first stage, closed on June 10, 2008, consisted of 4,000,000 common shares at a price of \$1.25 per share for gross proceeds of \$5,000,000. The second stage, closed on July 14, 2008, consisted of 11,000,000 special warrants at a price of \$1.30 per special warrant for total proceeds of \$14,300,000. Each special warrant is exercisable without payment of any additional consideration into a unit consisting of one convertible preference share and a 0.318 convertible share purchase warrant for a total of 3,500,000 warrants. Each whole convertible share purchase warrant is exercisable into one convertible preference share at a price of \$1.50 per share, on or before October 1, 2008.

On September 30, 2008, all 11,000,000 units were exercised into 11,000,000 convertible preference shares and 3,500,000 warrants. On October 1, 2008, all the warrants expired. The convertible preference shares, created at the request of PRRF and approved by the shareholders of the Company at its Annual General Meeting on September 10, 2008, are convertible into one common share of the Company without payment of any additional consideration.

The securities issued under the special warrant private placement are subject to a voluntary nine month hold period that expires on April 15, 2009. \$871,239 share issue costs were incurred.

**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 not less than the Discounted Market Price as defined by the TSX Corporate Finance Manual 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.

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**7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)**

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

	Shares	Weighted Average Exercise Price
Outstanding, March 31, 2007	1,700,000	\$ 0.35
Granted	4,800,000	0.69
Cancelled	(100,000)	0.35
Exercised	(437,500)	0.36
Outstanding, March 31, 2008	5,962,500	0.62
Granted	200,000	1.20
Outstanding, September 30, 2008	6,162,500	\$ 0.64
Vested, September 30, 2008	5,487,500	\$ 0.62

Stock options outstanding at September 30, 2008 are as follows:

Number of Options Outstanding	Number of Options Exercisable	Exercise Price	Expiry Date
200,000	50,000	\$ 1.20	April 7, 2010
1,200,000	1,200,000	\$ 0.35	July 25, 2011
2,500,000	2,500,000	\$ 0.70	May 11, 2012
175,000	175,000	\$ 0.50	July 18, 2012
487,500	362,500	\$ 0.50	October 5, 2012
1,600,000	1,200,000	\$ 0.75	November 27, 2012
6,162,500	5,487,500		

**Warrants**

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

	Number of Warrants	Weighted Average Exercise Price
Outstanding, March 31, 2007	10,332,500	\$ 0.48
Granted	7,611,407	0.70
Exercised	(17,194,407)	0.58
Expired	(749,500)	0.50
Outstanding, March 31, 2008 and September 30, 2008	-	\$ -

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**7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)**

**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 options granted is recognized in income on a straight line basis over the vesting period. The total fair value of stock options vested during the period ended September 30, 2008 was \$879,005 (2007 - \$475,746).

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

	2008	2007
Risk-free interest rate	2.73- 4.63%	3.91- 4.63%
Expected life of options	1 - 5 years	1 - 5 years
Annualized volatility	99 - 103%	98 - 103%
Dividend rate	0.00%	0.00%

**Escrow and pooling**

6,000,000 shares were placed in escrow in accordance with the escrow agreement dated February 17, 2006. At September 30, 2008, 3,300,000 shares were released leaving a balance of 2,700,000 shares held in escrow. The remaining shares held in escrow are to be released over equal semi annual instalments to July 25, 2009.

10,000,000 shares are subject to a pooling agreement dated April 21, 2007. At September 30, 2008, 4,000,000 shares were released leaving a balance of 6,000,000 shares held in escrow. The remaining shares held in escrow are to be released over equal semi annual instalments to April 15, 2010. Subsequently another 1,500,000 shares were released leaving a balance of 4,500,000 shares held escrow.

**8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

Significant non-cash transactions were as follows:

	September 30, 2008	September 30, 2007
Shares issued on property acquisitions	\$ -	\$ 5,295,000
Accrual of long term obligations for capital assets (including IVA)	130,221	2,821,500
Future income tax liability	-	3,950,100
Fair value of broker's warrants	-	147,024
Fair value of agent's warrants and options exercised	-	(330,979)

**9. FINANCIAL INSTRUMENTS**

The Company's operations consist of the acquisition, exploration and development mineral resource properties in Mexico. The Company examines the various financial risks to which it is exposed and assesses the impact and likelihood of occurrence. These risks may include credit risk, liquidity risk, currency risk, interest rate risk and other price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

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**9. FINANCIAL INSTRUMENTS (continued)***(a) Credit risk*

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes any cash amounts owed to the Company by those counterparties, less any amounts owed to the counterparty by the Company where a legal right of set-off exists and also includes the fair values of contracts with individual counterparties which are recorded in the financial statements.

*(i) Trade credit risk*

The Company is in the exploration stage and has not yet commenced commercial production or sales. Therefore, the Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from the prior year.

*(ii) Cash and cash equivalents*

In order to manage credit and liquidity risk we invest only in highly rated investment grade instruments that have maturities of three months or less. Limits are also established based on the type of investment, the counterparty and the credit rating.

*(iii) Derivative financial instruments*

As at September 30, 2008, the Company has no derivative financial instruments. We may in the future enter into derivative financial instruments and in order to manage credit risk, we will only enter into derivative financial instruments with highly rated investment grade counterparties.

*(b) Liquidity risk*

The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements and its exploration and development plans. The annual budget is approved by the Board of Directors. The Company ensures that there are sufficient cash balances to meet its short-term business requirements.

The Company's overall liquidity risk has not changed significantly from the prior year.

*(c) Currency risk*

The Company's functional currency is the Canadian dollar and therefore the Company's net loss and other comprehensive loss are impacted by fluctuations in the value of foreign currencies in relation to the Canadian dollar. The Company's foreign currency exposures comprise cash and cash equivalents and accounts payable and accrued liabilities denominated in Mexican pesos and United States dollars. Several of the Company's options to acquire properties in Mexico may result in option payments by the Company denominated in Mexican Pesos or in United States dollars. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign exchange rates. Appreciation in the Mexican peso against the Canadian dollar will increase our cost of operations in Mexico. A decrease in the United States dollar against the Canadian dollar will result in a loss on our books to the extent we hold funds in United States dollars. The Company is also exposed to inflation risk in Mexico.

The sensitivity of the Company's net loss and other comprehensive loss for the six months ended September 30, 2008 due to changes in the exchange rate for the Mexican peso in relation to the Canadian dollar is summarized in the following table expressed as an increase in the net loss and comprehensive loss for each 10% appreciation in the Canadian dollar:

Net loss and other comprehensive loss	\$	226,657
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A 10% depreciation of the Mexican peso against the Canadian dollar would have a similar decrease in net loss.

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A 10% appreciation in the US dollar in relation to the Canadian dollar would have increased the Company's net loss and comprehensive loss for the six months ended September 30, 2008 by:

Net loss and other comprehensive loss	\$	362,080
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A 10% depreciation of the US dollar against the Canadian dollar would have a similar decrease in net loss.

*(d) Interest rate risk*

The Company's interest revenue earned on cash and cash equivalents and on short term investments is exposed to interest rate risk.

*(e) Fair value disclosures*

The carrying values of cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities approximate their fair value based on their short term nature.

The carrying value of the long term debt approximates its fair value as it has been discounted at an interest rate approximating current market rates.

**10. COMMITMENTS**

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

March 31, 2009	\$	43,002
2010	\$	86,004
2011	\$	86,004

- (b) 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 is paid US\$2,000 per month. The options are exercisable at \$0.50 per share, with 25% vesting every three months during the first year. The Company and Grandich Publications are at arm's length.
- (c) On March 15, 2008, the Company entered into an agreement to retain the services of Alpha Communication to provide investor relations services for an initial term of six months. The company will be paid \$10,000 per month and was granted 200,000 stock options for a period of two years. The options are exercisable at \$1.20 per share, with 25% vesting every three months.
- (d) On August 13, 2008, the Company entered into an agreement with Sandvik Mining and Construction de Mexico, S.A. de C.V ("Sandvik") for the acquisition and installation of the crushing and screening system (the "Project") at the San Francisco Mine ("Mine"). This Project will be completed on February 28, 2009, with a total estimated cost of US\$8,860,000. Pursuant to the terms of the agreement the Company has advanced a total of US\$6,972,436 to Sandvik.

**11. CONTINGENCIES**

Under Mexican regulations, the Company may be obligated to remit taxes to the government on payments made for the acquisition of mineral claims in the event that the recipients of such payments fail to make the required tax remittances relating to those payments. The outcome of this matter is not determinable. The maximum potential remittance is approximately \$315,000; however, the Company believes it has substantive defences against any claims.

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**12. SEGMENTED INFORMATION**

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

	Total Assets	Equipment	Mineral Properties	Other Assets
September 30, 2008				
Canada	\$ 3,857,995	\$ 40,237	\$ -	\$ 3,817,758
Mexico	46,388,450	13,379,630	29,745,131	3,263,689
	<u>\$ 50,246,445</u>	<u>\$ 13,419,867</u>	<u>\$ 29,745,131</u>	<u>\$ 7,081,447</u>
March 31, 2008				
Canada	\$ 2,380,822	\$ 44,665	\$ -	\$ 2,336,157
Mexico	30,982,424	4,182,836	25,522,787	1,276,801
	<u>\$ 33,363,246</u>	<u>\$ 4,227,501</u>	<u>\$ 25,522,787</u>	<u>\$ 3,612,958</u>

**13. MANAGEMENT OF CAPITAL RISK**

The Company manages its cash and cash equivalents, common shares, stock options and warrants as capital (Note 7). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

The Company is currently assessing financing alternatives for its exploration plans and operations through its current operating period. The Company is not currently subject to externally imposed restrictions.

**14. SUBSEQUENT EVENT**

The Company signed agreements totalling US\$1,950,000 for the civil works and heap leach pad construction at the Mine. US\$150,000 of this has already been paid, and a further US\$359,000 must be paid prior to January 20, 2008.