



CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009
(Unaudited)

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

	December 31, 2009	March 31, 2009
<u>ASSETS</u>		
Current		
Cash and cash equivalents	\$ 2,135,910	\$ 700,104
Amounts receivable	3,009,536	1,264,419
Prepaid expenses	90,969	83,259
Due from related party (Note 5)	81,249	20,904
	<u>5,317,664</u>	<u>2,068,686</u>
Equipment (Note 3)	24,296,223	19,217,085
Resource properties (Note 4)	<u>40,519,303</u>	<u>31,559,088</u>
	<u>\$ 70,133,190</u>	<u>\$ 52,844,859</u>
Current		
Accounts payable and accrued liabilities	\$ 4,963,101	\$ 2,321,863
Vendor loan (Note 8)	4,154,704	4,742,780
	<u>9,117,805</u>	<u>7,064,643</u>
Future income tax	3,889,466	4,285,861
Long term debt (Note 11)	1,051,786	-
Asset retirement obligation (Note 7)	194,681	222,236
	<u>14,253,738</u>	<u>11,572,740</u>
Shareholders' equity		
Share capital (Note 6)	50,152,276	33,915,729
Convertible preference shares (Note 6)	13,586,780	13,586,780
Share subscriptions (Note 13)	276,300	-
Warrants (Note 6)	1,439,387	283,375
Contributed surplus (Note 6)	3,424,691	3,326,650
Deficit	(12,999,982)	(9,840,415)
	<u>55,879,452</u>	<u>41,272,119</u>
	<u>\$ 70,133,190</u>	<u>\$ 52,844,859</u>

Nature and continuance of operations (Note 1)

Commitments and contingencies (Note 11)

Subsequent events (Note 13)

Approved by the Directors

"Bruce Bragagnolo"

Director

"Eugene Hodgson"

Director

The accompanying notes are an integral part of these unaudited interim 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 and per share amounts)

	Three months ended December 31,		Nine months ended December 31,	
	2009	2008	2009	2008
GENERAL AND ADMINISTRATIVE EXPENSES				
Accounting and audit	\$ 40,241	\$ 44,655	\$ 84,115	\$ 86,583
Accretion	17,711	-	24,478	-
Amortization	16,321	17,118	47,025	47,990
Consulting	114,907	105,462	339,595	198,399
Directors' fees	-	-	12,000	-
Financing expenses	553,060	-	1,323,251	-
Foreign exchange loss (gain)	(142,067)	(281,718)	(1,157,942)	(107,146)
Interest expense	61,056	58,908	188,566	175,246
Investor relations	141,343	258,365	402,194	534,246
Insurance	7,771	7,620	21,295	20,302
Legal	34,943	9,067	139,230	72,951
Miscellaneous property investigation	7,179	15,291	16,487	218,622
Office and miscellaneous	83,278	36,572	215,793	107,874
Rent	11,639	11,731	34,322	33,621
Salaries and wages	408,525	235,158	783,739	451,635
Stock-based compensation (Note 6)	350,327	149,765	454,364	1,028,770
Telephone	8,430	11,092	24,011	29,354
Transfer and listing fees	13,742	2,163	32,041	27,461
Travel	63,985	48,275	174,808	95,803
Write off of fixed assets (Note 3)	3,343	-	3,343	-
	(1,795,734)	(729,524)	(3,162,715)	(3,021,711)
OTHER ITEMS				
Interest income	2,496	152,193	3,148	249,991
Net loss and comprehensive loss for the period	\$ (1,793,238)	\$ (577,331)	\$ (3,159,567)	\$ (2,771,720)
Loss per share – basic and diluted	\$ (0.02)	\$ (0.01)	\$ (0.03)	\$ (0.04)
Weighted average number of shares outstanding – basic and diluted	115,587,879	76,555,454	107,768,686	68,202,726

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

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

	Three months ended December 31,		Nine months ended December 31,	
	2009	2008	2009	2008
CASH FLOWS TO OPERATING ACTIVITIES				
Loss for the period	\$ (1,793,238)	\$ (577,331)	\$ (3,159,567)	\$ (2,771,720)
Items not affecting cash:				
Accretion of asset retirement obligation	17,711	-	24,478	-
Accretion of debt	61,056	59,614	188,566	172,850
Amortization	16,321	17,118	47,025	47,990
Stock-based compensation	350,327	149,765	454,364	1,028,770
Unrealized foreign exchange (gain) loss	(143,571)	118,389	(1,164,573)	118,389
	(1,491,394)	(232,445)	(3,609,707)	(1,403,721)
Changes in non-cash working capital items:				
Amounts receivable	(1,476,252)	1,216,678	(1,674,514)	153,742
Prepaid expenses	63,327	21,661	(7,710)	25,979
Accounts payable and accrued liabilities	1,137,459	365,963	2,641,238	(42,133)
Due from related parties	(20,978)	(26,056)	(60,345)	(98,687)
Cash flows used in operating activities	(1,787,838)	1,345,801	(2,711,038)	(1,364,820)
CASH FLOWS FROM (TO) FINANCING ACTIVITIES				
Shares issued for cash	5,208,400	-	17,980,923	19,300,000
Share issue costs	-	-	(944,687)	(871,239)
Share subscriptions	276,300	-	276,300	-
Cash flows provided by financing activities	5,484,700	-	17,312,536	18,428,761
CASH FLOWS FROM (TO) INVESTING ACTIVITIES				
Purchase of equipment, net of accrued investment in mine construction	(562,838)	(1,527,674)	(5,203,078)	(10,750,912)
Expenditures on resource properties	(3,600,552)	(1,838,461)	(7,962,614)	(6,016,890)
Cash flows used in investing activities	(4,163,390)	(3,366,135)	(13,165,692)	(16,767,802)
Increase (decrease) in cash and cash equivalents during the period	(466,528)	(2,020,334)	1,435,806	296,139
Cash and cash equivalents, beginning of period	2,602,438	4,787,515	700,104	2,471,042
Cash and cash equivalents, end of period	\$ 2,135,910	\$ 2,767,181	\$ 2,135,910	\$ 2,767,181
Cash and cash equivalents consists of:				
Cash	\$ 2,112,910	\$ 2,744,181	\$ 2,112,910	\$ 2,744,181
Short – term deposits	23,000	23,000	23,000	23,000
	\$ 2,135,910	\$ 2,767,181	\$ 2,135,910	\$ 2,767,181

Supplemental disclosure with respect to cash flows (Note 9)

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

TIMMINS GOLD CORP.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited in Canadian dollars)

	Number of Common Shares	Amount	Warrants	Number of Convertible Preference Shares	Amount	Share Subscription	Contributed Surplus	Deficit	Total Shareholders' Equity
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 6a)	4,000,000	5,000,000	-	11,000,000	14,300,000	-	-	-	19,300,000
Pursuant to private placement (Note 6c)	6,250,000	2,201,750	298,250	-	-	-	-	-	2,500,000
Stock cancellation (Note 6b)	(75,000)	(11,250)	-	-	-	-	11,250	-	-
Share issue costs (Notes 6a and c)	-	(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
Issued:									
Pursuant to private placement (Note 6d)	5,989,500	2,021,008	374,792	-	-	-	-	-	2,395,800
Pursuant to private placement (Note 6e)	25,873,060	8,359,450	1,989,774	-	-	-	-	-	10,349,224
Pursuant to exercised options (Note 6f)	700,000	768,822	-	-	-	-	(356,322)	-	412,500
Pursuant to exercised warrants (Note 6g)	8,039,000	5,868,088	(1,044,688)	-	-	-	-	-	4,823,400
Share issue costs (Notes 6d and e)	-	(780,821)	(163,866)	-	-	-	-	-	(944,687)
Warrants exercised in prior years	-	-	(147,025)	-	-	-	147,025	-	-
Warrants exercised subsequent to the period (Note 13b)	-	-	-	-	-	276,300	-	-	276,300
Stock-based compensation	-	-	-	-	-	-	454,364	-	454,364
Net loss	-	-	-	-	-	-	-	(3,159,567)	(3,159,567)
Balance, December 31, 2009	112,332,014	\$ 50,152,276	\$ 1,439,387	11,000,000	\$ 13,586,780	\$ 276,300	\$ 3,424,691	\$(12,999,982)	\$ 55,879,452

TIMMINS GOLD CORP.

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

(Unaudited, in Canadian dollars, except for number of options and per share amounts)

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 achieve profitable operations. As at December 31, 2009, the Company had working capital deficit of \$3,800,141. However, on January 29, 2010, the Company received US\$15 million in Senior Secured Notes (“Notes”) from Sprott Asset Management LP, for and on behalf of certain of the Sprott funds, to fund the development and re-commissioning of the Mine at the San Francisco Property (Note 13). The Mine needs to achieve positive cash flow to assure continuation of the Company’s operations and exploration programs. There can be no assurance that this will occur and if the Company does not achieve this the net realizable value of the Company’s assets may be materially less than the amounts recorded in these financial statements.

2. SIGNIFICANT 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:

Changes in accounting policies

a) Goodwill and Intangible Assets

CICA section 3064 replaces the former CICA 3062 – Goodwill and other intangible assets and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. CICA 3064 is effective for interim and annual financial statements for years beginning on or after January 1, 2009. The Company adopted this section effective April 1, 2009. There was no material change to the results of operations or financial position of the Company.

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

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

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(Unaudited, in Canadian dollars, except for number of options and per share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**c) Mining Exploration Costs**

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

New accounting pronouncements

CICA has issued new standards which may affect the financial disclosures and results of operations of the Company. The Company will adopt the requirements on the date specified in each respective section and is considering the impact this will have on the consolidated financial statements.

a) Business combinations, consolidated financial statements and non-controlling interests

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

b) Financial Instruments – Disclosures

In June 2009 the CICA amended Section 3862, Financial Instruments Disclosures, to include enhanced disclosures on the liquidity risk of financial instruments and new disclosures on fair value measurements of financial instruments. The amendments are effective for annual financial statements for fiscal years ending after December 31, 2009, with early adoption permitted. The Company will apply these amendments to its 2010 annual consolidated financial statements. The impact of the amendments to the fair value measurement and liquidity risk disclosure requirements of the Company are not expected to be significant.

c) Comprehensive revaluation of assets and liabilities

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)**d) Financial instruments-recognition and measurement**

In August 2009, the CICA amended Section 3855, Financial Instruments-Recognition and Measurement. This Section has been amended to add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. These amendments apply to reclassifications made on or after July 1, 2009. Earlier adoption is permitted. Also, this Section has been amended to:

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

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

e) 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. EQUIPMENT

	December 31, 2009			March 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 243,270	\$ 90,881	\$ 152,389	\$ 166,738	\$ 49,655	\$ 117,083
Machinery and equipment	19,013,049	20,322	18,992,727	14,887,457	7,830	14,879,627
Leasehold improvements	8,259	5,368	2,891	8,259	4,130	4,129
Mine equipment and buildings	3,794,602	-	3,794,602	3,764,088	-	3,764,088
Spare parts	898,107	-	898,107	82,022	-	82,022
Office furniture and equipment	262,354	43,117	219,237	166,177	28,660	137,517
Vehicles	380,498	144,228	236,270	322,320	89,701	232,619
	\$ 24,600,139	\$ 303,916	\$ 24,296,223	\$ 19,397,061	\$ 179,976	\$ 19,217,085

Mine equipment and buildings, and a portion of the machinery and equipment, were not amortized during the period as they have not been put into use as commissioning of the Mine has not been completed. A total of \$76,915 (March 31, 2009: \$52,711) of amortization expenses was allocated to development expenditures on the San Francisco Property. This amortization was related to machinery and equipment, and vehicles.

During the period, the Company wrote off \$20,401 of computer equipment having a net book value of \$3,343.

TIMMINS GOLD CORP.

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited, in Canadian dollars, except for number of options and per share amounts)

4. RESOURCE PROPERTIES

	March 31, 2008	Additions	March 31, 2009	Additions	December 31, 2009
San Francisco Property (Note 4a)					
Acquisition cost	\$ 18,456,487	\$ (95,460)	\$ 18,361,027	\$ -	\$ 18,361,027
Claim staking	39,442	1,242	40,684	431	41,115
Mining taxes and assessments	327,841	26,532	354,373	47,000	401,373
Surface rights	135,534	-	135,534	0	135,534
<i>Total acquisition and holding costs</i>	<u>18,959,304</u>	<u>(67,686)</u>	<u>18,891,618</u>	<u>47,431</u>	<u>18,939,049</u>
Administration	2,836	-	2,836	-	2,836
Assays	228,579	102,059	330,638	9,310	339,948
Camp and field costs	54,422	35,147	89,569	25,222	114,791
Communication	13,531	-	13,531	-	13,531
Drilling	1,456,749	146,186	1,602,935	494,809	2,097,744
Engineering and feasibility	52,441	60,569	113,010	33,452	146,462
Development expenditures	991,993	2,702,823	3,694,816	6,007,817	9,702,633
Field work and geological consulting	886,608	748	887,356	35,841	923,197
Geophysics and metallurgy	77,638	1,848	79,486	19,040	98,526
Legal and filing fees	311,821	3,316	315,137	-	315,137
Miscellaneous exploration expenses	272,960	153,524	426,484	1,009,270	1,435,754
Pre-feasibility expenses	315,846	37,969	353,815	-	353,815
Property investigation	11,216	-	11,216	-	11,216
Reports, drafting and maps	15,541	5,282	20,823	2,973	23,796
Travel and accommodation	124,982	88,709	213,691	12,087	225,778
Salaries and consulting fees	672,486	843,941	1,516,427	443,601	1,960,028
<i>Deferred exploration costs</i>	<u>5,489,649</u>	<u>4,182,121</u>	<u>9,671,770</u>	<u>8,093,422</u>	<u>17,765,192</u>
<i>Total acquisition and exploration costs</i>	<u>24,448,953</u>	<u>4,114,435</u>	<u>28,563,388</u>	<u>8,140,853</u>	<u>36,704,241</u>
Tequila Property (Note 4b)					
Acquisition cost	104,081	74,888	178,969	249,411	428,380
Assaying	21,214	90,068	111,282	-	111,282
Camp and field costs	14,874	14,662	29,536	890	30,426
Drafting and reporting	779	2,484	3,263	-	3,263
Drilling	89,378	459,208	548,586	-	548,586
Mining taxes	3,033	1,026	4,059	2,713	6,772
Miscellaneous exploration expenses	126,548	77,698	204,246	-	204,246
Pre-feasibility expenses	-	6,120	6,120	-	6,120
Salaries and consulting fees	181,288	196,022	377,310	62,604	439,914
Travel	10,954	6,796	17,750	-	17,750
Trenching and road work	64,875	38,012	102,887	-	102,887
<i>Total acquisition and exploration costs</i>	<u>617,024</u>	<u>966,984</u>	<u>1,584,008</u>	<u>315,618</u>	<u>1,899,626</u>
El Capomo Property (Note 4c)					
Assaying	5,031	9,261	14,292	-	14,292
Claim staking	18,512	-	18,512	-	18,512
Camp and accommodation	6,885	4,579	11,464	-	11,464
Drafting and reporting	455	65	520	-	520
Geophysics and metallurgy	-	-	-	2,169	2,169
Mining taxes	28,999	25,903	54,902	41,229	96,131
Miscellaneous exploration expenses	21,167	5,576	26,743	-	26,743
Salaries and consulting fees	104,038	81,673	185,711	20,830	206,541
Travel	1,400	-	1,400	213	1,613
<i>Total acquisition and exploration costs</i>	<u>186,487</u>	<u>127,057</u>	<u>313,544</u>	<u>64,441</u>	<u>377,985</u>

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(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

(Unaudited, in Canadian dollars, except for number of options and per share amounts)

4. RESOURCE PROPERTIES (continued)

	March 31, 2008	Additions	March 31, 2009	Additions	December 31, 2009
Cocula Property (Note 4d)					
Acquisition cost	99,712	46,603	146,315	172,801	319,116
Assay	1,132	153,057	154,189	-	154,189
Camp and accommodation	2,770	13,876	16,646	2,843	19,489
Drafting and reporting	482	478	960	-	960
Drilling	-	121,559	121,559	-	121,559
Field work and geological consulting	-	6,121	6,121	-	6,121
Geophysics and metallurgy	-	8,476	8,476	1,433	9,909
Mining taxes	26,117	4,616	30,733	2,156	32,889
Miscellaneous exploration expenses	12,609	29,551	42,160	1,797	43,957
Salaries and consulting fees	75,194	228,932	304,126	57,912	362,038
Travel	577	3,824	4,401	379	4,780
Trenching and road work	-	21,004	21,004	-	21,004
Total acquisition and exploration costs	218,593	638,097	856,690	239,321	1,096,011
El Picacho Property (Note 4e)					
Acquisition cost	15,153	30,969	46,122	30,161	76,283
Assay	-	11,728	11,728	-	11,728
Camp and accommodation	-	139	139	-	139
Geophysics and metallurgy	-	-	-	160	160
Mining taxes	5,033	31,885	36,918	12,207	49,125
Miscellaneous exploration expenses	-	1,234	1,234	-	1,234
Salaries and consulting fees	-	20,267	20,267	9,701	29,968
Total acquisition and exploration costs	20,186	96,222	116,408	52,229	168,637
Other Properties (Note 4f)					
Claim staking	1,294	8,439	9,733	-	9,733
Camp and accommodation	-	1,872	1,872	4,713	6,585
Drafting and reporting	-	-	-	313	313
Exploration expenses	3,813	(619)	3,194	13,092	16,286
Geophysics and metallurgy	-	-	-	11,227	11,227
Mining taxes	18,572	30,843	49,415	36,368	85,783
Salaries and consulting fees	7,865	51,315	59,180	79,954	139,134
Travel	-	1,656	1,656	2,086	3,742
Total acquisition and exploration costs	31,544	93,506	125,050	147,753	272,803
Total property expenditures	\$ 25,522,787	\$ 6,036,301	\$ 31,559,088	\$ 8,960,215	\$ 40,519,303

a) San Francisco Property

The Company has property title to the Timmins and Timmins II concessions and the Timmins III fraction 1 and 2. These concessions are located in Santa Ana, Sonora, Mexico and are included in the San Francisco Property.

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4. RESOURCE PROPERTIES (continued)**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 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 (paid);
US\$150,000 on December 20, 2009 (paid);
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 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 in Jalisco, Mexico. 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\$75,000 on or before June 15, 2009 (paid);
US\$75,000 on or before September 15, 2009 (paid);
US\$150,000 on or before July 18, 2010; and
US\$1,050,000 on or before July 18, 2011.

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 (paid);
US\$15,000 on December 11, 2009 (paid);
US\$15,000 on June 11, 2010;
US\$15,000 on December 11, 2010, and
US\$1,395,000 on December 11, 2011.

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4. RESOURCE PROPERTIES (continued)

e) El Picacho Property (continued)

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 has received title to the Santa Maria del Oro claim in Jalisco, and the Patricia and Norma concessions in the Municipality of Trincheras, Sonora, Mexico.

5. RELATED PARTY TRANSACTIONS

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

- a) The Company incurred \$106,670 (2008 - \$89,268) of consulting fees, including geological consulting, by directors and officers of the Company. As of December 31, 2009, \$1,159 (March 31, 2009 - \$1,261) was advanced to these directors and officers.
- b) The Company incurred \$60,345 (2008 - \$103,937) for rent and administrative expenses on behalf of company with directors in common. As of December 31, 2009, \$81,249 (March 31, 2009 - \$20,904 was owed) was advanced to this company.
- c) The Company advanced \$1,786,695 (2008 - \$1,877,549) to a nominee company incorporated in Mexico. As of December 31, 2009, \$15,072 (March 31, 2009 - \$48) was advanced to this company. These funds were used to pay the salaries of the Company's Mexican employees.
- d) The Company paid \$55,200 as consulting fees to its Chief Financial Officer and \$12,000 as director's fees to a director of the 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.

6. 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.

- a) 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.

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6. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

On December 31, 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 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.

- b) 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.
- c) On March 16, 2009, the Company closed a first tranche of non-brokered private placement, which consisted of 6,250,000 units at a price of \$0.40 per unit 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. A fair value of \$298,250 was assigned to the warrants using Black-Scholes model. 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, and share issue costs of \$16,047 were incurred.
- d) On April 21, 2009, the Company closed the second tranche of the private placement. This tranche consisted of 5,989,500 units at a price of \$0.40 per unit, for gross proceeds of \$2,395,800. Each unit consisted 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. A fair value of \$374,795 was assigned to the warrants using Black-Scholes. The assumptions used were a risk-free interest rate of 0.98%, an expected life of one year, annualized volatility of 120%, and a dividend rate of 0%. The Company paid cash finders' fees of \$186,064 and share issue costs of \$21,450 were incurred.
- e) On June 17, 2009, the Company closed the third tranche of the non-brokered private placement. This tranche consisted of 25,873,060 units at a price of \$0.40 per unit, for gross proceeds of \$10,349,224. Each unit consisted 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. A fair value of \$1,989,774 was assigned to the warrants using Black-Scholes. The assumptions used were a risk-free interest rate of 1.27%, an expected life of one year, annualized volatility of 125%, and a dividend rate of 0%. The Company paid finders' fees of \$696,976 and share issue costs of \$40,300 were incurred.
- f) During the period ended December 31, 2009, 700,000 options were exercised at prices ranging from \$0.55 to \$0.70. A fair value of \$356,322 was transferred from contributed surplus.
- g) During the period ended December 31, 2009, 8,093,000 warrants were exercised at a price of \$0.60. A fair value of \$1,044,688 was transferred to share capital.

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 vest over a period of twelve months.

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6. 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, 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
Granted	2,800,000	1.00
Exercised	(700,000)	0.59
Expired	(337,500)	0.50
Outstanding, December 31, 2009	8,025,000	\$ 0.76
Vested, December 31, 2009	5,225,000	\$ 0.64

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

Number of Options Outstanding	Number of Options Exercisable	Exercise Price	Expiry Date
200,000	200,000	\$ 1.20	April 7, 2010
50,000	50,000	\$ 0.60	October 22, 2010*
350,000	350,000	\$ 0.55	December 31, 2010
1,200,000	1,200,000	\$ 0.35	July 25, 2011
1,850,000	1,850,000	\$ 0.70	May 11, 2012
125,000	125,000	\$ 0.50	July 18, 2012
1,450,000	1,450,000	\$ 0.75	November 27, 2012
2,500,000	-	\$ 1.00	November 13, 2014
300,000	-	\$ 1.00	November 27, 2014
8,025,000	5,225,000		

*These options were exercised subsequent to the period end.

Warrants

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

	Number of Warrants	Weighted Average Exercise Price	Expiry Date
Outstanding, March 31, 2008	-	\$ -	
Issued (Note 6c)	3,125,000	0.60	March 16, 2010
Outstanding, March 31, 2009	3,125,000	0.60	
Issued (Notes 6d and e)	15,931,280	0.60	April 21, 2010 and June 17, 2010
Exercised (Note 6g)	(8,039,000)	0.60	
Outstanding, December 31, 2009	11,017,280	\$ 0.60	

Subsequently, 1,705,250 warrants at \$0.60 were exercised for total proceeds of \$897,150

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6. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)**Stock-based compensation**

The Company recognizes the compensation expense on 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 December 31, 2009 was \$454,364 (2008 - \$1,028,770). The weighted average fair value of stock options vested during the period was \$0.36.

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

	December 31, 2009	March 31, 2009
Risk-free interest rate	1 – 4.63%	1.07- 4.63%
Expected life of options	1 – 5 years	1 - 5 years
Annualized volatility	82 – 119%	82 – 108%
Dividend rate	0.00%	0.00%

Escrow and pooling

10,000,000 shares are subject to a pooling agreement dated April 21, 2007. At December 31, 2009, 8,500,000 shares were released leaving a balance of 1,500,000 shares held in escrow. The balance of 1,500,000 will be released on April 15, 2010.

7. ASSET RETIREMENT OBLIGATIONS

	December 31, 2009	March 31, 2009
Balance, beginning of the period	\$ 222,236	\$ 1,279,000
Accretion	9,978	99,161
Effect of foreign exchange	(37,533)	296,250
Change in estimate	-	(1,452,175)
Balance, end of the period	\$ 194,681	\$ 222,236

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

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.

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8. VENDOR LOAN

Under the San Francisco Property Acquisition Agreement, the Company was 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 \$188,566 (2008 - \$172,850). This vendor loan is recorded at an amount of \$4,154,704 (March 31, 2009: \$4,742,780). The loan was initially recorded at an amount of \$3,531,670.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions were as follows:

	For the six months ended	
	December 31, 2009	December 31, 2008
Accrual of obligations for capital assets (including IVA)	\$ 216,851	\$ 277,897
Accretion of asset retirement obligation (with foreign exchange adjustment)	27,555	70,635
Accrual of long term debt	1,051,786	-
Accretion on long term debt (with foreign exchange adjustment)	16,210	-
Fair value of warrants	2,364,566	-
Amortization expenses allocated to development expenditures	76,915	-
Fair value of warrants exercised	1,044,688	-
Fair value of options exercised	356,323	-

10. 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 and has had limited 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.

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(Unaudited, in Canadian dollars, except for number of options and per share amounts)**10. FINANCIAL INSTRUMENTS (continued)***(iii) Derivative financial instruments*

As at December 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.

(b) Liquidity risk

The Company has a planning and budgeting process in place 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	\$2,135,910	
Amounts receivable	3,009,536	
Sprott financing (net)	14,865,000	Note 13
Cash receivable from warrants and options exercised	1,053,150	
	<u>\$21,063,596</u>	

This will be used to satisfy the following obligations due within the next twelve months:

Accounts payable, accrued liabilities and vendor loan	\$9,117,805	
Payments on Tequila property	1,675,000	approximate converted from US\$
Payment on Cocula property	157,000	approximate converted from US\$
Payment on El Picacho property	31,000	approximate converted from US\$
Payment of mobilization costs	212,000	approximate converted from US\$
	<u>\$11,225,805</u>	

(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 the cost of operations in Mexico. A decrease in the United States dollar against the Canadian dollar will result in a loss to the extent that funds are held 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 period ended December 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	\$	161,852
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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 period ended December 31, 2009 by:

Net loss and other comprehensive loss	\$	866,984
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A 10% depreciation of the US dollar against the Canadian dollar would have a similar decrease in net loss.

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10. FINANCIAL INSTRUMENTS (continued)*(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 risk is very low as the Company has limited short term investments.

(e) Fair value disclosures

The carrying values of cash and cash equivalents, amounts receivable, prepaid expenses, 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.

11. 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	\$40,533
2011	\$81,105
2012	\$13,520

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

- (b) 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.
- (c) On March 1, 2009, the Company entered into a consulting agreement with Grandich Publications, LLC ("Grandich"). Grandich is paid a monthly fee of US\$2,000. The agreement is for a period of twelve months.
- (d) The Company has entered into a mining contract with Peal de Mexico, S.A. de C.V. ("Peal"). The contract is for 42 months, and is at a contracted price of US\$1.59 per ton (plus IVA). This price may increase subject to the price of diesel, drilling and blasting costs, as well as hauling distance, and is subject to an annual review.

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

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

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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	Resource Properties	Other Assets
December 31, 2009				
Canada	\$ 1,888,358	\$ 31,221	\$ -	\$ 1,857,137
Mexico	68,244,832	24,265,002	40,519,303	3,460,527
	<u>\$ 70,133,190</u>	<u>\$ 24,296,223</u>	<u>\$ 40,519,303</u>	<u>\$ 5,317,664</u>
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>

13. SUBSEQUENT EVENTS

- (a) On January 29, 2010, the Company issued US\$15 million in Notes to Sprott Asset Management LP, for and on behalf of certain of the Sprott funds. The Noteholders were granted an aggregate of three million share purchase warrants exercisable for 24 months at a price of \$0.80 each.

The Notes are to be repaid in 12 equal monthly installments commencing August 2010. At the time of payment, each payment shall be equivalent in value to 1,667 ounces of gold (a total of 20,004 ounces). The Company has guaranteed the Noteholders a minimum rate of return of 15% per annum. The Notes, the warrants and any shares issued on exercise of the warrants are subject to a hold period expiring May 27, 2010.

A finders' fee of \$300,000 has been paid to an arm's length party, and a closing fee of US\$179,000 has been paid to CPM Group under the Financial Services Agreement dated February 3, 2009, between CPM Group and the Company.

- (b) 1,705,250 warrants were exercised for total proceeds of \$1,023,150. Included in this figure are proceeds of \$276,300 which were received prior to December 31, 2009. 50,000 options were also exercised for total proceeds of \$30,000.