

Financial Statements of

ALHAMBRA RESOURCES LTD.

Three Months Ended March 31, 2007

ALHAMBRA RESOURCES LTD.

Interim Consolidated Balance Sheets

	March, 31 2007 (unaudited)	December 31, 2006 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,677,686	\$ 2,957,576
Accounts receivable	1,588,598	1,348,803
Deposits and prepaid expenses	251,620	266,333
Supplies inventory	573,081	618,403
Work in progress	4,315,300	4,065,861
	<u>8,406,285</u>	<u>9,256,976</u>
Mining assets (note 2)	25,752,759	24,119,714
Equipment	64,783	68,307
	<u>\$ 34,223,827</u>	<u>\$ 33,444,997</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,963,530	\$ 2,184,958
Advances (note 10(b))	864,067	904,093
	<u>3,827,597</u>	<u>3,089,051</u>
Asset retirement obligations (note 4)	379,976	362,408
Future income taxes	801,913	652,537
Shareholders' equity:		
Share capital (note 5(b))	31,897,939	31,685,174
Cumulative translation adjustment	25,079	42,832
Contributed surplus (note 5(c))	2,842,888	2,208,718
Deficit	(5,551,565)	(4,595,723)
	<u>29,214,341</u>	<u>29,341,001</u>
Nature of operations and basis of presentation (note 1)		
Commitments (note 10)		
Segment information (note 12)		
	<u>\$ 34,223,827</u>	<u>\$ 33,444,997</u>

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

Interim Consolidated Statements of Loss and Deficit

Three months ended March 31, 2007 and 2006
(Unaudited)

	2007	2006
Revenue:		
Sales	\$ 2,608,975	\$ –
Less net smelter royalty	(78,269)	–
	2,530,706	–
Interest	19,760	4,159
	2,550,466	4,159
Expenses:		
Operations	1,365,628	–
General and administrative	850,287	349,996
Interest	36,206	19,988
Stock-based compensation	636,241	319,598
Depreciation, depletion and accretion	314,234	2,472
Foreign exchange loss (gain)	60,517	(12,151)
	3,263,113	679,903
Loss before taxes	(712,647)	(675,744)
Income tax expense		
Current	84,334	–
Deferred	158,861	–
	243,195	–
Net loss	(955,842)	(675,744)
Deficit, beginning of year	(4,595,723)	(2,434,921)
Deficit, end of year	\$ (5,551,565)	\$ (3,110,665)
Per share (note 8):		
Net loss per share – basic and diluted	\$ (0.01)	\$ (0.01)

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

Interim Consolidated Statements of Cash Flows

Three months ended March 31, 2007 and 2006
(unaudited)

	2007	2006
Cash provided by (used in):		
Operating:		
Net loss	\$ (955,842)	\$ (675,744)
Items not involving cash:		
Stock-based compensation	636,241	319,598
Depreciation, depletion and accretion	314,234	2,472
Future income taxes	158,861	–
	153,494	(353,674)
Change in non-cash working capital (note 7)	124,338	(10,289)
	277,832	(363,963)
Financing:		
Issuance of shares	128,000	2,435,495
	128,000	2,435,495
Investing:		
Expenditures on mining assets	(1,870,288)	(292,314)
Acquisition of property and equipment	(443)	(3,103)
Change in non-cash working capital (note 7)	185,009	87,630
	(1,685,722)	(207,787)
Increase (decrease) in cash and cash equivalents	(1,279,890)	1,863,745
Cash and cash equivalents, beginning of period	2,957,576	708,593
Cash and cash equivalents, end of period	\$ 1,677,686	\$ 2,572,338
Supplemental disclosure of cash flow information:		
Interest paid	\$ 36,206	\$ 19,988
Taxes paid	60,527	39,663

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

Notes to Consolidated Financial Statements

Three months ended March 31, 2007 and 2006
(Unaudited)

1. Nature of operations and basis of presentation:

(a) Nature of operations:

The Corporation's business consists of the exploration for and development of mineral properties in the Republic of Kazakhstan ("Kazakhstan"). The Corporation's operations are subject to economic, political and social risks inherent in doing business in Kazakhstan. These risks include matters arising out of the policies of the government, economic conditions, imposition of or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights.

(b) Basis of presentation:

Due to Alhambra's continued net losses and limited working capital, its ability to continue with its business plan is dependent upon its ability to raise additional capital to fund these activities and on achieving positive earnings and cash flow.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a "going concern", which assume that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

If the going concern assumption was not appropriate for these financial statements, then material adjustments would be necessary to the carrying values of the assets and liabilities, the reported revenues and expenses and the balance sheet classifications used.

(c) Adoption of accounting policies

The Corporation's accounting policies are as presented in the Corporation's December 31, 2006 audited consolidated financial statements

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Three month ended March 31, 2007 and 2006
(Unaudited)

2. Mining assets:

Deferred exploration and development costs consist of the following:

Mining assets consist of the following:

	2007	2006
Deferred exploration and development costs, net of gross revenue from sales of gold and silver of \$9,292,718 (2006 - \$9,292,718) and accumulated amortization of \$490,954 (2006 - \$382,078)	\$ 16,318,493	\$ 15,248,219
Equipment, net of accumulated depreciation of \$1,102,705 (2006 - \$810,126)	9,212,618	8,694,637
Construction in progress	221,648	176,858
	<u>\$ 25,752,759</u>	<u>\$ 24,119,714</u>

All expenditures relating to the Uzboy project were capitalized up to April 30, 2006 being the date of commencement of commercial operations. These expenditures consisted of pre-production costs, property and equipment and construction in progress costs, general and administration costs and interest on the Pre-payment Gold Sales Facility Agreement. Pre-production costs are expenditures that related to geological exploration, pre-production activities, and directly attributable overhead expenditures. During 2006 up to the date of start up of commercial operations, gross proceeds of \$3,134,384 was recognized as part of the pre-production operations and was recorded as a reduction of deferred exploration and development costs.

Costs excluded from costs subject to depletion at March 31, 2007 totaled \$12,153,722 which represents costs related to the exploration of those portions of the Corporation's Uzboy licenses not currently in production.

During the three months ended March 31, 2007, the Corporation capitalized \$124,729 of general and administrative costs to mining assets including \$82,694 of stock-based compensation.

3. Convertible debenture:

The principal amount of the debenture was convertible at any time, in whole or in part, at the option of the holder into common shares at Cdn\$0.60 (the "Conversion Price") based on the exchange rate in effect at the time of conversion (US\$0.86 at March 31, 2006). The debenture was convertible at the option of the Corporation if the common shares of the Corporation traded over a ten-day consecutive period at a closing price equal to or greater than Cdn\$1.20 per common share. Interest at the rate of 10% on the debenture was compounded semi-annually and was payable on a quarterly basis. The debenture was secured by the assets of the Corporation.

On March 30, 2006, the convertible debenture of Cdn\$792,812 was settled through the issuance of 1,321,353 common shares of the Corporation.

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Notes to Consolidated Financial Statements, page 3

Three month ended March 31, 2007 and 2006
(Unaudited)

4. Asset retirement obligations:

Mineral properties:

The following table presents the reconciliation of the asset retirement obligations associated with the retirement of the Uzboy Project in Kazakhstan.

Three months ended March 31	2007	2006
Balance, beginning of period	\$ 362,408	\$ 61,428
Liabilities incurred	–	292,678
Revisions to previous estimates	4,616	–
Accretion expense	12,952	8,302
Balance, end of period	\$ 379,976	\$ 362,408

The Corporation estimates the total undiscounted cash flows required to settle its asset retirement obligations at March 31, 2007 is approximately \$2,000,000, and estimated to be incurred starting in 2020. A credit adjusted risk free rate of 14% and an inflation rate of 8.5% was used to calculate the fair value of the asset retirement obligation.

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Notes to Consolidated Financial Statements, page 4

Three month ended March 31, 2007 and 2006
(Unaudited)

5. Share capital:

(a) Authorized:

Unlimited voting common shares

Unlimited non-voting preferred shares, of which none have been issued

(b) Issued:

	Three month ended		Year ended	
	March 31, 2007		December 31, 2006	
	Number	Amount	Number	Amount
Common shares				
Balance, beginning of year	69,061,480	\$ 31,685,174	50,478,230	\$ 15,590,718
Exercise of warrants	–	–	15,374,397	11,024,728
Exercise of stock options	252,500	128,000	1,662,500	726,375
Conversion of debenture	–	–	1,321,353	792,812
Purchase of mineral properties	–	–	225,000	513,000
Transfer to common shares upon exercise of warrants	–	–	–	2,632,766
Transfer from contributed surplus	–	84,765	–	404,775
Balance, end of year	69,313,980	\$ 31,897,939	69,061,480	\$ 31,685,174

During the three months ended March 31, 2006, a total of 252,500 stock options were exercised for total proceeds of \$128,000. In addition, a total of \$84,765 was transferred from contributed surplus to reflect the value of the options calculated on the grant date and charged as stock-based compensation expense.

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Notes to Consolidated Financial Statements, page 5

Three month ended March 31, 2007 and 2006
(Unaudited)

5. Share capital (continued):

(c) Options:

The Corporation has a stock option plan under which directors, officers, employees and consultants of the Corporation are eligible to receive stock options. The aggregate number of common shares to be issued upon the exercise of all options granted under the plan shall not exceed 10% of the issued common shares of the Corporation at the time of granting of the options. Options granted under the plan generally have a term of three years but may not exceed five years and vest at terms to be determined by the directors at the time of grant. The exercise price of each option shall be determined by the directors at the time of grant but shall not be less than the price permitted by the policies of the stock exchange(s) on which the Corporation's common shares are then listed.

A summary of the status of the Corporation's stock option plan is as follows:

	Three months ended		Year ended	
	March 31, 2007		December 31, 2006	
	Number of	Weighted	Number of	Weighted
	options	average	options	average
		exercise		exercise
		price		price
Outstanding, beginning of period	5,555,000	\$ 0.94	4,237,500	\$ 0.47
Granted	–	–	2,980,000	1.33
Exercised	252,500	0.51	(1,662,500)	0.44
Outstanding, end of period	5,302,500	\$ 0.96	5,555,000	\$ 0.94
Exercisable, end of period	3,792,500	\$ 0.77	3,595,000	\$ 0.72

ALHAMBRA RESOURCES LTD.

Notes to Consolidated Financial Statements, page 6

Three month ended March 31, 2007 and 2006
(Unaudited)

5. Share capital (continued):

(c) Options (continued):

The following table summarizes information about stock options outstanding and exercisable at March 31, 2007.

Exercise price	Outstanding		Exercisable	
	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
\$ 0.40	482,500	0.25	482,500	0.25
0.45	62,500	0.07	62,500	0.07
0.52	500,000	0.13	500,000	0.13
0.55	1,315,000	2.35	1,315,000	2.35
0.76	300,000	1.73	225,000	1.73
1.06	1,012,500	1.79	735,000	1.79
1.60	1,630,000	2.73	457,500	2.16
	5,302,500	2.90	3,777,500	1.58

A reconciliation of contributed surplus is provided below:

	Three months ended March 31, 2007	Year ended December 31, 2006
Balance, beginning of year	\$ 2,208,718	\$ 1,013,636
Stock-based compensation expense	636,241	1,371,305
Stock-based compensation capitalized	82,694	200,795
Transfer to share capital on the exercise of stock options	(84,765)	(404,775)
Expiration of warrants	–	27,757
Balance, end of year	\$ 2,842,888	\$ 2,208,718

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Notes to Consolidated Financial Statements, page 7

Three month ended March 31, 2007 and 2006
(Unaudited)

6. Related party transactions:

(a) During the three months ended March 31, 2007, the Corporation paid \$36,000 (2006 - \$36,000) in consulting fees to a company controlled by the President and Chief Operating Officer of Alhambra. Of this amount, \$10,800 (2006 - \$27,000) was capitalized to deferred exploration and development costs.

(b) During the three months ended March 31, 2007, the Corporation incurred \$12,729 (2006 - \$10,633) in costs from a law firm in which an officer of the Corporation is a partner. All of the costs were expensed as legal expenses.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

7. Statements of cash flows:

Changes in non-cash working capital are as follows:

Three months ended March 31,	2007	2006
Accounts receivable	\$ (239,795)	\$ (321,895)
Deposits and prepaid expenses	14,713	(132,226)
Supplies inventory	45,322	—
Work in progress	(249,439)	—
Accounts payable and accrued liabilities	778,572	530,828
Advances	(40,026)	634
	<u>\$ 309,347</u>	<u>\$ 77,341</u>
Relating to:		
Operating activities	\$ 124,338	\$ (10,289)
Investing activities	185,009	87,630
	<u>\$ 349,347</u>	<u>\$ 77,341</u>

8. Loss per share:

Basic loss per share is calculated using the weighted average number of shares outstanding during the period.

	2007	2006
Basic and diluted weighted average shares outstanding	69,248,091	52,135,059

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Notes to Consolidated Financial Statements, page 8

Three month ended March 31, 2007 and 2006
(Unaudited)

9. Financial instruments:

(a) Fair values:

The fair values of accounts receivable, accounts payable and accrued liabilities, amounts due to officers and directors, are approximated by their carrying values because of their short-term nature or because they bear interest at market rates. The fair value of the convertible debentures and the convertible promissory notes are considered undeterminable due to the inability to apply a valuation method or obtain market prices.

(b) Interest rate risk:

The Corporation is exposed to interest rate risk to the extent that the convertible debenture and convertible promissory notes are at a fixed rate of interest.

(c) Foreign currency risk:

The convertible debenture, a portion of the convertible promissory notes and the Pre-Payment Gold Sales Facility Agreement (note 10(b)) are denominated in US\$ and therefore the Corporation is subject to the risk of fluctuating exchange rates between the Cdn\$ and US\$.

10. Commitments:

(a) The Corporation has granted a net smelter royalty with respect to the production of minerals from the properties owned by the Corporation in Kazakhstan. The net smelter royalty ranges from 2.5% to 3.0% (dependent on the price of gold) of gross revenue as defined in the Agreement, and amounted to \$78,940 in the three months ended March 31, 2007 (2006 - \$72,105).

(b) Gold Sales and Marketing Agreement:

On December 14, 2004 the Corporation entered into a Gold Sales and Marketing Agreement (the "Sales Agreement") and a US\$780,000 Pre-Payment Gold Sales Facility Agreement (the "Pre-Payment Facility"). Under the Sales Agreement, the purchaser has the right to purchase all the gold produced from the current test heap leach and any additional gold that may be produced from the Uzboy Project for the next three years. The Corporation will be responsible for all costs related to transportation and refining and will pay a marketing fee of 0.95% of gross revenue. Under the Pre-Payment Facility, the Corporation has the right to receive up to US\$750,000 as a pre-payment for gold to be sold to the vendor under the Sales Agreement. Amounts drawn under the Pre-Payment Agreement bear interest at LIBOR plus 8% and are secured by pledge of future deliveries of gold up to a maximum value of US\$1,000,000 and a corporate guarantee by the Corporation. Any unused portion under the Pre-Payment Facility bears interest at LIBOR plus 3%.

At March 31, 2007, advances received from the vendor were US\$749,472 (Cdn\$864,067) (December 31, 2006 – US\$775,846 (Cdn\$904,093)).

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Three month ended March 31, 2007 and 2006
(Unaudited)

(c) Lease Agreement on Premises:

The Corporation is committed under a lease on premises for future minimum rental payments, exclusive of occupancy costs, as follows:

2007	42,323
2008	37,620

- (d) The Corporation is a party to an exclusive supply agreement according to which a contractor has the exclusive right to provide drill and blast services to Saga LLP at the Uzboy project until June 1, 2011. Under the terms of the contract, Saga LLP is required to pay to the contractor a fixed monthly amount of approximately Cdn\$60,000 plus approximately Cdn\$0.75 per cubic meter of material blasted. The pricing terms of the contract are reviewed on an annual basis. The contract can be terminated without penalty after June 1, 2009.

11. Subsequent events:

- (a) Subsequent to March 31, 2007, 702,500 common shares of the Corporation were issued upon the exercise of stock options for total proceeds of \$351,625.

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Notes to Consolidated Financial Statements, page 10

Three month ended March 31, 2007 and 2006
(Unaudited)

12. Segment information:

As at March 31, 2007, the Corporation and its subsidiaries operate in one reportable segment, the exploration for and the development of mineral properties. Identifiable assets, revenues, and net loss in each of its geographic areas are as follows:

Three months ended March 31, 2007	Kazakhstan	Corporate	Total
Sales of gold	\$ 2,608,975	\$ -	\$ 2,608,975
Net income (loss)	147,478	(1,103,320)	(955,842)
Depreciation, depletion and accretion	310,267	3,967	314,234
Assets	31,511,821	2,712,006	34,233,827
Capital expenditures	1,838,398	32,333	1,870,731

Three months ended March 31, 2006	Kazakhstan	Corporate	Total
Net loss ⁽¹⁾	\$ -	\$ (675,744)	\$ (675,744)
Depreciation	-	2,472	2,472
Assets as at December 31, 2006	29,430,537	4,014,460	33,444,997
Capital expenditures	292,314	3,103	295,417

⁽¹⁾ Net loss excludes pre-production operations in Kazakhstan which have been capitalized in deferred exploration and development costs as the operations are still in the development stage