

TIMMINS GOLD CORP.
(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009 and 2008



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Auditors' report

To the Shareholders of
Timmins Gold Corp.

We have audited the consolidated balance sheets of Timmins Gold Corp. as at March 31, 2009 and 2008 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
July 6, 2009

TIMMINS GOLD CORP.
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS
As at March 31
(in Canadian dollars)

	2009	2008
<u>ASSETS</u>		
Current		
Cash and cash equivalents	\$ 700,104	\$ 2,471,042
Amounts receivable	1,264,419	1,061,456
Prepaid expenses	83,259	63,473
Due from related party (Note 6)	20,904	16,987
	<u>2,068,686</u>	<u>3,612,958</u>
Equipment (Note 4)	19,217,085	4,227,501
Resource properties (Note 5)	31,559,088	25,522,787
	<u>\$ 52,844,859</u>	<u>\$ 33,363,246</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current		
Accounts payable and accrued liabilities	\$ 2,321,863	\$ 493,525
Due to related parties (Note 6)	-	234
Vendor loan (Note 3)	4,742,780	-
	<u>7,064,643</u>	<u>493,759</u>
Vendor loan (Note 3)	-	3,726,248
Future income tax (Note 8)	4,285,861	4,940,389
Asset retirement obligation (Note 9)	222,236	1,279,000
	<u>11,572,740</u>	<u>10,439,396</u>
Shareholders' equity		
Share capital (Note 7)	33,915,729	27,084,420
Convertible preference shares (Note 7)	13,586,780	-
Warrants (Note 7)	430,400	147,025
Contributed surplus (Note 7)	3,179,625	2,118,039
Deficit	(9,840,415)	(6,425,634)
	<u>41,272,119</u>	<u>22,923,850</u>
	<u>\$ 52,844,859</u>	<u>\$ 33,363,246</u>

Nature and continuance of operations (Note 1)

Commitments and contingencies (Note 12)

Subsequent events (Note 15)

Approved by the Directors

"Bruce Bragagnolo"

Director

"Eugene Hodgson"

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 COMPREHENSIVE LOSS

For the Years Ended March 31

(in Canadian dollars, except for share amounts)

	2009	2008
GENERAL AND ADMINISTRATIVE EXPENSES		
Accounting and audit	\$ 158,916	\$ 125,511
Accretion of asset retirement obligation	99,161	-
Amortization	64,046	46,281
Consulting	251,241	225,544
Foreign exchange(gain) loss	(214,170)	(269,282)
Interest and bank charges	242,250	206,715
Investor relations	678,369	384,038
Insurance	27,098	-
Legal	90,440	127,985
Property investigation	18,950	62,686
Office and miscellaneous	148,515	131,118
Rent	46,408	43,258
Salaries and wages	674,747	500,727
Stock-based compensation (Note 7)	1,050,336	2,351,294
Telephone	42,578	38,542
Transfer and listing fees	36,895	87,592
Travel	142,262	151,093
Write-off of non-producing mineral property and related deferred exploration expenditures (Note 5(g))	203,331	1,264,182
	(3,761,373)	(5,477,284)
OTHER ITEMS		
Interest income	346,592	143,512
Net loss and comprehensive loss for the year	(3,414,781)	(5,333,772)
Loss per share – basic and diluted	\$ (0.05)	\$ (0.10)
Weighted average number of shares outstanding – basic and diluted	70,519,153	51,522,946

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

TIMMINS GOLD CORP.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended March 31
(in Canadian dollars)

	2009	2008
CASH FLOWS FROM (TO) OPERATING ACTIVITIES		
Loss for the year:	\$ (3,414,781)	\$ (5,333,772)
Items not affecting cash:		
Accretion of asset retirement obligation	99,161	-
Amortization	64,046	46,281
Accretion of debt (Note 3)	242,655	194,578
Stock-based compensation	1,050,336	2,351,294
Unrealized foreign exchange gain	(13,242)	-
Write-off of non-producing mineral property and related deferred exploration expenditures	203,331	1,264,182
	<u>(1,768,494)</u>	<u>(1,477,437)</u>
Changes in non-cash working capital items:		
Amounts receivable	(70,372)	(431,180)
Prepaid expenses	(19,786)	(52,473)
Accounts payable and accrued liabilities	217,755	275,969
Due to (from) related parties	(4,151)	(87,287)
Cash flows used in operating activities	<u>(1,645,048)</u>	<u>(1,772,408)</u>
CASH FLOWS FROM (TO) FINANCING ACTIVITIES		
Shares issued for cash	21,800,000	16,427,735
Share issue costs	(1,087,286)	(567,162)
Cash flows provided by financing activities	<u>20,712,714</u>	<u>15,860,573</u>
CASH FLOWS TO INVESTING ACTIVITIES		
Purchase of equipment, net of accrued investment in mine construction	(13,495,758)	(3,054)
Expenditures on resource properties	(7,342,846)	(11,749,118)
Cash flows used in investing activities	<u>(20,838,604)</u>	<u>(11,752,172)</u>
(Decrease) increase in cash and cash equivalents during the year	<u>(1,770,938)</u>	<u>2,335,993</u>
Cash and cash equivalents, beginning of year	<u>2,471,042</u>	<u>135,049</u>
Cash and cash equivalents, end of year	<u>\$ 700,104</u>	<u>\$ 2,471,042</u>
Cash consists of:		
Cash	\$ 676,280	\$ 2,448,042
Short – term deposits	23,824	23,000
	<u>\$ 700,104</u>	<u>\$ 2,471,042</u>

Supplemental disclosure with respect to cash flows (Note 10)

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

TIMMINS GOLD CORP.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Years Ended March 31, 2008 and 2009

(in Canadian dollars, except for share amounts)

	Number of Common Shares	Amount	Warrants	Number of Convertible Preference Shares	Amount	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, March 31, 2007	20,616,133	\$ 3,530,082	\$ -	-	\$ -	\$ 262,535	\$ (1,091,862)	\$ 2,700,755
Issued:								
Pursuant to private placement (Note 7b)	12,627,000	6,313,500	-	-	-	-	-	6,313,500
Pursuant to issue of agent's corporate finance shares (Note 7b)	180,414	90,207	-	-	-	-	-	90,207
Pursuant to warrants exercised (Notes 7a and b)	14,907,407	8,732,585	-	-	-	-	-	8,732,585
Pursuant to options exercised (Note 7c)	437,500	158,750	-	-	-	-	-	158,750
Pursuant to agent's and broker's warrants exercised (Notes 7a and b)	2,287,000	1,222,900	-	-	-	-	-	1,222,900
Pursuant to property acquisitions (Note 7d)	10,500,000	7,345,000	-	-	-	-	-	7,345,000
Share issue costs (Notes 7a and b)	-	(804,394)	147,025	-	-	-	-	(657,369)
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	-	2,351,294
Net loss	-	-	-	-	-	-	(5,333,772)	(5,333,772)
Balance, March 31, 2008	61,555,454	27,084,420	147,025	-	-	2,118,039	(6,425,634)	22,923,850
Issued:								
Pursuant to private placement (Note 7e)	4,000,000	5,000,000	-	11,000,000	14,300,000	-	-	19,300,000
Pursuant to private placement (Note 7g)	6,250,000	2,201,750	298,250	-	-	-	-	2,500,000
Stock cancellation (Note 7f)	(75,000)	(11,250)	-	-	-	11,250	-	-
Share issue costs (Notes 7e and g)	-	(359,191)	(14,875)	-	(713,220)	-	-	(1,087,286)
Stock-based compensation	-	-	-	-	-	1,050,336	-	1,050,336
Net loss	-	-	-	-	-	-	(3,414,781)	(3,414,781)
Balance, March 31, 2009	71,730,454	\$33,915,729	\$ 430,400	11,000,000	\$ 13,586,780	\$ 3,179,625	\$ (9,840,415)	\$ 41,272,119

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

March 31, 2009

(in Canadian dollars)

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. As at March 31, 2009, the Company had negative working capital. 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 (refer to Note 15 for details of a private placement and a debt financing). 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.

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

The financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“GAAP”). The accounting principles used include:

Principles of consolidation

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

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. Significant areas that involve estimates by management include valuation of stock based compensation, impairment of resource properties, asset retirement obligations, amortization of charges and valuation allowance of future income tax assets.

Cash and cash equivalents

Cash and cash equivalents are highly liquid investments, such as term deposits with major financial institutions, having a maturity of three months or less at acquisition, that are readily convertible to contracted amounts of cash. As at March 31, 2009, cash and cash equivalents include \$23,824 (2008 – \$23,000) of short term notes issued by Canadian chartered banks.

TIMMINS GOLD CORP.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

(in Canadian dollars)

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

Equipment is recorded at cost less accumulated amortization. Additions made during the year are amortized at one-half of the annual rate subsequent to being put into use. 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
Machinery and equipment	Units of production method

The costs of mine equipment and buildings with an estimated life exceeding that of the mine will be amortized based on the units of production method when production commences. The costs will be amortized on a unit of production basis over proven and probable reserves and a portion of resources that management expects to become reserves in the future.

Resource properties

The Company defers the cost of acquiring, maintaining, 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-offs due to impairment in value are to 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 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-offs and recoveries.

Property investigation expenses and administrative expenses

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 consolidated statement of operations, comprehensive 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

March 31, 2009

(in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**Impairment of long-lived assets**

An impairment loss is recognized for long-lived assets including resource properties, and equipment, when events or changes in circumstances cause 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.

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 operations. The temporal method involves 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 sheet 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.

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 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.

Financial instruments and comprehensive income

The Company designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable, the vendor loan, 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 years ended March 31, 2009 and March 31, 2008.

Transaction costs directly attributable to the acquisition or issue of financial instruments are recognized in net income (loss) in the period incurred.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

(in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**Asset retirement obligations**

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

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 (Note 11).
- (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 11).
- (c) Section 1535 – Capital Disclosures, which establishes standards for disclosing information about an entity's capital structure and how it is managed (Note 14). Under this standard, the Company is required to disclose the following:
 - 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).

New accounting standards

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

a) Section 3064 – Goodwill and Intangible Assets

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

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March 31, 2009

(in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**b) Section 1582 Business combinations, Section 1601 consolidated financial statements and Section 1602 non-controlling interests**

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

International Financial Reporting Standards (“IFRS”)

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 in cash (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). The acquisition was treated as an acquisition of assets. 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>\$12,205,753</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>\$12,205,753</u>

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March 31, 2009

(in Canadian dollars)

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 \$4,237,200, including IVA, the Mexican equivalent of value added tax, of \$556,000 (US\$4,025,000). Payment for the mine equipment and buildings may be made at any time until March 11, 2010, 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 and \$242,655 during the years ended March 31, 2008 and 2009, respectively. This vendor loan is recorded at an amount of \$4,742,780 (2008: \$3,726,248). The loan was initially recorded at an amount of \$3,531,670. The mine equipment and buildings have been recorded at a cost of \$3,602,217.

4. EQUIPMENT

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 166,738	\$ 49,655	\$ 117,083	\$ 51,070	\$ 19,307	\$ 31,763
Machinery and equipment	14,887,457	7,830	14,879,627	406,043	932	405,111
Leasehold improvements	8,259	4,130	4,129	8,259	2,478	5,781
Mine equipment and buildings (Note 3)	3,764,088	-	3,764,088	3,602,217	-	3,602,217
Spare parts	82,022	-	82,022	-	-	-
Office furniture and equipment	166,177	28,660	137,517	69,939	13,679	56,260
Vehicles	322,320	89,701	232,619	153,192	26,823	126,369
	<u>\$ 19,397,061</u>	<u>\$ 179,976</u>	<u>\$ 19,217,085</u>	<u>\$ 4,290,720</u>	<u>\$ 63,219</u>	<u>\$ 4,227,501</u>

Mine equipment and buildings, and a portion of the machinery and equipment, were not amortized during the year as they have not been put into use and commercial production has not commenced.

A total of \$52,711 (2008: \$Nil) of amortization expenses was allocated to development expenditures on the San Francisco property (Note 3). This amortization was related to machinery and equipment, and vehicles.

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(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

(in Canadian dollars)

5. RESOURCE PROPERTIES

	2007	Additions	2008	Additions	2009
San Francisco Property (Note 5a)					
Acquisition cost (Note 3)	\$ 31,345	\$18,425,142	\$ 18,456,487	\$ (95,460)	\$ 18,361,027
Claim staking	39,442	-	39,442	1,242	40,684
Mining taxes and assessments	265,554	62,287	327,841	26,532	354,373
Surface rights	135,534	-	135,534	-	135,534
<i>Total acquisition and holding costs</i>	<u>471,875</u>	<u>18,487,429</u>	<u>18,959,304</u>	<u>(67,686)</u>	<u>18,891,618</u>
Administration	2,836	-	2,836	-	2,836
Assays	120,979	107,600	228,579	102,059	330,638
Camp and field costs	40,469	13,953	54,422	35,147	89,569
Communication	6,214	7,317	13,531	-	13,531
Drilling	720,712	736,037	1,456,749	146,186	1,602,935
Engineering and feasibility	52,441	-	52,441	60,569	113,010
Development expenditures	-	991,993	991,993	2,702,823	3,694,816
Field work and geological consulting	870,947	15,661	886,608	748	887,356
Geophysics and metallurgy	-	77,638	77,638	1,848	79,486
Legal and filing fees	163,689	148,132	311,821	3,316	315,137
Miscellaneous exploration expenses	99,403	173,557	272,960	153,524	426,484
Pre-feasibility expenses	-	315,846	315,846	37,969	353,815
Property investigation	11,216	-	11,216	-	11,216
Reports, drafting and maps	5,376	10,165	15,541	5,282	20,823
Travel and accommodation	35,881	89,101	124,982	88,709	213,691
Salaries and consulting fees	-	672,486	672,486	843,941	1,516,427
<i>Deferred exploration costs</i>	<u>2,130,163</u>	<u>3,359,486</u>	<u>5,489,649</u>	<u>4,182,121</u>	<u>9,671,770</u>
Total acquisition and exploration costs	<u>2,602,038</u>	<u>21,846,915</u>	<u>24,448,953</u>	<u>4,114,435</u>	<u>28,563,388</u>
Tequila Property (Note 5b)					
Acquisition cost	-	104,081	104,081	74,888	178,969
Assays	-	21,214	21,214	90,068	111,282
Camp and field costs	-	14,874	14,874	14,662	29,536
Drafting and 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	77,698	204,150
Pre-feasibility expenses	-	-	-	6,120	6,120
Salaries and consulting fees	-	181,288	181,288	196,022	377,310
Travel	-	10,954	10,954	6,796	17,750
Trenching and road work	-	64,875	64,875	38,012	102,887
Total acquisition and exploration costs	<u>-</u>	<u>617,024</u>	<u>617,024</u>	<u>966,984</u>	<u>1,584,008</u>

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5. RESOURCE PROPERTIES (continued)

	2007	Additions	2008	Additions	2009
El Capomo Property (Note 5c)					
Assays	-	5,031	5,031	9,261	14,292
Claim staking	-	18,512	18,512	-	18,512
Camp and accommodation	-	6,885	6,885	4,579	11,464
Drafting and reporting	-	455	455	65	520
Mining taxes	-	28,999	28,999	25,903	54,902
Miscellaneous exploration expenses	-	21,167	21,167	5,576	26,743
Salaries and consulting fees	-	104,038	104,038	81,673	185,711
Travel	-	1,400	1,400	-	1,400
Total acquisition and exploration costs	-	186,487	186,487	127,057	313,544
Cocula Property (Note 5d)					
Acquisition cost	-	99,712	99,712	46,603	146,315
Assays	-	1,132	1,132	153,057	154,189
Camp and accommodation	-	2,770	2,770	13,876	16,646
Drafting and reporting	-	482	482	478	960
Drilling	-	-	-	121,559	121,559
Field work and geological consulting	-	-	-	6,121	6,121
Geophysics and metallurgy	-	-	-	8,476	8,476
Legal fees	-	96	96	-	96
Mining taxes	-	26,117	26,117	4,616	30,733
Miscellaneous exploration expenses	-	12,513	12,513	29,551	42,064
Salaries and consulting fees	-	75,194	75,194	228,932	304,126
Travel	-	577	577	3,824	4,401
Trenching and road work	-	-	-	21,004	21,004
Total acquisition and exploration costs	-	218,593	218,593	638,097	856,690
El Picacho Property (Note 5e)					
Acquisition costs	-	15,153	15,153	30,969	46,122
Assays	-	-	-	11,728	11,728
Camp and accommodation	-	-	-	139	139
Mining taxes	-	5,033	5,033	31,885	36,918
Exploration expenses	-	-	-	1,234	1,234
Salaries and consulting fees	-	-	-	20,267	20,267
Total acquisition and exploration costs	-	20,186	20,186	96,222	116,408
Other Properties (Note 5f)					
Claim staking	-	1,294	1,294	8,439	9,733
Camp and accommodation	-	-	-	1,872	1,872
Legal fees	-	1,405	1,405	(1,405)	-
Mining taxes	-	18,572	18,572	30,843	49,415
Exploration expenses	-	3,813	3,813	(619)	3,194
Salaries and consulting fees	-	6,460	6,460	52,720	59,180
	-	-	-	1,656	1,656
Total acquisition and exploration costs	-	31,544	31,544	93,506	125,050

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5. RESOURCE PROPERTIES (continued)

	2007	Additions	2008	Additions	2009
Las Coloradas Property (Note 5g)					
Acquisition cost	-	720,862	720,862	-	720,862
Exploration costs	-	543,320	543,320	203,331	746,651
Write-off of acquisition cost and accumulated exploration expenses	-	(1,264,182)	(1,264,182)	(203,331)	(1,467,513)
Total acquisition and exploration costs	-	-	-	-	-
Total property expenditures	\$ 2,602,038	\$ 22,920,749	\$ 25,522,787	\$ 6,036,301	\$ 31,559,088

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), thereby terminating any further obligation the Company had under the original agreement. 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, amended on December 11, 2008, require the Company to pay a total of US\$2,000,000 over a period of 42 months as follows:

US\$50,000 on signing the option agreement (paid);
US\$50,000 on December 20, 2007 (paid);
US\$50,000 on June 20, 2008 (paid);
US\$10,000 on December 20, 2008 (paid);
US\$10,000 on January 20, 2009 (paid);
US\$80,000 on June 20, 2009 (subsequently paid);
US\$150,000 on December 20, 2009;
US\$600,000 on June 20, 2010; and
US\$1,000,000 by December 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.

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5. RESOURCE PROPERTIES (continued)**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.

* This agreement was amended subsequently (Note 15b).

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 US\$1,500,000 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 (paid);
US\$15,000 on June 11, 2009 (subsequently paid);
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. 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 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.

g) Las Coloradas Property

Subsequent to March 31, 2008, the Company decided to abandon the property which has resulted in expenditures of \$1,264,182 on this property being written-off in that financial year. Expenditures of \$203,331 were incurred in the current year and have also been written off.

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6. RELATED PARTY TRANSACTIONS

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

- a) The Company incurred \$94,000 (2008 - \$56,500) for accounting services with a private company of which a director of the Company was a vice-president.
- b) The Company incurred \$30,657 (2008 - \$252,948) of consulting fees, including geological consulting, by directors and officers of the Company.
- c) The Company advanced \$631,129 (2008 - \$861,356) to a nominee company incorporated in Mexico. These funds were used to pay the salaries of the Company's employees.
- d) The Company incurred \$103,937 (2008 - \$49,869) for rent and administrative expenses on behalf of a company with directors in common. As of March 31, 2009, \$20,904 (March 31, 2008 - \$16,987) was owed by this company. This amount was subsequently repaid.

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. SHAREHOLDERS EQUITY

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

- 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.
- 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.

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7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

- 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 2009, 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, and 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 was 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 was 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.

A total \$871,239 of share issue costs were incurred in connection with this private placement.

- f) On January 13, 2009, the Company cancelled 75,000 escrow shares at a price of \$0.15 per share. The stock value of \$11,250 was transferred to contributed surplus.
- g) On March 16, 2009, the Company closed a first tranche of non-brokered private placement (see "Subsequent Event"), which consisted of 6,250,000 units at a price of \$0.40 per Unit (the "Units") for total gross proceeds of \$2,500,000. Each Unit consists of one common share and one half share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of \$0.60 until March 16, 2010. The fair value of \$298,250 was assigned to the warrants using Black-Scholes. The assumptions used were a risk-free interest rate of 1.12%, an expected life of one year, annualized volatility of 120%, and a dividend rate of 0%. The Company paid \$200,000 of finder's fees in connection to this private placement. \$16,047 of share issue costs were incurred in connection with this private placement.

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
Issued	7,611,407	0.70
Exercised	(17,194,407)	0.58
Expired	(749,500)	0.50
Outstanding, March 31, 2008	-	-
Issued (Note 7g)	3,125,000	0.60
Outstanding, March 31, 2009	3,125,000	\$ 0.60

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

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	850,000	0.71
Forfeited	(550,000)	0.71
Outstanding, March 31, 2009	6,262,500	\$ 0.62
Vested, March 31, 2009	5,725,000	\$ 0.63

Stock options outstanding at March 31, 2009 are as follows:

Number of Options Outstanding	Number of Options Exercisable	Exercise Price	Expiry Date
200,000	150,000	\$ 1.20	April 7, 2010
50,000	12,500	\$ 0.60	October 22, 2010
600,000	150,000	\$ 0.55	December 31, 2010
1,200,000	1,200,000	\$ 0.35	July 25, 2011
2,100,000	2,100,000	\$ 0.70	May 11, 2012
175,000	175,000	\$ 0.50	July 18, 2012
487,500	487,500	\$ 0.50	October 5, 2009
1,450,000	1,450,000	\$ 0.75	November 27, 2012
6,262,500	5,725,000		

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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 March 31, 2009 was \$1,050,336 (2008 - \$2,351,294). The weighted average fair value of stock options granted during the period was \$0.71.

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

	2009	2008
Risk-free interest rate	1.07- 2.73%	3.91- 4.63%
Expected life of options	2 - 5 years	2 - 5 years
Annualized volatility	82 – 108%	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 March 31, 2009, 5,100,000 shares were released and 75,000 cancelled (Note 7f) leaving a balance of 862,500 shares held in escrow. The remaining shares held in escrow are to be released on July 25, 2009.

10,000,000 shares are subject to a pooling agreement dated April 21, 2007. At March 31, 2009, 5,500,000 shares were released leaving a balance of 4,500,000 shares held in escrow. Subsequently, 1,500,000 shares were released. The remaining shares held in escrow are to be released over equal semi annual instalments to April 15, 2010.

8. INCOME TAXES

The Canadian statutory federal income tax rate for the year ended March 31, 2009 was 30.1% (2008 – 31.5%). A reconciliation of income tax recovery at statutory rates compared to reported income tax provision is as follows:

	2009	2008
Loss for the year	\$ (3,414,781)	\$ (5,333,772)
Expected income tax recovery	\$ (1,058,582)	\$ (1,680,122)
Effect of tax rates in foreign jurisdiction	40,602	45,702
Non-deductible expenses	333,089	757,093
Other	-	7,548
Valuation allowance	684,891	869,779
Total income tax provision	\$ -	\$ -

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8. INCOME TAXES (continued)

The significant components of the Company's future income tax assets and liabilities at March 31, 2008 are as follows:

	2009	2008
Future income tax assets:		
Non-capital loss carry forwards	\$ 3,267,260	\$ 1,195,763
Share issuance costs	461,545	276,603
Other	-	1,809
Future income tax assets	3,728,806	1,474,175
Valuation allowance	(2,213,578)	(1,233,688)
Net future income tax assets	1,515,228	240,487
Future income tax liabilities		
Mineral property carry value in excess of book value	(5,801,088)	(5,180,876)
Net future income tax liability at March 31	(4,285,861)	\$ (4,940,389)

The Company has available non-capital losses in Canada and Mexico, for deduction against future taxable income, of approximately \$4,782,568 (2007 - \$2,700,000) and \$6,373,800 (2008 - \$1,100,000), respectively. These losses, if not utilized, will expire through to 2018. Future tax benefits which may arise as a result of these non-capital losses have not been recognized in these financial statements and have been offset by a valuation allowance.

The Company has the following non-capital losses for income tax purposes which may be used to reduce future taxable income in Canada and Mexico:

Expiry	Canada	Mexico
2013	119,183	-
2014	748,500	-
2015	1,911,907	11,046-
2016	2,002,978	100,759-
2017	-	480,031-
2018	-	5,781,965

9. ASSET RETIREMENT OBLIGATIONS

	2009	2008
Balance, beginning of the year	1,279,000	-
Initial recognition	-	1,279,000
Accretion	99,161	-
Effect of translation of foreign exchange	296,250	-
Change in estimate	(1,452,175)	-
Balance, end of the year	222,236	1,279,000

The asset retirement obligations consist of mine closure, reclamation and retirement obligations for mine facilities and infrastructure.

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9. ASSET RETIREMENT OBLIGATIONS (continued)

During the year ended March 31, 2009, the Company reassessed its asset retirement obligation estimate based on an independent technical report. The total undiscounted amount of estimated cash flows required to settle the retirement obligations of the San Francisco Property is US\$205,494, which has been discounted using a credit-adjusted interest rate of 6.6738%. All asset retirement obligations are not expected to be paid for several years in the future and are intended to be funded from cash balances at the time of the mine closure.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions were as follows:

	2009	2008
Shares issued on property acquisitions	\$ -	\$ 5,295,000
Shares cancelled	11,250	-
Accrual of obligations for capital assets (including IVA)	1,016,532	3,950,100
Future income tax liability on acquisition	-	4,940,389
Fair value of broker's warrants	-	147,025
Fair value of agent's warrants and options exercised	-	(478,004)
Fair value of warrants	295,250	-
Amortization expenses allocated to development expenditures	52,711	-

11. 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.

(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. The Company's credit risk is predominantly limited to the recovery of IVA from the Mexican tax authorities. The Company expects to recover the full amount.

(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 the Company invests 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 March 31, 2009, the Company has no derivative financial instruments. The Company may in the future enter into derivative financial instruments and in order to manage credit risk, it will only enter into derivative financial instruments with highly rated investment grade counterparties.

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11. FINANCIAL INSTRUMENTS (continued)*(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's overall liquidity risk has not changed significantly from the prior year.

The Company has the following resources available to meet its obligations:

Cash as at March 31, 2009	\$700,104	
Accounts receivable as at March 31, 2009	\$1,264,419	
Second tranche of private placement, net (Note 15a)	\$2,209,736	
Third tranche of private placement, net (Note 15b)	\$9,971,980	
	\$14,146,239	

This will be used to meet the following obligations due within the next three months:

Accounts payable and accrued liabilities	\$2,321,863	
Payment on Tequila property (Note 5b)	\$93,000	approximate converted from US\$
Payment on Cocula property (Note 15b)	\$87,000	approximate converted from US\$
Payment to Sandvik (Note 12c)	\$980,000	approximate converted from US\$
Payment to Prodesa (Note 12e)	\$540,000	approximate converted from US\$
	\$4,021,863	

(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, accrued liabilities, and future income tax 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 year ended March 31, 2009 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	\$	115,242
---------------------------------------	----	---------

A 10% depreciation of the Mexican peso against the Canadian dollar would have a similar decrease in net loss.

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 year ended March 31, 2009 by:

Net loss and other comprehensive loss	\$	594,700
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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. The Company does not enter into derivative contracts to manage this risk, and the Company's exposure to interest rate is very low as the Company has limited short term investments.

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11. FINANCIAL INSTRUMENTS (continued)*(e) Fair value disclosures*

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

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

12. COMMITMENTS AND CONTINGENCIES

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

2010	\$ 81,105
2011	\$ 81,105

The lease commitments include a guarantee provided by the Company for the office premises at its corporate office.

- (b) On August 1, 2008, 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 will be paid US\$6,000 for the first three months of the agreement and US\$2,000 per month thereafter. The Company and Grandich Publications are at arm's length.
- (c) 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"). The total estimated cost of this portion of the Project is US\$8,860,000. Pursuant to the terms of the agreement the Company has advanced a total of US\$7,187,850 to Sandvik. US\$869,565 of the balance of the contract is recorded in accounts payable. This amount represents the payment due for work completed as at March 31, 2009. US\$843,000 is due to be paid in July 2009, with the balance within 30 days of completion.
- (d) On February 3, 2009, the Company engaged the services of CPM Group for nine months to arrange financing for the development and re-commissioning of the San Francisco Property, and to assist the Company in evaluating financing requirements and alternatives and structuring. The Company will pay CPM Group a monthly fee of US\$15,000, as well as a 2% cash fee on debt financing raised by the Company. CPM Group is also entitled to a breakup fee in certain circumstances.
- (e) The Company has signed a contract with Proyectos y Desarrollos Prodesa, S.A. de C.V. ("Prodesa") for US\$1,700,138 for the construction of some of the heap leach pads. The Company has also signed a contract with Petimex, S.A. de C.V. ("Petimex") for US\$398,000 for the provision of the civil works at the Mine. The agreement with Petimex was subsequently reduced by US\$200,000. Another supplier was awarded the contract for this portion. US\$960,233 of these contracts has already been paid, and a further US\$463,617 was paid subsequently.
- (f) 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 \$477,649; however, the Company believes it has substantive defences against any claims.

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13. 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
March 31, 2009				
Canada	\$ 346,314	\$ 35,374	\$ -	\$ 310,940
Mexico	52,498,545	19,181,711	31,559,088	1,757,746
	<u>\$ 52,844,859</u>	<u>\$ 19,217,085</u>	<u>\$ 31,559,088</u>	<u>\$ 2,068,686</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>

14. 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.

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15. SUBSEQUENT EVENTS

- (a) On April 21, 2009, the Company closed the second tranche of the private placement announced on March 2, 2009 (Note 7g). The second tranche consisted of 5,989,500 units (the "Units") at a price of \$0.40 per Unit, for gross proceeds of \$2,395,800. Each Unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at an exercise price of \$0.60 per share until April 21, 2010. All securities issued in connection with the private placement are subject to a hold period expiring August 22, 2009. The Company paid cash finders' fees totaling \$186,064.
- (b) On June 1, 2009, the Company was granted an extension on the US\$150,000 payment due on July 18, 2009, on the Cocula Property. The payments will be made as follows: US\$75,000 on or before June 15, 2009 (now paid), and US\$75,000 on or before September 15, 2009. The remainder of the original agreement remains unchanged.
- (c) On June 3, 2009, the Company entered into an agreement with Lincoln Peck Financial Inc. ("Lincoln Peck") to act as its financial advisor. Lincoln Peck will be paid a monthly work fee of \$10,000, a meeting fee of \$2,500 for attendance at meetings of the board of directors and, in certain circumstances, a success fee to be negotiated in advance. The engagement is for a period of the lesser of four months or payment of \$50,000.
- (d) On June 9, 2009, the Company announced that it had engaged WestLB AG, New York Branch ("WestLB"), as lead arranger and sole underwriter for a USD\$25 million of senior secured project finance facilities (the "Facilities") to fund the development of the San Francisco Property. The Facilities are comprised of a 3½ year construction and term loan facility of US\$22 million, and a 3½ year, revolving credit facility of USD\$3 million. Completion of the debt financing is subject to WestLB's internal credit approval, due diligence and documentation.
- (e) On June 17, 2009, the Company closed the third tranche of the private placement announced on March 2, 2009 (Note 7g). The third tranche consists of 25,873,060 units (the "Units") at a price of \$0.40 per Unit, for gross proceeds of \$10,349,224. Each Unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at an exercise price of \$0.60 per share until June 17, 2010. All securities issued in connection with the private placement are subject to a hold period expiring October 18, 2009. The Company paid cash finders' fees totaling \$377,244, subject to Exchange approval.