



(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

(Unaudited)

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

	June 30, 2009	March 31, 2009
<u>ASSETS</u>		
Current		
Cash and cash equivalents	\$ 8,070,327	\$ 700,104
Amounts receivable	1,530,599	1,264,419
Prepaid expenses	47,728	83,259
Due from related party (Note 6)	55,452	20,904
	<u>9,704,106</u>	<u>2,068,686</u>
Equipment (Note 4)	21,861,699	19,217,085
Resource properties (Note 5)	<u>33,324,543</u>	<u>31,559,088</u>
	<u>\$ 64,890,348</u>	<u>\$ 52,844,859</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current		
Accounts payable and accrued liabilities	\$ 3,400,355	\$ 2,321,863
Vendor loan (Note 3)	4,424,727	4,742,780
	<u>7,825,082</u>	<u>7,064,643</u>
Future income tax (Note 3)	4,221,153	4,285,861
Asset retirement obligation (Note 8)	207,333	222,236
	<u>12,253,568</u>	<u>11,572,740</u>
Shareholders' equity		
Share capital (Note 7)	43,787,097	33,915,729
Convertible preference shares (Note 7)	13,586,780	13,586,780
Warrants (Note 7)	2,679,000	430,400
Contributed surplus (Note 7)	3,228,648	3,179,625
Deficit	(10,644,745)	(9,840,415)
	<u>52,636,780</u>	<u>41,272,119</u>
	<u>\$ 64,890,348</u>	<u>\$ 52,844,859</u>

Nature and continuance of operations (Note 1)

Commitments and contingencies (Note 11)

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, COMPREHENSIVE LOSS AND DEFICIT

(In Canadian dollars except for share and per share amounts)

(Unaudited)

	Three months ended June 30,	
	2009	2008
GENERAL AND ADMINISTRATIVE EXPENSES		
Accounting and audit	\$ 6,254	\$ 15,000
Accretion of asset retirement obligation	3,621	-
Amortization	15,560	14,504
Consulting	654,092	59,454
Write-off of non-producing mineral property and related deferred exploration expenditures	-	203,331
Foreign exchange loss (gain)	(517,411)	7,223
Interest and bank charges	67,190	58,335
Investor relations	151,344	131,611
Legal	8,686	33,156
Office and miscellaneous	71,258	38,170
Rent	11,342	10,718
Salaries and wages	200,422	85,485
Stock-based compensation (Note 7)	49,023	530,368
Telephone	7,233	9,801
Transfer and listing fees	2,522	2,323
Travel	74,014	26,772
	<u>(805,150)</u>	<u>(1,226,251)</u>
OTHER ITEMS		
Interest income	820	48,156
	<u>(804,330)</u>	<u>(1,178,095)</u>
Net loss and comprehensive loss for the period	(804,330)	(1,178,095)
Deficit, beginning of the period	(9,840,415)	(6,425,634)
Deficit, end of the period	\$ (10,644,745)	\$ (7,603,729)
Loss per share – basic and diluted	\$ (0.01)	\$ (0.02)
Weighted average number of shares outstanding – basic and diluted	80,033,913	62,434,575

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

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

	Three months ended June 30,	
	2009	2008
CASH FLOWS TO OPERATING ACTIVITIES		
Loss for the period:	\$ (804,330)	\$ (1,178,095)
Items not affecting cash:		
Accretion of asset retirement obligation	3,621	-
Accretion of debt (Note 3)	67,190	56,618
Amortization	15,560	14,504
Stock-based compensation	49,023	530,368
Unrealized foreign exchange gain (loss)	(426,989)	-
	<u>(1,095,925)</u>	<u>(576,605)</u>
Changes in non-cash working capital items:		
Amounts receivable	(307,665)	(1,144,601)
Prepaid expenses	35,531	20,552
Accounts payable and accrued liabilities	1,078,492	31,302
Due from related parties	(34,549)	(3,660)
	<u>(324,116)</u>	<u>(1,673,012)</u>
Cash flows used in operating activities	<u>(324,116)</u>	<u>(1,673,012)</u>
CASH FLOWS FROM (TO) FINANCING ACTIVITIES		
Shares issued for cash	12,745,024	5,000,000
Share issue costs	(625,056)	(143,612)
Deferred costs	-	(491,000)
	<u>12,119,968</u>	<u>4,365,388</u>
Cash flows provided by financing activities	<u>12,119,968</u>	<u>4,365,388</u>
CASH FLOWS FROM (TO) INVESTING ACTIVITIES		
Purchase of equipment, net of accrued investment in mine construction	(2,680,436)	(2,601,756)
Expenditures on resource properties	(1,745,193)	(1,411,291)
	<u>(4,425,629)</u>	<u>(4,013,047)</u>
Cash flows used in investing activities	<u>(4,425,629)</u>	<u>(4,013,047)</u>
Increase (decrease) in cash and cash equivalents during the period	7,370,223	(1,320,671)
Cash and cash equivalents, beginning of period	700,104	2,471,042
Cash and cash equivalents, end of period	\$ 8,070,327	\$ 1,150,371
Cash and cash equivalents consists of:		
Cash	\$ 8,047,327	\$ 1,127,371
Short – term deposits	23,000	23,000
	<u>\$ 8,070,327</u>	<u>\$ 1,150,371</u>

Supplemental disclosure with respect to cash flows (Note 9)

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

TIMMINS GOLD CORP.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited in Canadian dollars)

	Number of Common Shares	Amount	Warrants	Number of Convertible Preference Shares	Amount	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 7a)	4,000,000	5,000,000	-	11,000,000	14,300,000	-	-	19,300,000
Pursuant to private placement (Note 7c)	6,250,000	2,201,750	298,250	-	-	-	-	2,500,000
Stock cancellation (Note 7b)	(75,000)	(11,250)	-	-	-	11,250	-	-
Share issue costs (Notes 7a 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 7d)	5,989,500	2,021,008	374,792	-	-	-	-	2,395,800
Pursuant to private placement (Note 7e)	25,873,060	8,359,450	1,989,774	-	-	-	-	10,349,224
Share issue costs (Notes 7d and e)	-	(509,090)	(115,966)	-	-	-	-	(625,056)
Stock-based compensation	-	-	-	-	-	49,023	-	49,023
Net loss	-	-	-	-	-	-	(804,330)	(804,330)
Balance, June 30, 2009	103,593,014	\$ 43,787,097	\$ 2,679,000	11,000,000	\$13,586,780	\$ 3,228,648	\$ (10,644,745)	\$ 52,636,780

TIMMINS GOLD CORP.

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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 develop profitable operations and to continue to raise adequate financing. As at June 30, 2009, the Company had working capital of \$1,879,024. Management needs to arrange additional financing through issuances of equity, alliances with financial, exploration and mining entities, or other business and financial transactions which could assure continuation of the Company's operations and exploration programs. The Company is dependent upon its ability to complete such financing arrangements in order for it to meet its liabilities as they come due, and to continue its operations. There can be no assurance that the Company will be able to raise funds, in which case the Company may be unable to meet its obligations. The net realizable value of the Company's assets may be materially less than the amounts recorded in these financial statements should the Company be unable to realize its assets and discharge its liabilities in the normal course of business. On June 9, 2009, the Company announced that it had engaged WestLB AG, New York Branch ("West LB") as lead arranger and sole underwriter for a USD\$25 million of senior secured project finance facilities to fund the development of the San Francisco Property. Completion of the debt financing is subject to WestLB's internal credit approval, due diligence and documentation. This process has not yet been completed.

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:

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.

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 adopted this section effective April 1, 2009. There was no material change to the results of operations or financial position of the Company.

TIMMINS GOLD CORP.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

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

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.

c) 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 as required 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.

d) 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.

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.

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(Unaudited, in Canadian dollars, except for number of options and per share amounts)**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 holding the mineral concessions, legal permits and other rights associated with the properties constituting the San Francisco Gold Property (collectively the "San Francisco Property")(Note 5a). The acquisition was treated as an acquisition of assets. The purchase price for the San Francisco Property was US\$5,000,000 in cash and 10,000,000 common shares of the Company. 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 Property	\$18,425,142
Future income tax	(4,940,389)
Asset retirement obligation	(1,279,000)
	<u>\$12,205,753</u>

Under the Acquisition Agreement the Company was also required to purchase certain mine equipment and buildings from the vendor for US\$4,025,000, including IVA, the Mexican equivalent of value added tax, of US \$525,000. Payment for the mine equipment and buildings may be made at any time 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 \$437,233 as of March 31,2009, and \$67,190 for the three months ended June 30, 2009. This vendor loan is recorded at an amount of \$4,424,727 (March 31, 2009: \$4,742,780). The loan was initially recorded at an amount of \$3,531,670. The mine equipment and buildings have been recorded at a cost of \$3,764,088.

4. EQUIPMENT

	June 30, 2009			March 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 173,849	\$ 59,712	\$ 114,137	\$ 166,738	\$ 49,655	\$ 117,083
Machinery and equipment	17,392,691	10,956	17,381,735	14,887,457	7,830	14,879,627
Leasehold improvements	8,259	4,543	3,716	8,259	4,130	4,129
Mine equipment and buildings (Note 3)	3,752,671	-	3,752,671	3,764,088	-	3,764,088
Spare parts	227,029	-	227,029	82,022	-	82,022
Office furniture and equipment	200,677	33,378	167,299	166,177	28,660	137,517
Vehicles	322,320	107,208	215,112	322,320	89,701	232,619
	<u>\$ 22,077,496</u>	<u>\$ 215,797</u>	<u>\$ 21,861,699</u>	<u>\$ 19,397,061</u>	<u>\$ 179,976</u>	<u>\$ 19,217,085</u>

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 and commercial production has not commenced. A total of \$20,262 (March 31, 2009: \$52,711) 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)

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

5. RESOURCE PROPERTIES

	March 31, 2008	Additions	March 31, 2009	Additions	June 30, 2009
San Francisco Property (Note 5a)					
Acquisition cost (Note 3)	\$ 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	23,917	378,290
Surface rights	135,534	-	135,534	-	135,534
<i>Total acquisition and holding costs</i>	<u>18,959,304</u>	<u>(67,686)</u>	<u>18,891,618</u>	<u>24,348</u>	<u>18,915,966</u>
Administration	2,836	-	2,836	-	2,836
Assays	228,579	102,059	330,638	-	330,638
Camp and field costs	54,422	35,147	89,569	13,534	103,103
Communication	13,531	-	13,531	-	13,531
Drilling	1,456,749	146,186	1,602,935	129,682	1,732,617
Engineering and feasibility	52,441	60,569	113,010	6,085	119,095
Development expenditures	991,993	2,702,823	3,694,816	1,113,543	4,808,359
Field work and geological consulting	886,608	748	887,356	-	887,356
Geophysics and metallurgy	77,638	1,848	79,486	-	79,486
Legal and filing fees	311,821	3,316	315,137	-	315,137
Miscellaneous exploration expenses	272,960	153,524	426,484	23,743	450,227
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	1,504	22,327
Travel and accommodation	124,982	88,709	213,691	8,193	221,884
Salaries and consulting fees	672,486	843,941	1,516,427	155,084	1,671,511
<i>Deferred exploration costs</i>	<u>5,489,649</u>	<u>4,182,121</u>	<u>9,671,770</u>	<u>1,451,368</u>	<u>11,123,138</u>
<i>Total acquisition and exploration costs</i>	<u>24,448,953</u>	<u>4,114,436</u>	<u>28,563,388</u>	<u>1,475,716</u>	<u>30,039,104</u>
Tequila Property (Note 5b)					
Acquisition cost	104,081	74,888	178,969	90,252	269,221
Assaying	21,214	90,068	111,282	-	111,282
Camp and field costs	14,874	14,662	29,536	-	29,536
Drafting, 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	1,390	5,449
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	13,822	391,132
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>105,464</u>	<u>1,689,472</u>
El Capomo Property (Note 5c)					
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
Mining tax	28,999	25,903	54,902	21,203	76,105
Miscellaneous exploration expenses	21,167	5,576	26,743	-	26,743
Salaries and consulting fees	104,038	81,673	185,711	5,706	191,417
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>27,122</u>	<u>340,666</u>

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(An Exploration Stage Company)

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June 30, 2009

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

5. RESOURCE PROPERTIES (continued)

	March 31, 2008	Additions	March 31, 2009	Additions	June 30, 2009
Cocula Property (Note 5d)					
Acquisition cost	99,712	46,603	146,315	84,852	231,167
Assay	1,132	153,057	154,189	-	154,189
Camp and accommodation	2,770	13,876	16,646	882	17,528
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	-	8,476
Mining taxes	26,117	4,616	30,733	-	30,733
Miscellaneous exploration expenses	12,609	29,551	42,160	222	42,382
Salaries and consulting fees	75,194	228,932	304,126	13,713	317,839
Travel	577	3,824	4,401	-	4,401
Trenching and road work	-	21,004	21,004	-	21,004
Total acquisition and exploration costs	218,593	638,097	856,690	99,669	956,359
El Picacho Property (Note 5e)					
Acquisition cost	15,153	30,969	46,122	14,409	60,531
Assay	-	11,728	11,728	-	11,728
Camp and accommodation	-	139	139	-	139
Mining tax	5,033	31,885	36,918	5,399	42,317
Miscellaneous exploration expenses	-	1,234	1,234	-	1,234
Salaries and consulting fees	-	20,267	20,267	2,579	22,846
Total acquisition and exploration costs	20,186	96,222	116,408	22,387	138,795
Other Properties (Note 5f)					
Claim staking	1,294	8,439	9,733	-	9,733
Camp and accommodation	-	1,872	1,872	51	1,923
Mining taxes	18,572	30,843	49,415	24,177	73,592
Exploration expenses	3,813	(619)	3,194	206	3,400
Salaries and consulting fees	7,865	51,350	59,180	10,663	69,843
Travel	-	1,656	1,656	-	1,656
Total acquisition and exploration costs	31,544	93,506	125,050	35,097	160,147
Total property expenditures	\$ 25,522,787	\$ 6,036,302	\$ 31,559,088	\$ 1,765,455	\$ 33,324,543

a) San Francisco Property

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 (Note 3). These concessions are located in Santa Ana in the State of Sonora, Mexico and are included in the San Francisco Property.

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

5. 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 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 (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.

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;
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;
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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5. 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.

6. RELATED PARTY TRANSACTIONS

During the period ended June 30, 2009, the Company entered into the following transactions with related parties:

- a) The Company incurred \$45,129 (2008 - \$48,931) of consulting fees, including geological consulting, by directors and officers of the Company. As of June 30, 2009, \$3,381 (March 31, 2009 - \$1,261) was owed to these directors and officers.
- b) The Company incurred \$34,547 (2008 - \$95,973) for rent and administrative expenses on behalf of companies with directors in common. As of June 30, 2009, \$55,452 (March 31, 2009 - \$20,904) was advanced to these companies.
- c) The Company advanced \$579,638 (2008 - \$442,156) to a nominee company incorporated in Mexico. As of June 30, 2009, \$55,782 (March 31, 2009 - \$48) was owed to this company. These funds were used to pay the salaries of the Company's Mexican employees.

The transactions with related parties were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the parties.

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS

Authorized: unlimited number of common shares without par value

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

- 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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(Unaudited, in Canadian dollars, except for number of options and per share amounts)**7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)**

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 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. 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.
- 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 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. The 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%. 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 \$186,064 and \$21,450 of share issue costs in connection with this private placement.
- e) On June 17, 2009, the Company closed the third tranche of non-brokered private placement 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. The 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%. All securities issued in connection with the private placement are subject to a hold period expiring October 18, 2009. The Company paid \$377,244 of finders' fees and \$40,300 of share issue costs 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	Expiry Date
		\$	
Outstanding, March 31, 2008	-	-	
Issued (Note 7c)	3,125,000	0.60	March 16, 2010
Outstanding, March 31, 2009	3,125,000	0.60	
Issued (Notes 7d and e)	15,931,280	0.60	April 21, 2010 and June 17, 2010
Outstanding, June 30, 2009	19,056,280	\$ 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, 2008	5,962,500	\$ 0.62
Granted	850,000	0.71
Forfeited	(550,000)	0.71
Outstanding, March 31, and June 30, 2009	6,262,500	\$ 0.62
Vested, June 30, 2009	5,937,500	\$ 0.63

Stock options outstanding at June 30, 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	25,000	\$ 0.60	October 22, 2010
600,000*	300,000	\$ 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	5,937,500		

50,000 options at \$0.55 were exercised subsequently

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 June 30, 2009 was \$49,023 (2008 - \$530,368). There was no stock options granted during the period.

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7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

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

	March 31, 2009
Risk-free interest rate	1.07- 4.63%
Expected life of options	1 - 5 years
Annualized volatility	82 – 108%
Dividend rate	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 7b) leaving a balance of 862,500 shares held in escrow. The remaining shares held in escrow were released on July 25, 2009.

10,000,000 shares are subject to a pooling agreement dated April 21, 2007. At June 30, 2009, 7,000,000 shares were released leaving a balance of 3,000,000 shares held in escrow. The remaining shares held in escrow are to be released over equal semi-annual instalments to April 15, 2010.

8. ASSET RETIREMENT OBLIGATIONS

	June 30, 2009	March 31, 2009
Balance, beginning of the period	\$ 222,236	\$ 1,279,000
Accretion	3,621	99,161
Effect of translation of foreign exchange	(18,524)	296,250
Change in estimate	-	(1,452,175)
Balance, end of the period	\$ 207,333	\$ 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.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions were as follows:

	June 30, 2009	June 30, 2008
Accrual of long term obligations for capital assets (including IVA)	\$ 77,268	\$ 65,110
Fair value of warrants	2,364,566	-
Amortization expenses allocated to development expenditures	2,262	-

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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 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 June 30, 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 as at June 30, 2009	\$8,070,327	
Accounts receivable as at March 31, 2009	<u>1,530,599</u>	
	\$9,600,926	

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

Accounts payable and accrued liabilities	\$3,400,355	
Payments on Tequila property	865,000	approximate converted from US\$
Payment on El Picacho property	17,000	approximate converted from US\$
Payment on Cocula property	<u>87,000</u>	approximate converted from US\$
	\$4,369,355	

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10. FINANCIAL INSTRUMENTS (continued)*(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 period ended June 30, 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	\$	152,453
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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 June 30, 2009 by:

Net loss and other comprehensive loss	\$	517,155
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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.

(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.

11. COMMITMENTS AND CONTINGENCIES

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

2010	\$	60,830
2011	\$	81,105
2012	\$	13,520

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

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11. COMMITMENTS AND CONTINGENCIES (continued)

- (a) 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.
- (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) 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 is 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.

12. SEGMENTED INFORMATION

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

	Total Assets	Equipment	Mineral Properties	Other Assets
June 30, 2009				
Canada	\$ 6,068,368	\$ 34,386	\$ -	\$ 6,033,982
Mexico	58,821,980	21,827,313	33,324,543	3,670,124
	\$ 64,890,348	\$ 21,861,699	\$ 33,324,543	\$ 9,704,106
March 31, 2009				
Canada	\$ 346,314	\$ 35,374	\$ -	\$ 310,940
Mexico	52,498,545	19,181,711	31,559,088	1,757,746
	\$ 52,844,859	\$ 19,217,085	\$ 31,559,088	\$ 2,068,686

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13. MANAGEMENT OF CAPITAL RISK

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

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

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

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

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