Interim Unaudited Consolidated Financial Statements of

# ALHAMBRA RESOURCES LTD.

Three Months Ended March 31, 2010

# ALHAMBRA RESOURCES LTD.

Interim Consolidated Balance Sheets
(Unaudited)
(Expressed in U.S. Dollars)

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 178,987 | $ 343,619 |
| Accounts receivable | 1,916,362 | 1,904,000 |
| Deposits and prepaid expenses | 251,533 | 263,821 |
| Supplies inventory | 1,282,713 | 1,362,058 |
| Work in progress (note 4) | 10,385,197 | 9,494,769 |
| | 14,014,792 | 13,368,267 |
| Mineral assets (note 5) | 91,141,000 | 90,457,436 |
| Equipment | 35,982 | 36,767 |
| Investment (note 6) | 540,200 | 561,902 |
| | $105,731,974 | $104,424,372 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 5,290,623 | $ 4,474,668 |
| Secured debentures (note 7) | 1,042,142 | 968,069 |
| | 6,332,765 | 5,442,737 |
| Asset retirement obligations (note 8) | 183,203 | 175,411 |
| Future income taxes | 31,447,966 | 30,831,929 |
| Shareholders' equity (deficiency): | | |
| Share capital (note 9(b)) | 35,494,990 | 35,494,990 |
| Warrants (note 9(c)) | 50,795 | 50,795 |
| Equity portion of convertible debentures (note 9(d)) | 116,101 | 116,101 |
| Contributed surplus (note 9(e)) | 5,160,178 | 4,995,418 |
| Accumulated other comprehensive income (note 10) | 574,290 | 178,715 |
| Retained earnings | 26,371,686 | 27,138,276 |
| | 67,768,040 | 67,974,295 |
| | $105,731,974 | $104,424,372 |

Going concern and nature of operation (note 1)
Commitments and contingencies (note 16)

See accompanying notes to consolidated financial statements.

# ALHAMBRA RESOURCES LTD.

Interim Consolidated Statements of Operations and Retained Earnings (Deficit)
Three months ended March 31, 2010 and 2009
(Unaudited)
(Expressed in U.S. Dollars)

| | 2010 | 2009 |
|---|---|---|
| Revenue: | | |
| Sales | $ 2,124,111 | $ – |
| Less royalty and production taxes | | – |
| Net smelter royalty | 63,723 | – |
| Mineral extraction tax | 92,989 | – |
| | 1,967,399 | |
| Expenses: | | |
| Operations | 1,519,735 | – |
| General and administrative | 513,139 | 556,954 |
| Interest and accretion on debt (note 7) | 112,521 | 31,541 |
| Stock-based compensation (note 9(e)) | 164,760 | 62,820 |
| Depreciation, depletion and accretion | 231,223 | 1,950 |
| Foreign exchange gain | (177,128) | 291 |
| Equity loss | 37,939 | 23,179 |
| | 2,402,189 | 676,735 |
| Loss before income taxes | (434,790) | (676,735) |
| Income tax expense (reduction): | | |
| Current | – | – |
| Future | 331,800 | – |
| | 331,800 | – |
| Net loss | (766,590) | (676,735) |
| Retained earnings (deficit), beginning of period | 27,138,276 | (39,613,877) |
| Retained earnings (deficit), end of period | $26,311,686 | $(40,290,612) |
| Net loss per share (note 13): | | |
| Basic and diluted | $ (0.01) | $ (0.01) |

Consolidated Statements of Comprehensive Loss

Three months ended March 31, 2010 and 2009
(Expressed in U.S. Dollars)

| | 2010 | 2009 |
|---|---|---|
| Net loss | $ (766,590) | $ (676,735) |
| Translation gain on self-sustaining operations (note 10) | 395,575 | 33,466 |
| Total comprehensive loss | $ (371,015) | $ (643,269) |

See accompanying notes to consolidated financial statements.

# ALHAMBRA RESOURCES LTD.

Interim Consolidated Statements of Cash Flows
Three months ended March 31, 2010 and 2009
(Unaudited)
(Expressed in U.S. Dollars)

| | 2010 | 2009 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating: | | |
| Net loss | $ (766,590) | $ (676,735) |
| Items not involving cash: | | |
| Stock-based compensation | 164,760 | 62,820 |
| Accretion on debt | 43,476 | |
| Depreciation, depletion and accretion | 231,223 | 1,950 |
| Future income taxes | 331,800 | – |
| Unrealized foreign exchange gain | (199,936) | (24,673) |
| Equity loss on investment | 37,939 | 23,179 |
| | (157,328) | (613,459) |
| Change in non-cash working capital (note 12) | 171,337 | 282,579 |
| | 14,009 | (330,880) |
| Financing: | | |
| Secured notes issued | – | 299,177 |
| | – | 299,177 |
| Investing: | | |
| Expenditures on mineral assets | (290,672) | – |
| Acquisition of equipment | – | (360) |
| Change in non-cash working capital (note 12) | 106,840 | – |
| | (183,832) | (360) |
| Effect of exchange rate changes on cash and cash equivalents | 5,191 | 50,841 |
| Change in cash and cash equivalents | (164,632) | 18,778 |
| Cash and cash equivalents, beginning of period | 343,619 | 25,818 |
| Cash, end of period | $ 178,987 | $ 44,596 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | $ – | $ – |
| Taxes paid | 12,194 | – |

See accompanying notes to consolidated financial statements.

**1. Going concern and nature of operations:**

(a) Going concern:

On December 26, 2008, Alhambra Resources Ltd. ("Alhambra" or the "Corporation") lost ownership of assets that generated cash flow as a result of the unfavorable decision reached in the Kazakhstan Lawsuit (note 3). With the ruling by the Supreme Court of the Republic of Kazakhstan ("Kazakhstan"), Alhambra re-acquired ownership of its Kazakhstan operating subsidiary, Saga Creek Gold Company ("Saga Creek") effective September 15, 2009. The re-acquisition of Saga Creek once again gave Alhambra ownership of revenue producing assets, which has once again given Alhambra access to cash flow to meet its obligations. This cash flow however is not sufficient to enable Alhambra to meet all its obligations and carry out significant exploration and development programs. Additional financing will be required to enable the Corporation to carry out sufficient exploration and development programs to continue as a going concern. There is no assurance at this time that the Corporation will be able to obtain the necessary financing.

These 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 consolidated financial statements, then material adjustments would be necessary to the carrying amounts of the assets and liabilities, the reported revenues and expenses and the balance sheet classifications used.

(b) Nature of operations:

The business of Alhambra consists of the exploration for and development of mineral properties in the Kazakhstan. In addition to its exploration and development activity, Alhambra also produces gold from a pilot project on a portion of its Kazakhstan license that commenced production on May 1, 2006. 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 currency exchange fluctuation and the enforceability of contract rights.

As a result of the unfavorable decision reached in the Kazakhstan Lawsuit (note 3), Alhambra's interest in mineral licenses held by its former Kazakhstan subsidiaries had been invalidated and the ownership was re-registered in the name of the former owners. With the loss of the Kazakhstan subsidiaries effective December 26, 2008, Alhambra no longer had any operations in Kazakhstan and as such took a $30,965,442 write-off of its investment in its Kazakhstan subsidiaries.

The decision by the Supreme Court to reverse the decisions of the lower courts in Kazakhstan enabled the ownership of the shares of the Kazakhstan subsidiaries to be re-registered in the name of the Corporation (note 3). Alhambra has accounted for the re-registration of the ownership of the shares of the Kazakhstan subsidiaries as a purchase according to Handbook Section 1582, Business Combinations (note 3). Operations commenced on September 15, 2009 upon re-acquisition.

(c) Basis of presentation:

The consolidated financial statements of the Corporation have been prepared by management in accordance with accounting principles generally accepted in Canada. In these consolidated financial statements, unless otherwise indicated, all dollar amounts are expressed in United States dollars.

**2. Significant accounting policies:**

These interim consolidated financial statements have been prepared by management following the same accounting policies and methods that were used and disclosed in the audited consolidated financial statements for the year ended December 31, 2009, except as disclosed below. The consolidated financial statements include all adjustments necessary to present fairly the results for the interim period ended March 31, 2010. These interim consolidated financial statements should be read in conjunction with the most recent audited consolidated financial statements and notes filed on SEDAR for the year ended December 31, 2009.

(a) Basis of accounting

The consolidated financial statements have been prepared on a historical cost basis, except for certain assets which were revalued at September 15, 2009 as a result of the re-registration of the ownership of the Kazakhstan Subsidiaries (note 3).

**3. Re-acquisition of Saga Creek Gold Company:**

On September 26, 2008 a statement of claim ("Kazakhstan Lawsuit") was filed in the Specialized Interdistrict Economical Court of the East-Kazakhstan Oblast ("Lower Court") seeking to invalidate Alhambra's ownership of its former Kazakhstan Subsidiaries. Alhambra had acquired 100% interest in the Kazakhstan Subsidiaries from Marsa Aktiengesellschaft ("Marsa"), a Liechtenstein company and Teragol Investments Limited ("Teragol"), a Cyprus company (jointly the "Plaintiffs") by virtue of a Partnership Unit Purchase and Exchange Agreement dated March 21, 2002 (the "Agreement"), as amended. The basis for the claim was that the Corporation's 100% owned subsidiary, Alhambra Overseas Limited, incorporated to hold Alhambra's interest in the Kazakhstan Subsidiaries, was not incorporated at the time the Agreement was initially entered into and despite the fact that such incorporation was subsequently completed soon thereafter. Alhambra applied to the Lower Court to have the litigation dismissed for the lack of jurisdiction, however, such application was denied as was the appeal to the Civil Cases Review Board of the East-Kazakhstan Oblast Court (the "Review Board"). As a result, hearings in the Lower Court on the merits of the case began on November 17, 2008 and were completed on November 24, 2008. On November 25, 2008 the Lower Court rendered its decision in favor of the Plaintiffs. The

(Expressed in U.S. Dollars, unless otherwise stated)

Corporation appealed the Lower Court's decision to the Review Board but on December 26, 2008 the Review Board issued their ruling upholding the Lower Court's decision. The Corporation appealed to the Supervisory Chamber of the East-Kazakhstan Oblast Court whose decision, rendered on February 27, 2009, again upheld the decisions of the previous courts.

As a result of the decision the courts in favor of the Plaintiffs, the Corporation wrote off its investment in the Kazakhstan Subsidiaries effective December 26, 2008 which resulted in a loss of $31.0 million. Details of the write-off are as follows:

| | | 2008 |
|---|---|---|
| Accounts receivable | $ | 1,507,887 |
| Inventory | | 734,753 |
| Work in progress | | 7,820,283 |
| Mineral assets | | 27,746,232 |
| Accounts payable and accrued liabilities | | (4,480,251) |
| Asset retirement obligations | | (427,991) |
| Future income taxes | | (1,935,471) |
| | $ | 30,965,442 |

On April 16, 2009 the Corporation filed an appeal with the Supreme Court of Kazakhstan asking the Supreme Court to overturn the decisions of the lower courts. The Supreme Court hearing was held on August 12, 2009 at which time the Supreme Court reversed the decisions of the Lower Courts and dismissed the Plaintiffs' claim.

On September 15, 2009 the ownership of Saga Creek was officially re-registered back into the name of Alhambra as a result of the Supreme Court's decision on August 12, 2009 to overturn the decisions of the lower courts of Kazakhstan which had invalidated the original agreement under which Alhambra had purchased Saga Creek. This decision effectively dismissed the plaintiff's claim that had originally been filed on September 26, 2008.

As a result of this re-registration, Alhambra re-acquired 100% of the ownership of Saga Creek and Goodwin for no consideration which resulted in a recognized gain of $68.9 million. Alhambra had previously written off its investment in Saga Creek as of December 26, 2008 in the amount of $31.0 million. The following table reflects the combined net identifiable assets and liabilities of Saga Creek including fair value adjustments at the time of re-registration. The Corporation undertook a review of the net identifiable assets and liabilities at the date of re-registration and, where available, third party information (including the NI 43-101 compliant report entitled "Resource and Reserve Estimation Study on the Uzboy Gold Deposit, Akmola Oblast Kazakhstan" with an effective date of December 31, 2007 prepared by Alhambra's Independent Geological Consultants) was utilized in determining these fair values. In determining the fair value of Saga Creek's assets, the Corporation made assumptions about reserves and resources, recovery rates, prices, operating, general and administration costs and capital costs and future income tax rates as well as made assumptions in determining the Corporation's weighted average cost of capital used to discount the estimated annualized cash flows that were derived from the modeling work done. These values are management's best estimates based on current information and are preliminary in nature. The Corporation recognizes that there may be changes as the calculations are finalized. Those changes may be material. Accounting standards permit up to twelve months for provisional acquisition accounting to be finalized following the re-acquisition date if any subsequent information, in particular related to the finalization of income tax accounts, provides better evidence of the item's fair value at the date of re-acquisition.

(Expressed in U.S. Dollars, unless otherwise stated)

| | Fair values recognized on re-acquisition at September 15, 2009 |
|---|---|
| **Cost of re-acquisition** | $ – |
| **Fair value of assets and liabilities:** | |
| Cash | 1,234,898 |
| Accounts receivable | 1,400,111 |
| Deposits and prepaid expenses | 391,956 |
| Supplies inventory | 1,088,399 |
| Work in progress | 14,000,000 |
| Mineral assets | 84,505,496 |
| Accounts payable and accrued charges | (4,083,317) |
| Asset retirement obligations | (165,618) |
| Future income taxes | (29,505,575) |
| **Gain recognized on re-acquisition of former subsidiary** | $ 68,866,350 |

## 4. Work in progress:

Work in progress consists of the cost of gold in various stages of production as follows:

| | 2010 | 2009 |
|---|---|---|
| Pad | $11,309,250 | $ – |
| Resin | 5,982,678 | – |
| Stripping plant | 557,874 | – |
| | 17,819,802 | – |
| Less long-term portion classified as mineral assets (note 5) | 7,434,605 | – |
| | $10,385,197 | $ – |

The balance of work in progress as at December 31, 2008 was written off as a result of the unfavorable decision reached in the Kazakhstan Lawsuit (note 3).

(Expressed in U.S. Dollars, unless otherwise stated)

**5. Mineral assets:**

Mineral assets consist of the following:

| | 2010 | 2009 |
|---|---|---|
| Exploration costs | $ 5,166,311 | $ – |
| Equipment, net of accumulated depreciation of $618,012 as at March 31, 2010 ($329,255 as at December 31 2009) | 6,460,251 | – |
| Mineral assets, net of accumulated depletion of $3,109,594 as at March 31, 2010 ($2,262,408 as December 31, 2009) | 72,079,833 | – |
| Long-term portion of work in progress | 7,434,605 | – |
| | $ 91,141,000 | $ – |

Costs excluded from costs subject to depletion at March 31, 2010 totaled $5,166,311 which represents costs related to the exploration of those portions of the Corporation's mineral licenses not currently in production.

As the net book value of mineral assets as at December 31, 2008 was written off as a result of the unfavorable decision reached in the Kazakhstan Lawsuit, the net book value of mineral assets at March 31, 2009 was nil.  As a result of the favorable decision by the Supreme Court of Kazakhstan and the re-registration of shares of Saga Creek back into the name of Alhambra on September 15, 2009, the assets of Saga Creek were recorded at their fair values on that date (note 3).

**6. Investment:**

Pursuant to a Plan of Arrangement effective August 29, 2007, the Corporation transferred its 100% interest in its claim units located in the Province of British Columbia ("DOT Properties"), together with related assets and obligations pertaining thereto, in exchange for 30,000,000 common shares.  Every shareholder of the Corporation received one (1) new common share and 0.21153 of a DOT common share for every one (1) common share of the Corporation held on the effective date of the Arrangement resulting in 15,000,000 DOT common shares held by Alhambra being distributed to Alhambra shareholders on a pro rata basis.

As a result of the Arrangement, Alhambra holds 15,000,001 common shares of DOT which represents approximately 27% of the outstanding common shares of DOT.  At March 31, 2010, the market trading value of the 15,000,001 DOT shares owned by Alhambra was CDN$2,400,000.

The Corporation's carrying value of its investment in DOT is $540,201 (December 31, 2009 - $561,902) which is made up its cost of $919,087 (December 31, 2009 - $891,864) less Alhambra's share of DOT losses recorded to date of $378,886 (2008 - $329,962).

**7. Secured debentures:**

The Corporation had outstanding a series of twelve percent (12%) secured debentures due August 11, 2009 in the principle amount of CDN$1,000,000 (the “Debentures”). As the Corporation was unable to pay the outstanding principal and accrued interest at the maturity date, the holders of the Debentures agreed to add the accrued interest to the principal outstanding and extend the maturity date of the Debentures to August 11, 2010. The accrued interest at August 11, 2009 totaled CDN$125,222 resulting in the principal amount of the Debentures at August 11, 2009 totaling CDN$1,125,222. In consideration for agreeing not to call the Debentures, the Corporation issued convertible debentures including warrants (“the Convertible Debentures”) as follows:

(a) The Convertible Debenture holders have the option to convert the principal amount and unpaid interest at any time prior to maturity into common shares of the Corporation at a price of CDN$0.30 per common share;
(b) Warrants to purchase up to 2,500,450 common shares ("Debenture Warrants") were granted with an expiry date of August 11, 2011. Each Debenture Warrant may be converted into one common share of the Corporation at any time prior to expiry at a purchase price of CDN$0.45 per common share;
(c) Interest accrues on the new principal amount at a rate of 12% per annum, compounded quarterly and payable at the earlier of the date of conversion or the new maturity date; and
(d) The Corporation has the right at any time prior to maturity, to prepay all or a portion thereof, of the Convertible Debentures and accrued interest, without notice, bonus or penalty. If the Corporation exercises this right, then the Convertible Debenture holders will have the option of converting the principal amount of the Convertible Debentures plus accrued interest, or any portion thereof prior to the prepayment date, into common shares of the Corporation at a price of CDN$0.30 per common share.

The Convertible Debentures continue to be secured by way of a first floating charge against all of the assets, property and undertakings of Alhambra, and are held by certain officers and/or directors of the Corporation. The issue of the Convertible Debentures and Debenture Warrants were approved by the independent members of the board of directors with the applicable directors abstaining.

The Convertible Debentures are classified as current liabilities on the balance sheet with $50,795 ascribed to the fair value of the Debenture Warrants (note 9(c)) and $116,101 ascribed to the fair value of the conversion feature of the Convertible Debentures (note 9(d)) on August 11, 2009. The fair value of the Debenture Warrants and the conversion feature have been recorded in shareholders’ equity. The carrying value of the Convertible Debentures is accreted to the original face value of the obligations over the one year term of the Convertible Debentures. Accretion expense of $43,476 has been expensed as “interest and accretion on debt” during the three months ended March 31, 2010 (2009 - $nil).

(Expressed in U.S. Dollars, unless otherwise stated)

**8. Asset retirement obligations:**

The following table presents the reconciliation of the asset retirement obligations associated with the retirement of the Uzboy Project in Kazakhstan. At March 31, 2010, the Corporation's total estimated inflated and undiscounted costs to settle its asset retirement obligation were approximately $685,000. The estimated costs were inflated at an annual rate of 9%. Payments to settle these asset retirement obligations are estimated to be incurred in 2020 and have been discounted using a credit-adjusted risk-fee interest rate of 14%.

| | Thee months ended March 31, 2010 | Year ended December 31, 2009 |
|---|---|---|
| Balance, beginning of period | $ 175,411 | $ – |
| Acquired on re-acquisition | – | 165,618 |
| Revisions | 1,635 | 2,839 |
| Accretion expense | 6,157 | 6,954 |
| Balance, end of period | $ 183,203 | $ 175,411 |

(Expressed in U.S. Dollars, unless otherwise stated)

## 9. Share capital:

(a) Authorized:

Unlimited voting common shares

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

(b) Issued and outstanding:

| | Three months ended March 31, 2010 | | Year ended December 31, 2009 | |
|---|---|---|---|---|
| | Number | Amount | Number | Amount |
| Common shares | | | | |
| Balance, beginning of period | 81,074,421 | $35,494,990 | 75,774,147 | $34,585,094 |
| Exercise of warrants | – | – | 5,300,274 | 719,016 |
| Transfer from warrants | – | – | – | 190,880 |
| Balance, end of period | 81,074,421 | $35,494,990 | 81,074,421 | $35,494,990 |

(c) Warrants:

| | Three months ended March 31, 2010 | | Year ended December 31, 2009 | |
|---|---|---|---|---|
| | Number | Amount | Number | Amount |
| Balance, beginning of period | 2,500,450 | $ 50,795 | – | $ – |
| Pursuant to notes | – | – | 5,400,000 | 194,472 |
| Pursuant to Debentures (note 7) | – | – | 2,500,450 | 50,795 |
| Exercised | – | – | (5,300,274) | (190,880) |
| Expired unexercised | – | – | (99,726) | (3,592) |
| Balance, end of period | 2,500,450 | $ 50,795 | 2,500,450 | $ 50,795 |

The fair value of the Debenture Warrants granted in 2009 in conjunction with the Convertible Debentures (note 7) was estimated on the date of the issue of the Debenture Warrants using the Black-Scholes option pricing model. The fair value of the Note Warrants was calculated to be $50,795 using the following weighted-average assumptions:

| | 2009 |
|---|---|
| Fair value of warrants granted (CDN$/share) | 0.02 |
| Expected life (years) | 1.00 |
| Risk free interest rate (%) | 1.22 |
| Expected volatility (%) | 150 |
| Expected dividend yield (%) | – |

| | Three months ended March 31, 2010 | | Year ended December 31, 2009 | |
|---|---|---|---|---|
| | Number of warrants | Weighted average exercise price CDN$ | Number of warrants | Weighted average exercise price CDN$ |
| Outstanding, beginning of period | 2,500,450 | $ 0.45 | – | $ – |
| Pursuant to Notes | – | – | 5,400,000 | 0.15 |
| Pursuant to Debentures (note 7) | – | – | 2,500,450 | 0.45 |
| Exercised | – | – | (5,300,274) | 0.15 |
| Expired unexercised | – | – | (99,726) | 0.20 |
| Outstanding, end of period | 2,500,450 | $ 0.45 | 2,500,450 | $ 0.45 |
| Exercisable, end of period | 2,500,450 | $ 0.45 | 2,500,450 | $ 0.45 |

(d) Equity portion of convertible debentures:

The fair value of the conversion feature granted in 2009 in conjunction with the issuance of the Convertible Debentures (note 7) was estimated on the date of the reissuance using the Black-Scholes option pricing model. The fair value of the conversion feature was calculated to be $116,101 using the following weighted-average assumptions:

| | 2009 |
|---|---|
| Fair value of conversion feature (CDN$/share) | 0.03 |
| Expected life (years) | 1.00 |
| Risk-free interest rate (%) | 1.22 |
| Expected volatility (%) | 150 |
| Expected dividend yield (%) | – |

(e) 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 five years which is also the maximum term available 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 exchanges on which the Corporation's common shares are then listed.

(Expressed in U.S. Dollars, unless otherwise stated)

A summary of the status of the Corporation's stock option plan as at March 31, 2010 and December 31, 2009 and changes during the periods then ended are as follows:

| | Three months ended March 31, 2010 | | Year ended December 31, 2009 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price CDN$ | Number of options | Weighted average exercise price CDN$ |
| Outstanding, beginning of period | 6,525,000 | $ 0.58 | 5,670,000 | $ 1.18 |
| Granted | – | – | 3,600,000 | 0.25 |
| Exercised | – | – | – | – |
| Forfeited | – | – | (2,745,000) | 1.36 |
| Outstanding, end of period | 6,525,000 | $ 0.58 | 6,525,000 | $ 0.58 |
| Exercisable, end of period | 4,587,500 | $ 0.71 | 3,825,000 | $ 0.81 |

The following table summarizes information about stock options outstanding and exercisable at March 31, 2010.

| | Outstanding | | Exercisable | |
|---|---|---|---|---|
| Exercise price | Number | Weighted average remaining contractual life (years) | Number | Weighted average remaining contractual life (years) |
| CDN$0.22 | 3,050,000 | 4.42 | 1,525,000 | 4.42 |
| CDN$0.315 | 350,000 | 4.63 | 87,500 | 4.63 |
| CDN$0.53 | 200,000 | 4.72 | 50,000 | 4.72 |
| CDN$0.55 | 800,000 | 0.13 | 800,000 | 0.13 |
| CDN$1.15 | 2,125,000 | 0.81 | 2,125,000 | 0.81 |
| | 6,525,000 | 2.74 | 3,825,000 | 2.01 |

The fair value of the options granted in 2009 is estimated on the date of grant using the Black-Scholes option-pricing model. The fair value of the options was calculated to be $741,671 using the following weighted-average assumptions:

| | 2009 |
|---|---|
| Expected dividend yield (%) | – |
| Expected life (years) | 5.00 |
| Risk-free interest rate (%) | 2.60 |
| Expected volatility (%) | 150 |
| Fair value of options granted ($/share) | 0.22 |

(Expressed in U.S. Dollars, unless otherwise stated)

A reconciliation of contributed surplus is provided below:

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| Balance, beginning of period | $ 4,995,418 | $ 4,417,966 |
| Stock-based compensation expense | 164,760 | 573,860 |
| Warrants expired | – | 3,592 |
| Balance, end of period | $ 5,160,178 | $ 4,995,418 |

**10. Accumulated other comprehensive income (loss):**

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| Balance, beginning of period | $ 178,715 | $ (322,360) |
| Translation gains (losses) on self-sustaining operations net of tax of $284,238 (2009 - $503,689) | 395,575 | 501,075 |
| Balance, end of period | $ 574,290 | $ 178,715 |

**11. Related party transactions:**

(a) During the three months ended March 31, 2010, the Corporation incurred $500 (2009 - $16,931) in costs from a law firm in which an officer of the Corporation is a partner. The officer resigned his position effective April 29, 2009. The amount owing to the law firm as of March 31, 2010 was $132,838 (2009 - $172,336).

(b) On August 29, 2007, the Corporation and DOT entered into an Administrative and Corporate Services Contract (the “Contract”) whereby DOT agreed to engage the Corporation to provide management, administration and corporate services to DOT. The Contract provides for a monthly remuneration of CDN$20,000 plus all reasonable out of pocket expenses and is for an indefinite term but may be terminated by either party upon providing thirty (30) days prior written notice. The Corporation billed DOT CDN$60,000 (2009 – CDN$60,000) under the Contract. The amount uncollected as of March 31, 2010 was CDN$168,353 (2009 – CDN$nil).

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

(Expressed in U.S. Dollars, unless otherwise stated)

## 12. Supplementary cash flow information:

Changes in non-cash working capital are as follows:

| Three months ended March 31, | 2010 | 2009 |
|---|---|---|
| Accounts receivable | $ 8,586 | $ (15,783) |
| Deposits and prepaid expenses | 14,069 | 4,350 |
| Supplies inventory | 91,487 | – |
| Work in progress | (585,683) | – |
| Accounts payable and accrued liabilities | 749,718 | 294,012 |
| | $ 278,177 | $ 282,579 |
| Relating to: | | |
| Operating activities | $ 171,337 | $ 282,579 |
| Investing activities | 106,840 | – |
| | $ 278,177 | $ 282,579 |

## 13. Income (loss) per share:

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

| | 2010 | 2009 |
|---|---|---|
| Weighted average shares outstanding: | | |
| Basic and diluted | 81,074,421 | 75,774,147 |

For the three months ended March 31, 2010 and 2009, no options or warrants have been included in the calculation of per share amounts as their effect would have been anti-dilutive.

## 14. Management of capital:

The Corporation defines capital that it manages as its shareholders' equity and working capital. The Corporation's objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to maintain investor confidence and to not expose the Corporation to excess risk. The Corporation manages its capital structure and makes adjustments to it based on the level of funds available to support the exploration and development of its mineral properties. While the re-acquisition of Saga Creek effective September 15, 2009 has resulted in the Corporation once again owning assets that generate cash flow, it is still necessary for the Corporation to raise funds to carry out its capital expenditure programs.

To date, the Corporation has raised some funds through the issue of secured indebtedness (note 7) however these funds were raised to fund a portion of its obligations incurred during the period in which the Corporation had lost its ownership of Saga Creek. Additional financing must be obtained in order to continue as a going concern. The Corporation is currently attempting to raise additional funds, however, there is no assurance it will be able to do so. The Corporation is not subject to externally imposed capital requirements.

**15. Financial Instruments:**

(a) Overview:

The Corporation has exposure to the following risks from its use of financial instruments:

(i) Credit risk
(ii) Liquidity risk
(iii) Market risk

This note presents information about the Corporation's exposure to each of the above risks as well as the Corporation's objectives, policies and processes for measuring and managing risk.

The board of directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. These risks are discussed with management and to the extent the board of directors determines that the risks are of such a nature that they need to be mitigated, procedures are put in place. To date, no specific risk management tools have been put in place to mitigate these risks.

(b) Credit risk:

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its obligation and arises principally from Saga Creek's receivable from the Government of Kazakhstan owing as a result of refundable Value Added Tax ("VAT") paid on goods and services purchased by Saga Creek. To date Saga Creek has been able to collect all VAT due and owing but with the economic crisis that has affected Kazakhstan like most countries, there is no assurance that the refunds will be made on a timely basis in the future. At March 31, 2010 approximately 55% of the recorded value of accounts receivable relates to VAT.

Cash and cash equivalents consist of bank balances and short-term deposits that are redeemable at any time at the option of the Corporation. The Corporation manages the credit exposure related to short-term investments by depositing the cash equivalents only with large banks within a particular region which management believes the risk of loss to be remote.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Corporation does not have an allowance for doubtful accounts as at March 31, 2010.

(c) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they come due. With the re-registration of the shares of the Kazakhstan Subsidiaries, Alhambra now has ownership of revenue producing assets. However, in defending the lawsuit, the Corporation incurred substantial liabilities and the cash generated from its properties will not be enough to meet all its obligations in addition to resuming an aggressive exploration and development program. Therefore, additional financing must still be obtained in order to continue as a going concern. The Corporation is currently attempting to raise additional funds however there is no assurance that it will be able to do so.

(d) Market risk:

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, commodity prices and interest rates will affect the Corporation's net earnings. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

(i) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Corporation's revenue is denominated in United States dollars or Euros, its operating costs are primarily denominated in Kazakhstan Tenge while its general and administration costs are denominated in either Canadian dollars or Kazakhstan Tenge. To date the Corporation has not attempted to mitigate these foreign currency risks.

(ii) Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. The price of gold is impacted by economic events that dictate the levels of supply and demand for the commodity. To date the Corporation has not attempted to mitigate this commodity price risk.

(iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Currently, the Corporation's debt is all at fixed interest rates therefore there is no exposure to variations in interest rates except on cash balances.

(e) Fair value of financial assets and liabilities:

Section 3862, Financial instruments – Disclosures requires an explanation about how fair value is determined for assets and liabilities measured in the financial statements at fair value and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of input as follows:

Level 1: observable inputs such as quoted prices in active markets;

Level 2: inputs, other than the quoted market prices in active markets, which are observable, either directly and/or indirectly; and

Level 3: unobservable inputs for the asset or liability in which little or no market data exists therefore requiring an entity to develop its own assumptions.

As at March 31, 2010 and December 31, 2009 the financial assets measured at fair value on the Corporation's balance sheet using level 1 is cash. Except for the Debentures, fair values of these financial instruments approximate their carrying amounts due to their short terms to maturity. The Debentures are carried at their amortized cost which is equal to their face value less the unaccreted portion of the fair value assigned to the Debenture Warrants and conversion feature.

**16. Commitments and contingencies:**

(a) Lease agreement on premises:

Effective September 1, 2008 the Corporation entered into a lease on the premises it used for its corporate head office. The terms of the lease committed the Corporation to make monthly rental payments of CDN$11,542 (exclusive of occupancy costs) up until expiry of the lease on August 31, 2013. The total amount remaining to be paid under the lease as of December 31, 2009 was approximately CDN$612,000 (exclusive of occupancy costs). Effective June 1, 2009 the landlord terminated the lease as the Corporation had not paid its current obligation under the lease. Despite the landlord terminating the lease, it has informed the Corporation that it believes the Corporation wrongly repudiated the lease and remains liable for the loss of rental revenue over the unexpired term of the lease. On June 16, 2009 the landlord notified the Corporation that it is seeking to recover CDN$97,793 in outstanding rent plus damages of CDN$810,877 for the loss of the benefit of the lease over the balance of the term. To the extent that the landlord recovers rent from a subsequent tenant, the amount claimed by the landlord would be reduced. The landlord gave the Corporation until June 30, 2009 to settle the claim. The Corporation has held discussions with the landlord relative to their claim and to the best of the Corporation's knowledge, the landlord has not yet taken any further legal action regarding enforcement of their claim. As at March 31, 2010, the Corporation has recorded all amounts due under the lease agreement. No provision for damages has been recorded in these financial statements. The Corporation is currently assessing its options in this matter.

(b) Mineral Extraction Tax:

Effective January 1, 2009, the Government of Kazakhstan enacted new tax legislation that included a tax on the value of useful mineral reserves extracted under the terms of a subsoil use contract. Under the provision of the legislation, the tax is based on production volumes priced at the average daily benchmark price. The rate for gold and silver, being the two products which the Corporation currently mines and sells is 5% from January 1, 2009 to December 31, 2012 and 5.5% thereafter. As the tax is new, the determination of what constitutes useful mineral reserves extracted is not well understood. While the Corporation believes that it is correct in its interpretation of the rules relative to the determination of useful mineral reserves extracted, there still exists some uncertainty at this time as to whether the tax authorities will be in agreement. No provision has been made in these financial statements for the costs and penalties that may be applicable should it be determined that the Corporation's interpretation is incorrect.

(Expressed in U.S. Dollars, unless otherwise stated)

**17. Segment information:**

During the three months ended 2010, the Corporation and its subsidiaries operated in one reportable segment, the exploration for and the development of mineral properties. Information for the three ended March 31, 2010 and 2009 in each of the Corporation's geographic areas are as follows:

| 2010 | Kazakhstan | Corporate | Total |
|---|---|---|---|
| Sales of gold | $ 2,124,111 | $ – | $ 2,124,111 |
| Net loss | 279,018 | 487,572 | 766,590 |
| Depreciation, depletion and accretion | 229,361 | 1,862 | 231,223 |
| Assets | 104,781,252 | 950,722 | 105,731,974 |
| Capital expenditures | 290,672 | – | 290,672 |

| 2009 | Kazakhstan | Corporate | Total |
|---|---|---|---|
| Sales of gold | $ – | $ – | $ – |
| Net income (loss) | – | (676,735) | (676,735) |
| Depreciation, depletion and accretion | – | 1,950 | 1,950 |
| Assets | – | 677,597 | 677,597 |
| Capital expenditures | – | 360 | 360 |