Interim Unaudited Consolidated Financial Statements of

ALHAMBRA RESOURCES LTD.

Three Months Ended March 31, 2011

ALHAMBRA RESOURCES LTD.

Interim Consolidated Statements of Financial Position
(Unaudited)
(Expressed in thousands of U.S. dollars)

As at	Note		March 31, 2011		December 31, 2010
Assets					
Current assets:					
Cash and cash equivalents	7	$	1,916	$	3,375
Trade and other receivables			2,260		2,335
Deposits and prepaid expenses			1,781		1,019
Inventories	8		13,211		12,456
Total current assets			19,168		19,185
Non-current assets:					
Property, plant and equipment	9		72,088		72,023
Intangible assets	10		20,586		20,185
Investment in equity accounted investee	11		543		534
Inventories	8		14,174		13,110
Trade and other receivables			781		764
Total non-current assets			108,172		106,616
Total assets		$	127,340	$	125,801
Liabilities and Equity					
Current liabilities:					
Trade and other payables		$	7,975	$	6,953
Provisions	13		4,841		4,447
Total current liabilities			12,816		11,400
Non-current liabilities:					
Provisions	13		9,510		9,646
Deferred tax liabilities			31,485		31,597
Total non-current liabilities			40,995		41,243
Total liabilities			53,811		52,643
Equity:					
Share capital	15		42,170		42,075
Warrants	15		2,247		2,247
Contributed surplus	15		7,420		6,140
Foreign currency translation reserve			1,723		1,041
Retained earnings			19,969		21,655
			73,529		73,158
Total liabilities and equity		$	127,340	$	125,801

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

Interim Consolidated Statements of Income and Expense
Three months ended March 31, 2011 and 2010
(Unaudited)
(Expressed in thousands of U.S. dollars)

	Note		2011		2010
Revenue:					
Sales		$	2,466	$	2,124
Less royalty and production taxes:					
Net smelter royalty			74		64
Mineral extraction tax			139		93
			2,253		1,967
Cost of sales			1,363		1,520
Gross profit			890		447
Expenses:					
Administrative expenses	6		2,519		664
Depletion and depreciation	9, 10		445		225
			(2,074)		(442)
Finance income	5		224		177
Finance costs	5		(256)		(119)
Net finance income (cost)	5		(32)		58
Share of loss of equity accounted investee	11		3		38
Loss before income taxes			(2,109)		(422)
Income tax expense (recovery)			(423)		332
Loss for the period attributable to the equity holders of the Corporation		$	(1,686)	$	(754)
Loss per share:					
Basic and diluted	16	$	0.02	$	0.01

Consolidated Statements of Comprehensive Income
Three months ended March 31, 2011 and 2010
(Unaudited)
(Expressed in thousands of U.S. dollars)

		2011		2010
Net loss for the period	$	(1,686)	$	(754)
Other comprehensive income:				
Foreign currency translation difference for foreign operations		682		396
Total comprehensive loss for the period	$	(1,004)	$	(358)

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

Interim Consolidated Statements of Changes in Equity
(Unaudited)
(Expressed in thousands of U.S. dollars)

	Issued Share Capital	Warrants	Contributed Surplus	Foreign currency translation reserve	Equity portion of convertible debenture	Retained earnings	Total
Balance, December 31, 2009	$ 35,495	$ 51	$ 5,250	$ 315	$ 116	$ 26,697	$ 67,924
Pursuant to private placement	8,000	–	–	–	–	–	8,000
Share issuance costs	(589)	–	–	–	–	–	(589)
Transferred to warrants	(2,196)	2,196	–	–	–	–	–
Conversion of secured debentures	1,211	–	–	–	–	–	1,211
Transferred on conversion of secured debentures	116	–	–	–	(116)	–	–
Share options exercised	20	–	–	–	–	–	20
Transferred on exercise of options	18	–	(18)	–	–	–	–
Share-based compensation expense	–	–	908	–	–	–	908
Loss for the year	–	–	–	–	–	(5,042)	(5,042)
Other comprehensive income	–	–	–	726	–	–	726
Balance, December 31, 2010	42,075	2,247	6,140	1,041	–	21,655	73,158
Share options exercised	20	–	–	–	–	–	20
Transferred on exercise of options	75	–	(75)	–	–	–	–
Share-based compensation expense	–	–	1,355	–	–	–	1,355
Loss for the period	–	–	–	–	–	(1,686)	(1,686)
Other comprehensive income	–	–	–	682	–	–	682
Balance, March 31, 2011	$ 42,170	$ 1,247	$ 7,420	$ 1,723	$ –	$ 19,969	$73,529

For details on movement in shares please see Note 15.

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

Interim Consolidated Financial Statements of Cash Flows
Three months ended March 31, 2011 and 2010
(Unaudited)
(Expressed in thousands of U.S. Dollars)

	2011	2010
Cash provided by (used in):		
Operating:		
Net loss	$ (1,686)	$ (754)
Items not involving cash:		
Share-based compensation	1,355	152
Non-cash finance costs	89	49
Depletion and depreciation	445	225
Deferred income taxes	(478)	332
Unrealized foreign exchange gain	–	(200)
Equity loss on investment	3	38
	(272)	(158)
Change in non-cash working capital	(768)	182
	(1,040)	24
Financing:		
Issuance of common shares	20	–
	20	–
Investing:		
Expenditures on mining and intangibles assets	(534)	(301)
Change in non-cash working capital	40	107
	(494)	(194)
Effect of exchange rate changes on cash and cash equivalents	55	5
Change in cash and cash equivalents	(1,459)	(165)
Cash and cash equivalents, beginning of period	3,375	344
Cash, end of period	$ 1,916	$ 179
Supplemental disclosure of cash flow information:		
Taxes paid	$ 50	$ 12
Interest paid	–	–

See accompanying notes to consolidated financial statements.

1. Reporting entity and nature of operations:

Alhambra Resources Ltd. ("Alhambra" or the "Corporation"), including all of its subsidiaries, (see note 4) is engaged in exploration for and development of mineral properties in the Kazakhstan. In addition to its exploration and development activities, Alhambra also produces gold from a pilot project on a portion of its Kazakhstan license that commenced production on May 1, 2006.

Alhambra Resources Ltd. is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of Alberta. The Corporation's common shares trade in Canada on the TSX Venture Exchange under the symbol ALH, in the United States on the Over-The-Counter Pink Sheets Market under the symbol AHBRF and in Germany on the Frankfurt Open Market under the symbol A4Y.

The Corporation's registered address, head office and records office are located at Suite 3A, 4015 – 1st Street S.E. Calgary, Alberta, Canada T2G 4X7.

2. Going concern:

These financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards. The going concern basis assumes that the Corporation will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

While the Corporation generates income and cash flow from its operations in Kazakhstan, this cash flow, however, is not sufficient to enable the Corporation to meet all its obligations and carry out significant exploration and development programs. In 2010 Alhambra completed an equity private placement, the net proceeds from which are being used to fund the Corporation's exploration and development programs and general working capital purposes. During the three months ended March 31, 2011, the Corporation incurred a net loss of $1,686, and the Corporation is not generating a sufficient amount of cash flow from operations to cover its commitments. As a result there is significant doubt about the ability of the Corporation to continue as a going concern.

Alhambra recognizes the need to obtain debt or equity financing to meet its obligations and fund its exploration and development programs. The Corporation is in discussion with potential investors, however, at this time no commitments have been made by potential investors.

3. Summary of 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, 2010. The consolidated financial statements include all adjustments necessary to present fairly the results for the interim period ended March 31, 2011. These interim consolidated financial statements should be read in conjunction with the Corporation's most recent audited consolidated financial statements and notes filed under the Corporation's profile at www.sedar.com.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

4. Particulars of subsidiaries:

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, 1450165 Alberta Limited, Alhambra Cooperatief U.A., Alhambra Overseas Limited, Goodwin Golems LLP, and Saga Creek Gold Company LLP.

	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held directly or indirectly March 31, 2011
Saga Creek Gold Company LLP	Mining	Kazakhstan	100%
Goodwin Golems LLP	Holding Company	Kazakhstan	100%
Alhambra Overseas Ltd.	Holding Company	Cyprus	100%
Alhambra Cooperatief U.A.	Holding Company	Netherlands	100%
1450165 Alberta ltd.	Holding Company	Canada	100%

5. Finance income and costs:

Three months ended March 31,	2011	2010
Foreign exchange gain	$ (224)	$ (177)
Finance income	(224)	(177)
Unwinding of the discount on provisions	89	6
Interest accrued on unpaid taxes	167	32
Unwinding of discount on loans and borrowings	–	43
Interest on loans and borrowings	–	34
Other	–	4
Finance costs	256	119
Net finance income	$ 32	$ (58)

A total of $nil (2010 - $34) of interest and $nil (2010 – $43) related to the unwinding of discount on loans and borrowings related to debentures and notes held by officers and directors of the Corporation.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

6. Administrative Expenses:

Three months ended March 31,	2011	2010
Employee costs	$ 1,822	$ 435
Professional fees	218	30
Corporate maintenance costs	337	91
Office costs	142	166
Less: recovery	–	(58)
	$ 2,519	$ 664

Administrative expenses include share based compensation (a non-cash item) of $1,355 and $152 which have been included in employee costs for the three months ended March 31, 2011 and 2010, respectively.

7. Cash and cash equivalents:

As at	March 31, 2011	December 31, 2010
Bank balances	$ 1,916	$ 3,375
Short-term deposits	–	–
Total cash and cash equivalents	$ 1,916	$ 3,375

8. Inventories:

As at	March 31, 2011	December 31, 2010
Ore	$ 16,372	$ 14,860
Gold in circuit	8,409	8,341
Concentrate	1,469	1,118
Total work in progress	26,250	24,319
Raw material and supplies	1,135	1,247
Total inventories	27,385	25,566
Less:		
Non-current inventories	14,174	13,110
Total current inventories	$ 13,211	$ 12,456

Virtually 100% of cost of goods sold reported for the three months ended March 31, 2011 and 2010 are the result of the amortization of inventories based on the quantity of gold sold as a percentage of total gold mined.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

9. Property, plant and equipment:

	Machinery and equipment	Mining assets being depleted	Buildings and construction	Total
Cost:				
Balance as at December 31, 2009	$ 2,838	$ 74,427	$ 4,274	$ 81,539
Additions	118	580	136	834
Effect of foreign exchange	25	537	31	593
Balance as at December 31, 2010	2,981	75,544	4,441	82,966
Additions	53	319	–	372
Effect of foreign exchange	41	944	57	1,042
Balance as at March 31, 2011	$ 3,075	$ 76,807	$ 4,498	$ 84,380
Accumulated depletion and depreciation:				
Balance as at December 31, 2009	$ 321	$ 2,262	$ 110	$ 2,693
Depletion and depreciation for the year	778	7,062	384	8,224
Effect of foreign exchange	5	20	1	26
Balance as at December 31, 2010	1,104	9,344	495	10,943
Depletion and depreciation for the period	186	910	99	1,195
Effect of foreign exchange	18	128	8	154
Balance as March 31, 2011	$ 1,308	$ 10,382	$ 602	$ 12,292
Carrying amounts:				
At December 31, 2009	$ 2,517	$ 72,165	$ 4,164	$ 78,846
At December 31, 2010	1,877	66,200	3,946	72,023
At March 31, 2011	1,767	66,425	3,896	72,088

(Expressed in thousands of U.S. dollars, unless otherwise stated)

10. Intangible assets:

	Exploration and evaluation expenditures	Computer software	Total
Balance as at December 31, 2009	$ 4,822	$ 35	$ 4,857
Additions	15,272	13	15,285
Effect of foreign exchange	49	–	49
Balance as at December 31, 2010	20,143	48	20,191
Additions	162	–	162
Effect of foreign exchange	239	1	240
Balance as at March 31, 2011	$ 20,544	$ 49	$ 20,593
Accumulated depreciation:			
Balance as at December 31, 2009	$ –	$ 1	$ 1
Depreciation for the year	–	5	5
Balance as at December 31, 2010	–	6	6
Depreciation for the period	–	1	1
Balance as at March 31, 2011	$ –	$ 7	$ 7
Carrying amounts:			
At December 31, 2009	$ 4,822	$ 34	$ 4,856
At December 31, 2010	20,143	42	20,185
At March 31, 2011	20,544	42	20,586

The carrying amounts of exploration and evaluation expenditures represent non-producing exploration projects and undeveloped land in Kazakhstan. An impairment test was not triggered during the periods presented.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

11. Investment in equity accounted investee:

Summary financial information for the equity accounted investee held by the Corporation is presented as follows:

	March 31, 2011	December 31, 2010
DOT Resources Ltd. Ownership	27%	27%
Current assets	$ 31	$ 51
Non-current assets	3,619	3,535
Total assets	3,650	3,586
Current liabilities	816	809
Total liabilities	816	809
Revenues	$ –	$ –
Expenses	10	203
Loss	$ (10)	$ (203)

The continuity of investment in the equity accounted investee held by the Corporation is presented as follows:

Balance as at December 31, 2009	$ 562
Share of loss	(55)
Effect of foreign exchange	27
Balance as at December 31, 2010	534
Share of loss	(3)
Effect of foreign exchange	12
Balance as at March 31, 2011	$ 543

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 to DOT Resources Ltd. ("DOT"), together with related assets and obligations pertaining thereto, in exchange for 30,000,000 common shares of DOT. 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 the Corporation being distributed to Corporation 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, 2011, the market trading value of the 15,000,001 DOT shares owned by Alhambra was CDN$1,050.

As at March 31, 2011 the Corporation has an amount outstanding from DOT of $781 which represents amounts outstanding under an Administrative and Corporate Services Contract (note 17) plus an advance made by Alhambra to DOT during 2010 to help DOT meet certain obligations. The Corporation has classified these amounts as long term as it is uncertain at this time when DOT may be able to repay these amounts outstanding.

12. Loans and borrowings:

Secured debentures:

During 2010 the Corporation had outstanding a series of 12% secured debentures due August 11, 2009 in the principal amount of CDN$1,000 (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 resulting in the principal amount of the Debentures at August 11, 2009 totalling CDN$1,125. In consideration for agreeing not to call the Debentures, the Corporation issued convertible debentures including warrants (“the Convertible Debentures”) as follows:

(i) The Convertible Debenture holders had 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;

(ii) 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;

(iii) Interest accrued 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

(iv) The Corporation had 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 chose to exercise this right, then the Convertible Debenture holders would have had 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 were secured by way of a first floating charge against all of the assets, property and undertakings of Alhambra, and were held by certain officers and/or directors of the Corporation. The issuance of the Convertible Debentures and Debenture Warrants was approved by the independent members of the board of directors with the applicable directors abstaining.

Effective August 11, 2010, the Convertible Debenture holders exercised their option to convert the principal plus accrued interest into common shares of the Corporation. As a result, the Corporation issued 4,221,488 common shares on the conversion of CDN$1,266 of principle and accrued interest.

The Convertible Debentures were classified as current liabilities on the balance sheet with $51 ascribed to the fair value of the Debenture Warrants and $116 ascribed to the fair value of the conversion feature of the Convertible Debentures. The fair value of the Debenture Warrants and the conversion feature has 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 $nil was expensed within finance costs during three months ended March 31, 2011 (2010 - $43).

(Expressed in thousands of U.S. dollars, unless otherwise stated)

13. Provisions:

Changes to the provisions are as follows:

	Historical Costs	Site restoration	Total
Balance, December 31, 2009	$ –	$ 225	$ 225
Liabilities incurred	13,828	–	13,828
Unwinding of the discount	–	5	5
Revision	–	35	35
Balance, December 31, 2010	13,828	265	14,093
Unwinding of the discount	84	5	89
Revision	166	3	169
Balance, March 31, 2011	$ 14,078	$ 273	$ 14,351
Current	$ 4,841	$ –	$ 4,841
Non-current	9,237	273	9,510

The ultimate amount of the site reclamation provision is uncertain; however, the fair value of this obligation is based on information currently available, including closure plans and applicable regulations. Significant closure activities include land rehabilitation, demolition of buildings and mine facilities and other costs.

The liability for the site reclamation provision at March 31, 2011 is approximately $273. The liability was determined using an inflation rate of 5% (December 31, 2010 - 5%) and an estimated life of mine of 10 years for Uzboy (December 31, 2010 - 10 years). A discount rate of 7% was used (December 31, 2010 – 7%). The undiscounted value of this liability is approximately $316 (2010 - $316).

The Corporation recorded a provision as of December 31, 2010 related to the acquisition of geological information from the Government of Kazakhstan ("Historical Data"). This Historical Data was acquired by a previous owner of the Saga Creek licenses for a cost of $95. The indicative cost incurred by the Government of Kazakhstan at that time was $15,833. Effective January 1, 2009 the Government of Kazakhstan enacted legislation that required those companies that had acquired Historical Data to begin paying to the Government of Kazakhstan the unpaid amounts beginning on January 1, 2009 in equal quarterly installments over ten (10) years. It is the opinion of the Corporation that it is not subject to this liability for Historical Costs as the obligation is not included as part of the foreign investment contract which details the Corporation's rights and obligations associated with its licenses.

In late 2010, as the result of an audit of Saga Creek by the Kazakhstan tax authorities, the Government of Kazakhstan assessed Saga Creek for the liability plus interest and penalties for nonpayment and subsequently rejected the Corporation's appeal of that assessment. The Corporation has filed a claim in the Specialized Interdistrict Economical Court of the Akmola Oblast ("Economical Court) in Kazakhstan seeking to have the decision of the tax authorities reversed together with the obligation and related interest and penalties. While Alhambra believes that its position is defendable, there is a high risk that it will not be successful in the Kazakhstan courts and as such has recorded the provision. The interest and penalties assessed to March 31, 2011 total approximately $2.25 million and have been included in trade and other payables. On May 13, 2011 the judge in charge of the case largely, but not wholly, rejected the Corporation's claim, upholding the assessment (note 21).

The liability associated with the provision for Historical Data is approximately $14,078 of which $9,238 has been recorded as non-current. A discount rate of 3.2% was used to determine the amount of the liability. The undiscounted value of the liability is $15,738.

14. Commitments:

Under its foreign investment contract which details the Corporation's rights and obligations associated with its licenses, the Corporation is obligated to spend a minimum of $300 per year on exploration activities within its license territory. The contract also provides that any amounts spent in excess of the yearly minimum shall be credited against future requirements. To date the Corporation has exceeded the minimum amount required under the contract.

The Corporation is anticipating spending approximately $7.5 million on exploration activities during 2011 subject to sufficient cash flow and suitable financing.

The Corporation has contractual obligations for various expenditures such as royalties, exploration and the cost of goods and services supplied to the Corporation. Such expenditures are predominantly related to the earning of revenue and in the ordinary course of business.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

15. Share capital:

(a) Authorized:

Unlimited voting common shares, with no par value for all years presented.

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

(b) Issued:

	Three months ended March 31, 2011		Year ended December 31, 2010	
	Number	Amount	Number	Amount
Common shares				
Balance, beginning of period	103,994,309	$ 42,075	81,074,421	$ 35,495
Pursuant to private placement	–	–	18,604,650	8,000
Share issuance cost	–	–	–	(589)
Allocation of warrants	–	–	–	(2,196)
Conversion of secured debentures	–	–	4,221,488	1,211
Transfer on conversion of secured debentures	–	–	–	116
Share option exercised	87,750	20	93,750	20
Transfer on exercise of option	–	75	–	18
Balance, end of period	104,082,059	$ 42,170	103,994,309	$ 42,075

Pursuant to a private placement competed in 2010, the Corporation issued 18,604,650 units at a purchase price of $0.43 per unit for total gross proceeds of 8,000. Each unit was comprised of one (1) common share and one-half (1/2) of a common share purchase warrant (the "Warrant") resulting in the issue of 18,604,650 common shares and 9,302,325 Warrants. Each whole Warrant entitles the holder thereof to purchase one common share of the Corporation at a purchase price of $0.72 per common share on or before February 19, 2012 for 5,388,690 Warrants and March 28, 2012 for 3,913,635 Warrants.

(c) Share options (equity settled):

The Corporation has a share option plan under which directors, officers, employees and consultants of the Corporation are eligible to receive share 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 thousands of U.S. dollars, unless otherwise stated)

Share-based compensation has been recorded within Administrative Expenses (see note 6).

A summary of the status of the Corporation's share option plan as at March 31, 2011 and December 31, 2010 and changes during the periods then ended are as follows:

	Three months ended March 31, 2011		Year ended December 31, 2010	
	Number of options	Weighted average exercise price CDN$	Number of options	Weighted average exercise price CDN$
Outstanding, beginning of period	7,731,250	$ 0.59	6,525,000	$ 0.59
Granted	3,050,000	1.05	2,100,000	0.54
Exercised	(87,750)	0.22	(93,750)	0.22
Expired unexercised	(1,925,000	1.15	(800,000)	0.55
Outstanding, end of period	8,768,500	$ 0.62	7,731,250	$ 0.59

(i) The fair value of each option granted is estimated at the time of the grant using the Black-Scholes option pricing model. The fair value and weighted average assumptions are as follows:

(Weighted average)	2011	2010
Exercise price (CDN$/option)	$ 1.05	$ 0.54
Grant date share price (CDN$/option)	1.05	0.54
Risk-free interest rate (%)	2.53	1.91
Expected life (years)	5.00	5.00
Expected volatility (%)	150	150
Dividend rate (%)	–	–
Grant date fair value ($/option)	0.96	0.43

The Corporation has estimated volatility using its own historical volatility along with a comparison to peer companies.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

(ii) Share options exercised during the three months ended March 31, 2011

The following table outlines share options exercised during the year:

Number of options	Date of issue	Exercised	Exercise price	Closing share price at exercise date
26,500	September 1, 2009	February 24, 2011	CDN $0.22	CDN $0.86
30,000	September 1, 2009	February 28, 2011	CDN $0.22	CDN $0.93
31,250	September 1, 2009	March 14, 2011	CDN $0.22	CDN $0.99

Share options exercised during the year ended December 31, 2010

The following table outlines share options exercised during the year:

Number of options	Date of issue	Exercised	Exercise price	Closing share price at exercise date
93,750	September 1, 2009	October 8, 2010	CDN $0.22	CDN $0.67

(iii) Share options outstanding at the end of the period:

The following table summarizes information concerning outstanding and exercisable options at March 31, 2011:

Exercise Price ($/option)	Options outstanding	Options exercisable	Remaining Contractual life (years)	Grant date fair value ($/per option)
$ 0.22	2,868,500	2,868,500	3.42	$ 0.18
$ 0.315	350,000	262,500	3.63	0.27
$ 0.53	2,200,000	1,250,000	3.31	0.44
$ 0.65	100,000	25,000	2.60	0.53
$ 1.05	3,050,000	762,500	4.82	0.96
$ 1.15	200,000	200,000	0.10	0.28
	8,768,500	5,368,500	3.80	$ 0.53

The following table summarizes information concerning outstanding and exercisable options at December 31, 2010:

Exercise Price ($/option)	Options outstanding	Options exercisable	Remaining Contractual life (years)	Grant date fair value ($/per option)
$ 0.22	2,956,250	2,193,750	3.67	$ 0.18
$ 0.315	350,000	262,500	3.88	0.27
$ 0.53	2,200,000	950,000	3.56	0.44
$ 0.65	100,000	–	2.85	0.53
$ 1.15	2,125,000	2,125,000	0.09	0.60
	7,731,250	5,531,250	2.65	$ 0.38

(Expressed in thousands of U.S. dollars, unless otherwise stated)

A reconciliation of contributed surplus is provided below:

	March 31, 2011	December 31, 2010
Balance, beginning of period	$ 6,140	$ 5,250
Share-based compensation expense	1,355	908
Transferred on exercise of options	(75)	(18)
Balance, end of period	$ 7,420	$ 6,140

(d) Warrants:

The changes in warrants during the three months ended March 31, 2011 and year ended December 31, 2010 were as follows:

	Number of Warrants	$	Weighted average exercise price CDN$
Balance, December 31, 2009	2,500,450	51	$ 0.44
Issued pursuant to private placement	9,302,325	2,196	0.72
Balance, December 31, 2010	11,802,775	2,247	0.66
Issued pursuant to private placement	–	–	–
Balance, March 31, 2011	11,802,775	2,247	$ 0.66

The fair value of the Warrants issued in 2010 pursuant to the private placement was estimated on the dates of the issue of the Warrants using the Black-Scholes option pricing model. The fair value of the Warrants was calculated to be $2,196 using the following weighted-average assumptions:

	2010
Fair value of warrants granted (CDN$/share)	0.24
Expected life (years)	1.5
Risk free interest rate (%)	1.37
Expected volatility (%)	150
Expected dividend yield (%)	–

The warrants expire on August 11, 2011 as to 2,500,450 warrants, February 19, 1012 as to 5,388,690 warrants and March 28, 2012 as to 3,913,635 warrants. The 2,500,450 warrants are exercisable into common shares of the Corporation at a price of $CDN0.45 per common share.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

16. Loss per share:

The average market value of the Corporation's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

Three months ended	March 31, 2011	December 31, 2010
Weighted average number of common shares (basic)	104,020,851	88,710,746
Effect of conversion of convertible debentures	–	–
Effect of warrants outstanding	–	–
Effect of share options outstanding	–	–
Weighted average number of common shares (diluted)	104,020,851	88,710,746

The following potential ordinary shares, outstanding at the year-end are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

As at March 31,	2011	2010
Options	8,768,500	6,525,000
Warrants	11,802,775	2,500,405
	20,571,275	9,025,405

17. Related party transactions:

Balances and transactions between the Corporation and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Corporation and other related parties are disclosed below.

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 plus all reasonable out of pocket expenses and is for an indefinite term but may be terminated by either party upon providing 30 days prior written notice. The amount uncollected as of March31, 2011 was CDN$359 (2010 - CDN$168). Effective January 1, 2011, the Corporation suspended billing DOT the monthly remuneration. In addition, in 2010 the Corporation advanced DOT CDN$400,000 to enable DOT to meet working capital requirements while DOT is investigating options regarding financing. At this time the Corporation is not charging DOT any interest. The Corporation has classified the total amount outstanding from

(Expressed in thousands of U.S. dollars, unless otherwise stated)

DOT as a long term receivable until such time there is more certainty that DOT will be able to repay those amounts.

18. Operating Segments:

Operating segment - The Corporation's operations are primarily directed towards the acquisition, exploration and production of gold in Kazakhstan and therefore presentation geographically is the most appropriate.

For the three months ended March 31, 2011 and 2010, all of the Corporation's gold production was sold to one customer.

Three months ended March 31, 2011	Kazakhstan	Canada	Total
Segment assets (as at March 31, 2011)	$ 122,651	$ 4,689	$ 127,340
Segment liabilities (as at March 31, 2011)	52,628	1,183	53,811
Sales	$ 2,466	$ −	$ 2,466
Net smelter royalty	(74)	−	(74)
Mineral extraction tax	(139)	−	(139)
Cost of sales	(1,363)	−	(1,363)
Administrative expenses	(456)	(2,063)	(2,519)
Depletion and depreciation	(443)	(2)	(445)
Finance income	262	(38)	224
Finance costs	(256)	−	(256)
Share of loss of equity accounted investee	−	(3)	(3)
Income (loss) before income taxes	(3)	(2,106)	(2,109)
Income tax recovery	423	−	423
Segment loss	$ 420	$ (2,106)	$ (1,686)
Capital expenditures	$ 534	$ −	$ 534

Three months ended March 31, 2010	Kazakhstan	Canada	Total
Segment assets (as at December 31, 2010)	$ 104,835	$ 897	$ 105,732
Segment liabilities (as at December 31, 2010)	35,851	2,163	38,014
Sales	$ 2,124	$ −	$ 2,124
Net smelter royalty	(64)	−	(64)
Mineral extraction tax	(93)	−	(93)
Cost of sales	(1,520)	−	(1,520)
Administrative expenses	(299)	(365)	(664)
Depletion and depreciation	(223)	(2)	(225)
Finance income	166	11	177
Finance costs	(38)	(81)	(119)
Share of loss of equity accounted investee	−	(38)	(38)
Loss before income taxes	53	(475)	(422)
Income tax expense	(332)	−	(332)
Segment loss	$ (279)	$ (475)	$ (754)

Capital expenditures	$	301	$	–	$	301

19. Management of capital:

The Corporation defines capital that it manages as its equity. 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 Corporation assets do generate cash flow, it is still necessary for the Corporation to raise funds to carry out its capital expenditure programs.

In the last two years, the Corporation has raised some funds through a private placement (note 15(b) and the issue of secured indebtedness (note 12) 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.

20. Financial instruments:

Overview:

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

(a) Credit risk

(b) Liquidity risk

(c) 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.

(a) 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 and from Saga Creek's receivable from the purchaser of its gold. 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. As at March 31, 2011 approximately 69% (December 31, 2010 - 42%) of the recorded value of accounts receivable relates to VAT.

Saga Creek sells its gold to a single customer who also completes the final refining process necessary to make the gold readily saleable. Typically it takes approximately two weeks from the time the customer takes control of the gold for the refining to be completed. At March 31, 2011 approximately 26% (December 31, 2010 - 31%) of the recorded value of accounts receivable relates to the sale of gold to one customer.

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 cash and cash equivalents and accounts receivable represents the maximum credit exposure. The Corporation does not have an allowance for doubtful accounts as at March 31, 2011.

(b) 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.

(c) 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 USD or Euros, its operating costs are primarily denominated in Kazakhstan Tenge, while its administrative costs are denominated in either Canadian dollars or Kazakhstan

(Expressed in thousands of U.S. dollars, unless otherwise stated)

Tenge. To date, the Corporation has not attempted to mitigate these foreign currency risks, except for maintaining adequate funds in the currencies required for timely payment of liabilities and to maintain efficient business operations.

CDN monetary assets and liabilities in CDN$ As at	March 31, 2011	December 31, 2010
Cash and cash equivalents	$ 1,688	$ 3,137
Trade and other receivables	882	791
Deposits and prepaid expenses	1,541	616
Trade and other payables	(1,184)	(581)
Total net monetary assets in foreign currency	$ 2,927	$ 3,963

For the three months ended March 31, 2011, based on the net foreign exchange exposure at the end of the period, if the CDN$ had strengthened or weakened by 10% compared to the USD and all other variables were held constant, the after tax net loss would have decreased or increased by approximately $301 in 2011 (2010 - $184).

Kazakhstan monetary assets and liabilities in 000's of Tenge ("T") As at	March 31, 2011	December 31, 2010
Cash and cash equivalents	T 33,210	T 32,526
Trade and other receivables	314,645	339,515
Deposits and prepaid expense	34,942	58,883
Trade and other payables	(989,818)	(938,687)
Provisions	(2,051,195)	(2,038,363)
Total net monetary liabilities in foreign currency	T(2,658,216)	T (2,546,126)

For the three months ended March 31, 2011, based on the net foreign exchange exposure at the end of the period, if the Kazakhstan Tenge had strengthened or weakened by 10% compared to the USD and all other variables were held constant, the after tax net loss would have increased or decreased by approximately $1,459 (2010 - $1,382)

(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. The Corporation's debt is all at fixed interest rates; therefore, there is no exposure to variations in interest rates except on cash balances which for the three months ended March 31, 2011 and 2010.

(d) Fair value of financial assets and liabilities:
Financial instruments disclosure requires an explanation about how fair value is determined for assets and liabilities measured in the financial statements at fair value and establish a hierarchy for which these assets and liabilities must be Corporationed, 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 require an entity to develop its own assumptions.

As at March 31, 2011 the financial assets measured at fair value on the Corporation's balance sheet using level 1 is cash and cash equivalents. Fair values of financial instruments approximate their carrying amounts due to their short terms to maturity.

21. Subsequent event:

In 2010 Saga Creek was assessed amounts that tax authorities in Kazakhstan believed were owed by Saga Creek for Historical Costs, Mineral Extraction Tax as well as for their disallowance of certain income tax deductions. The Corporation believed that the assessments were not consistent with Kazakhstan legislation as well as the provisions of Saga Creek's foreign investment contract which governs the Corporation's licenses. As a result, the Corporation filed a claim in the Economical Court seeking to have the assessment of the tax authorities, together with the applicable interest and penalties, reversed. On May 13, 2011 the judge in charge of the case largely, but not wholly, rejected the Corporation's claim, upholding the assessment. The Corporation has not been able to obtain the reasons behind the decision however believes that its case is still valid and as such plans to appeal this decision to the next level of the court. Alhambra continues to believe that its position is defendable; however, the risk remains high that it will not be successful in its appeal. The Corporation continues to accrue in its financial statements the estimated negative financial impact of the assessment. Should the Corporation ultimately be successful, either wholly or in part, in its appeal, the amounts accrued related to those successful elements will be reversed at that time.