Financial Statements of

ALHAMBRA RESOURCES LTD.

Years ended December 31, 2008 and 2007

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Other financial information appearing throughout the report is presented on a basis consistent with the financial statements.

Alhambra Resources Ltd. has established procedures and systems of internal control designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced in a timely manner.

The Audit Committee of the Board of Directors has reviewed these financial statements with management and the independent auditors and reports its findings to the Board of Directors before such statements are approved by the Board.

The financial statements have been audited by KPMG LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. KPMG LLP have full and free access to the Audit Committee.

June 25, 2009

(Signed) "John J. Komarnicki"
Chairman of the Board and Chief Executive Officer

(Signed) "Donald D. McKechnie"
Vice-President Finance and Chief Financial Officer

KPMG LLP
Chartered Accountants
200-205 5 Avenue SW
Calgary AB T2P 4B9

Telephone (403) 691-8000
Fax (403) 691-8008
Internet www.kpmg.ca

AUDITORS' REPORT

To the Shareholders of
Alhambra Resources Ltd.

We have audited the consolidated balance sheets of Alhambra Resources Ltd. as at December 31, 2008 and 2007 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as explained in the following paragraph, we conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

As a result of the unfavorable decision reached by a Kazakhstan court, the Company's ownership of its Kazakhstan subsidiaries has been invalidated effective December 26, 2008. As a result, the Company has not been granted sufficient access to the accounting records of these subsidiaries. Consequently, we were unable to obtain sufficient appropriate audit evidence for expenses related to the Kazakhstan operations, and income taxes. The Company is uncertain if they will be granted access to the accounting records or if the mineral licenses will be returned to the Company. Accordingly, we were not able to determine whether any adjustments might be necessary to expenses, income taxes, and net loss from the Kazakhstan operations for the year ended December 31, 2008 as further described in Notes 19 and 20.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves with respect to the accounts described in the preceding paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
June 25, 2009

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ALHAMBRA RESOURCES LTD.

Consolidated Balance Sheets

As at December 31, 2008 and 2007
(Expressed in U.S. Dollars)

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	$ 25,818	$ 3,056,812
Accounts receivable	11,275	862,104
Deposits and prepaid expenses	27,267	53,750
Supplies inventory	–	807,774
Work in progress (note 4)	–	5,626,570
	64,360	10,407,010
Mineral assets (note 5)	–	25,630,333
Equipment (note 6)	39,102	57,869
Investment in DOT Resources Ltd. (note 1(c))	586,068	834,707
	$ 689,530	$ 36,929,919
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 806,114	$ 1,677,645
Advances	–	744,965
Secured debentures (note 7)	816,593	–
	1,622,707	2,422,610
Asset retirement obligations (note 8)	–	374,427
Future income taxes (note 9)	–	1,427,957
Shareholders' equity (deficiency):		
Share capital (note 10(b))	34,585,094	34,432,307
Warrants (note 10(c))	–	675,595
Contributed surplus (note 10(d))	4,417,966	2,576,263
Accumulated other comprehensive income (note 11)	(322,360)	960,514
Deficit	(39,613,877)	(5,939,754)
	(933,177)	32,704,925
Going concern and nature of operations (note 1)		
Commitment and contingency (note 17)		
Subsequent event (note 18)		
Legal disputes (note 20)		
	$ 689,530	$ 36,929,919

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(Signed) John J. Komarnicki, Director

(Signed) Clarence K. Wagenaar, Director

ALHAMBRA RESOURCES LTD.

Consolidated Statements of Loss and Deficit

Years ended December 31, 2008 and 2007
(Expressed in U.S. Dollars)

	2008	2007
Revenue:		
Sales	$ 14,852,032	$ 12,952,684
Less net smelter royalty	(445,561)	(388,581)
	14,406,471	12,564,103
Interest and other	13,795	261,722
	14,420,266	12,825,825
Expenses:		
Operations	9,799,464	6,644,204
General and administrative	4,043,513	3,783,264
Interest	142,336	125,104
Stock-based compensation (note 10(d))	1,181,990	979,119
Depreciation, depletion and accretion	1,636,650	1,221,175
Foreign exchange loss (gain)	(286,575)	96,207
	16,517,378	12,849,073
Loss before the undernoted	(2,097,112)	(23,248)
Income tax expense (note 9)		
Current	–	312,158
Future	507,514	867,984
	507,514	1,180,142
Loss before the equity loss and write-off of investment in former subsidiary	(2,604,626)	(1,203,390)
Equity loss	(104,055)	(109,959)
Loss before write-off of investment in former subsidiary	(2,708,681)	(1,313,349)
Write-off of investment in former subsidiary (note 19(a))	(30,965,442)	–
Net loss	(33,674,123)	(1,313,349)
Deficit, beginning of year	(5,939,754)	(4,626,405)
Deficit, end of year	(39,613,877)	$ (5,939,754)
Per share (note 14):		
Net loss per share:		
Basic and diluted	$ (0.44)	$ (0.02)

Consolidated Statements of Comprehensive Loss

Years ended December 31, 2008 and 2007
(Expressed in U.S. Dollars)

	2008	2007
Net loss	$(33,674,123)	$ (1,313,349)
Translation gains (losses) on self-sustaining operations	(1,282,874)	1,184,305
Total comprehensive loss	$(34,956,997)	$ (129,044)

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2007
(Expressed in U.S. Dollars)

	2008	2007
Cash provided by (used in):		
Operating:		
Net loss	$(33,674,123)	$ (1,313,349)
Items not involving cash:		
Stock-based compensation	1,181,990	979,119
Depreciation, depletion and accretion	1,636,650	1,221,175
Future income taxes	507,514	867,984
Equity loss	104,055	109,959
Unrealized foreign exchange gain	(120,087)	–
Write-off of investment in former subsidiary	30,965,442	–
	601,441	1,864,888
Change in non-cash working capital (note 13)	253,369	(2,157,045)
	854,810	(292,157)
Financing:		
Issuance of common shares and warrants	108,009	7,927,557
Share issuance costs	–	(143,594)
Secured debentures	936,680	–
	1,044,689	7,783,963
Investing:		
Expenditures on mineral assets	(4,616,858)	(7,395,030)
Acquisition of equipment	(4,245)	(7,726)
Change in non-cash working capital (note 13)	(92,875)	(15,589)
	(4,713,978)	(7,418,345)
Effect of exchange rate changes on cash and cash equivalents	(216,515)	445,313
Change in cash and cash equivalents	(3,030,994)	518,774
Cash and cash equivalents, beginning of year	3,056,812	2,538,038
Cash and cash equivalents, end of year	$ 25,818	$ 3,056,812
Supplemental disclosure of cash flow information:		
Interest paid	$ 101,558	$ 125,104
Taxes paid	256,293	154,129

See accompanying notes to consolidated financial statements.

1. Going concern and nature of operations:

(a) Going concern:

Due to the unfavorable decision reached in the Kazakhstan Lawsuit (note 20(b)), Alhambra Resources Ltd. ("Alhambra" or the "Corporation") no longer has any assets that generate cash flow. In addition, the Corporation has a significant working capital deficiency. As a result, Alhambra's ability to continue operating as a going concern and successfully defend the Kazakhstan Lawsuit is in significant doubt and is dependent upon its ability to raise additional capital. To date, the Corporation has raised some funds through the issue of secured indebtedness (notes 7 and 18), however, these funds are only adequate to fund a portion of its current and future obligations. 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 that it will be able to do so.

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. As a result of the unfavorable decision reached in the Kazakhstan Lawsuit (note 20(b)), Alhambra's interest in mineral licenses held by its former subsidiaries Saga Creek Gold Company LLP ("Saga Creek") and Goodwin Golems LLP ("Goodwin") (together the "Kazakhstan Subsidiaries") has been invalidated and the ownership was re-registered in the name of the former owners on January 27, 2009.

With the loss of Kazakhstan Subsidiaries, Alhambra no longer has any operations in Kazakhstan. The consolidated statement of loss and deficit for the year ended December 31, 2008 has been prepared on the basis that individual income and expense items related to the Kazakhstan mineral operations were for the account of Alhambra up until December 26, 2008. Assets and liabilities related to the Kazakhstan mineral operations have been written off as of December 26, 2008.

(c) Corporate reorganization:

On July 31, 2007 the Corporation's shareholders approved a reorganization by way of an arrangement under the *Business Corporations Act* (Alberta) (the "Arrangement") involving the Corporation, its shareholders and a newly incorporated corporation, DOT Resources Ltd. ("DOT").

Under the Arrangement, which became effective on August 29, 2007, the Corporation divided its mineral assets between two separate publicly traded corporations. The Corporation retained the gold producing assets situated in Kazakhstan, while the Corporation's former Canadian DOT property ("DOT Property") was transferred to DOT.

Pursuant to the Arrangement, the DOT Property was transferred to DOT at its carrying amount of $944,666 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 36% of the outstanding common shares of DOT. At December 31, 2008, the market trading value of the 15,000,001 DOT shares owned by Alhambra was CDN$150,000.

2. Significant accounting policies:

(a) Principles of consolidation and accounting for investments:

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Alhambra Overseas Limited. In addition the consolidated financial statements include the accounts of Saga and Goodwin Golems however due to the unfavorable decision reached in the Kazakhstan Lawsuits (note 20(b)), the Company has written off the accounts of Saga Creek and Goodwin Golems effective December 26, 2008. The Corporation accounts for its investment in DOT using the equity method of accounting. In these consolidated financial statements, unless otherwise indicated, all dollar amounts are expressed in United States dollars.

(b) Use of estimates:

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those reported. Significant areas requiring the use of management estimates include the determination of impairment of mining assets, equipment and exploration and development costs, asset retirement obligations, and assumptions used in calculating stock-based compensation expense. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

(c) Translation of foreign currencies:

The accounts of the self-sustaining Canadian operations are translated using the current rate method, whereby assets and liabilities are translated at year end exchange rates, while revenues and expenses are translated using average annual rates. Translation gains and

losses relating to the self-sustaining Canadian operations are included as a separate component of shareholders' equity in accumulated other comprehensive income.

Monetary assets and liabilities of the Corporation that are denominated in foreign currencies are translated into its functional currency at the rates of exchange in effect at the period end date. Any gains or losses are recorded in earnings.

(d) Cash and cash equivalents:

Cash and cash equivalents consist of bank balances and term deposits with original maturities of three months or less.

(e) Supplies inventory:

Inventory of materials and supplies is valued at the lower of cost and net realizable value.

(f) Work in progress:

All costs associated with the production of gold, including direct costs incurred in the mining, leaching and resin stripping processes as well as depreciation of equipment used in each process, are charged to work in progress and expensed based on the quantity of gold sold as a percentage of total gold mined. Work in progress is valued at the lower of cost and net realizable value and on a weighted average basis.

(g) Mineral assets:

Mineral assets include exploration and development costs, equipment and construction in progress. The amount shown for exploration and development costs includes the direct costs of acquiring, maintaining, exploring and developing properties, an allocation of management fees and salaries based on time spent and other costs directly related to specific properties. Depreciation on equipment utilized in the development of mineral properties is capitalized to exploration and development costs until such time these properties commence commercial production. All other costs, including administrative overhead, are expensed as incurred. Revenues from the sale of minerals are credited to exploration and development costs until such time these properties are considered to have commenced commercial production.

The Corporation reviews and evaluates its mining properties for impairment at least annually or when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. A decision to abandon, reduce or expand activity on a specific project is based upon many factors including general and specific assessments of exploration results, anticipated future mineral prices, anticipated costs of developing and operating a producing mine and the general likelihood that the Corporation will continue exploration on the project. The Corporation does not set a pre-determined holding period for properties. However, properties which have not demonstrated positive exploration results at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and that carrying amounts are appropriate.

Impairment is considered to exist if the total estimated future undiscounted cash flows are less than the carrying amount of the assets. An impairment loss is measured and recorded

based on discounted estimated future cash flows. Future cash flows are estimated based on expected future production, commodity prices, operating costs, capital costs and reclamation and remediation obligations. Expected future production is determined from proved and probable reserves and measured mineral resources after taking into account losses during processing and treatment.

If a mineral property is abandoned or it is determined that its carrying amount cannot be supported by future production or sales, the related costs are charged against operations in the year of abandonment or determination of impairment of value. The amounts recorded as exploration and development costs do not necessarily reflect present or future values.

Once a mineral property reaches commercial production, the accumulated costs of exploration and development costs related to that mineral property are amortized to operations on a unit-of-production basis over economically recoverable gross proved plus probable reserves as determined by the Corporation's independent geological and engineering consultant.

(h) Equipment:

Equipment consists of office equipment and leasehold improvements in the Corporation's head office. Office equipment is depreciated using the declining balance method at annual rates from 20% to 30% while leasehold improvements are amortized on a straight-line basis over five years.

(i) Asset retirement obligations ("ARO"):

The Corporation recognizes the fair value of ARO in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value of the estimated ARO is recorded as a liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on the unit-of-production method over proved and probable reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is expensed to income in the period. Actual costs incurred upon the settlement of the ARO are charged against the ARO to the extent recorded. Any difference between the actual costs incurred and the ARO recorded is recognized as a gain or loss in earnings in the period the costs are incurred.

(i) Revenue recognition:

Revenue is recognized from the sale of gold when the price is determinable, the product has been delivered and title has been transferred to the customer and collection of the sales price is reasonably assured.

(k) Stock-based compensation:

The Corporation has a stock-based compensation plan for employees and non-employees as described in note 10(d). The Corporation uses the fair value method of accounting for stock options granted. The fair value of employee stock options is estimated on the date of grant and the resulting fair value is recorded as an expense over the vesting period of the stock

option. The fair value of non-employee stock options is revalued each reporting date with the change in fair value of the unvested options expensed over the remaining vesting period. In determining the fair value of the stock options granted, the Black-Scholes model is used and assumptions regarding interest rates, underlying volatility of the Corporation's stock and expected life of the options are made.

(l) Income taxes:

The Corporation uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

(m) Loss per share:

Basic per share amounts are calculated using the weighted average common shares outstanding during the year. Diluted per share amounts are calculated using the treasury stock method, whereby it is assumed that proceeds from the exercise of stock options and warrants are used by the Corporation to repurchase Corporation shares at the weighted average market price during the year. Anti-dilutive options and warrants are not included in the calculation.

(n) Financial instruments:

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and secured debentures.

Financial instruments are measured at fair value on initial recording except in specific circumstances. Changes in fair value in subsequent periods depend on whether the financial instrument has been classified as: "held for trading", "held to maturity", "loans and receivables", "available for sale" or "other financial liabilities". "Held for trading" financial assets and financial liabilities are measured at fair value with changes in fair value recognized in earnings. "Available for sale" financial assets are measured at fair value, with changes in fair value recognized in other comprehensive income until derecognized or impaired. "Held to maturity" financial assets, "loans and receivables" and "other financial liabilities" are measured at amortized cost. The Corporation has classified its cash and cash equivalents as "held for trading", its accounts receivable as "loans and receivables" and its accounts payable and accrued liabilities and its secured debentures as "other financial liabilities".

(o) Adoption of new accounting standards

Effective January 1, 2008 the Corporation adopted the following standards of the Canadian Institute of Chartered Accountants ("CICA") Handbook:

(i) Inventories

Section 3031 which replaces CICA Handbook section 3030 – "Inventories", establishes standards for the measurement and disclosure of inventories. The new standard provides more extensive guidance on the determination of cost, including allocation of overhead and requires impairment testing. The adoption of Section 3031 did not result in a material impact on the Corporation's consolidated financial statements.

(ii) Financial Instruments – Disclosures and Presentation

Section 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosures and Presentation", revising its disclosure requirements, and carrying forward its presentation requirements. These new standards place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3862 specifies disclosures that enable users to evaluate: (i) the significance of financial instruments for the entity's financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

As a result of the adoption of these standards, additional disclosures on the risks of certain financial instruments have been included in note 16.

3. Future accounting pronouncements:

(a) Goodwill and intangible assets:

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets". Effective for fiscal years beginning on or after October 1, 2008, this section provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. Retroactive application to prior-period financial statements will be required. The Corporation does not expect that this new standard will have any impact on its financial statements.

(b) Business combinations:

In January 2009, the CICA issued Section 1582, "Business Combinations" and related standards for non-controlling interests and consolidated financial statements. These sections are effective January 1, 2011 and apply prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1,

2011 for the Corporation. Early adoption is permitted. These sections replace Section 1581, "Business Combinations" and harmonize the Canadian standards with IFRS.

(c) International financial reporting standards ("IFRS"):

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010.

The International Accounting Standards Board ("IASB") has also issued an exposure draft relating to certain amendments and exemptions to IFRS 1. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. Although the amended IFRS 1 standard would provide relief, the changeover to IFRS represents a significant change in accounting standards and the transition from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Corporation's reported financial position and reported results of operations.

During 2009, the Corporation plans to complete a high-level IFRS changeover plan and establish a preliminary timeline for the execution and completion of the conversion project. The changeover plan will include a preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment will provide insight into what are anticipated to be the most significant areas of difference applicable to the Corporation.

Following the completion of the high-level IFRS changeover plan, the Corporation will perform an in-depth review of the significant areas of difference, identified during the preliminary assessment, in order to identify all specific Canadian GAAP and IFRS differences and select ongoing IFRS policies. Key areas addressed will also be reviewed to determine any information technology issues, the impact on internal controls over financial reporting and the impact on business activities. External advisors will be retained to assist management with the project on an as needed basis. The Corporation will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.

4. Work in progress:

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

	2008	2007
Pad	$ –	$ 4,422,620
Resin	–	479,204
Stripping plant	–	724,746
Balance, end of year	$ –	$ 5,626,570

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 20(b)).

5. Mineral assets:

Mining assets consist of the following:

	2008	2007
Exploration and development costs, net of incidental revenue from sales of gold and silver of $7,854,536 as at December 31, 2007 and accumulated amortization of $ 613,923 as at December 31, 2007	$ –	$ 16,886,923
Equipment, net of accumulated depreciation of $1,625,961 as at December 31, 2007	–	8,738,130
Construction in progress	–	5,280
	$ –	$ 25,630,333

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

Costs excluded from costs subject to depletion at December 31, 2007 totaled $15,103,567 which represents costs related to the exploration of those portions of the Corporation's Uzboy licenses not currently in production.

During 2008, the Corporation capitalized $28,896 (2007 - $87,792) of general and administrative costs to mining assets including $28,896 (2007 - $87,762) of stock-based compensation expense.

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 (note 20(b)).

6. Equipment:

2008	Cost	Accumulated depreciation	Net book value
Leasehold improvements	$ 22,192	$ 22,192	$ –
Office equipment	85,355	46,253	39,102
	$ 107,547	$ 68,445	$ 39,102

2007	Cost	Accumulated depreciation	Net book value
Leasehold improvements	$ 27,504	$ 25,466	$ 2,038
Office equipment	101,204	45,373	55,831
	$ 128,708	$ 70,839	$ 57,869

7. Secured debentures:

The Corporation has outstanding a series of twelve (12%) percent secured debentures due August 11, 2009 in the principle amount of CDN$1,000,000 (the "Debentures"). The Debentures bear interest at a simple rate of twelve (12%) percent per annum calculated annually, not in advance. The Debentures are secured by way of a first floating charge against all of the assets, property and undertakings of the Corporation. The entire amount of the Debentures was subscribed by officers and directors of the Corporation. The Debentures require that interest be paid starting on December 31, 2008 and every three months thereafter. The Corporation is in default of that provision, however, the Debenture holders have agreed not to exercise the default remedies provided to them under the Debenture agreement prior to June 30, 2009.

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.

	2008	2007
Balance, beginning of year	$ 374,427	$ 311,000
Revisions to previous estimates	(1,673)	17,547
Accretion expense	55,237	45,880
Elimination of accounts of former subsidiary (note 20(b))	(427,991)	–
Balance, end of year	$ –	$ 374,427

9. Income taxes:

(a) Significant components of future income tax assets and liabilities at December 31, 2008 and 2007 are as follows:

	2008	2007
Future income tax assets:		
Equipment - corporate	$ 16,165	$ 19,183
Eligible capital expenditures	7,927	13,177
Non-capital losses	909,242	554,502
Share issue costs	40,372	114,332
Foreign investment written off	3,398,832	–
Valuation allowance	(4,372,538)	(701,194)
Future income tax liabilities:		
Equipment - subsidiary	–	(1,427,957)
Future income tax liability	$ –	$ (1,427,957)

Due to the history of operating losses, the Corporation did not consider it more likely than not that it would be able to realize a future tax benefit on continuing operations and as a result, a valuation allowance is provided against the future tax assets.

(b) Future income tax reduction differs from that which would be expected from applying the combined effective Canadian federal and provincial income tax rates of 29.50% (2007 – 32.12%) to net loss adjusted for income taxes as follows:

	2008	2007
Expected income tax reduction	$ (9,784,150)	$ (42,787)
Difference resulting from:		
Stock-based compensation	348,687	354,875
Non-deductible expenses	1,460,284	448,673
Change in tax rates	348,456	65,171
Other	62,531	(47,221)
Impact of write-off of former subsidiary	4,400,362	–
Change in valuation allowance	3,671,344	401,431
	$ 507,514	$ 1,180,142

The Corporation has Canadian non-capital losses, for which no benefit has been recognized in the financial statements, of approximately CDN$4,454,000 which commence expiring in 2014.

10. Share capital:

(a) Authorized:

Unlimited voting common shares

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

(b) Issued and outstanding:

	2008		2007	
	Number	Amount	Number	Amount
Common shares				
Balance, beginning of year	75,578,147	$ 34,432,307	69,061,480	$26,919,818
Pursuant to private placements	–	–	4,666,667	7,011,921
Share issuance costs	–	–	–	(143,594)
Amount ascribed to warrants	–	–	–	(675,595)
Exercise of stock options	196,000	108,009	1,850,000	915,636
Transfer from contributed surplus	–	44,778	–	404,121
Balance, end of year	75,774,147	$ 34,585,094	75,578,147	$34,432,307

(i) During the year ended December 31, 2008, a total of 196,000 (2007 – 1,850,000) stock options were exercised for cash proceeds of $108,009 (2007 - $915,636). In addition, a total of $44,778 (2007 - $404,121) was transferred from contributed surplus to reflect the value of the options calculated on the grant date and charged as stock-based compensation expense.

(ii) During the year ended December 31, 2007, the Corporation completed a non-brokered private placement of 4,666,667 units for cash proceeds of $7,011,921 (CDN$7,000,000) at a price of CDN$1.50 per unit. Each unit was comprised of one (1) common share of the Corporation and one half (1/2) of a common share purchase warrant. Each whole warrant vested upon issue and entitled the holder to purchase one additional common share of the Corporation at an exercise price of CDN$2.00 per common share on or before October 3, 2008. The Warrants expired unexercised.

(c) Warrants:

	2008		2007	
	Number	Amount	Number	Amount
Balance, beginning of year	2,333,333	$ 675,595	–	$ –
Pursuant to private placements	–	–	2,333,333	675,595
Expired unexercised	(2,333,333)	(675,595)	–	–
Balance, end of year	–	$ –	2,333,333	$ 675,595

The fair value of the warrants granted in 2007 in conjunction with the private placement was estimated on the date of the issue of the common shares and warrants using the Black-

Scholes option pricing model. The fair value of the warrants was calculated to be $675,595 using the following weighted-average assumptions:

	2007
Fair value of warrants granted ($/share)	0.29
Expected life (years)	1.00
Risk free interest rate (%)	4.13
Expected volatility (%)	71
Expected dividend yield (%)	–

	2008		2007	
	Number of warrants	Weighted average exercise price CDN$	Number of warrants	Weighted average exercise price CDN$
Outstanding, beginning of year	2,333,333	$ 2.00	–	$ –
Issued	–	–	2,333,333	2.00
Expired	(2,333,333)	2.00	–	–
Outstanding, end of year	–	$ –	2,333,333	$ 2.00
Exercisable, end of year	–	$ –	2,333,333	$ 2.00

(d) 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 exchanges on which the Corporation's common shares are then listed.

A summary of the status of the Corporation's stock option plan as at December 31, 2008 and 2007 and changes during the years then ended are as follows:

	2008		2007	
	Number of options	Weighted average exercise price CDN$	options	Weighted average exercise price CDN$
Outstanding, beginning of year	3,905,000	$ 1.18	5,555,000	$ 0.94
Granted	2,750,000	1.15	200,000	1.60
Exercised	(196,000)	0.55	(1,850,000)	0.54
Expired	(789,000)	1.26	–	–
Outstanding, end of year	5,670,000	$ 1.18	3,905,000	$ 1.18
Exercisable, end of year	4,445,000	$ 1.17	3,397,500	$ 1.16

The following table summarizes information about stock options outstanding and exercisable at December 31, 2008.

	Outstanding		Exercisable	
Exercise price	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
CDN$0.55	800,000	1.38	800,000	1.38
CDN$1.06	940,000	0.04	940,000	0.04
CDN$1.15	2,450,000	2.09	1,225,000	2.09
CDN$1.60	1,480,000	0.97	1,480,000	0.97
	5,670,000	1.36	4,445,000	1.16

The fair value of the options granted is estimated on the date of grant using the Black-Scholes option-pricing model. The fair value of the options was calculated to be $1,595,975 (2007 - $133,649) using the following weighted-average assumptions:

	2008	2007
Expected dividend yield (%)	–	–
Expected life (years)	3.00	3.00
Risk-free interest rate (%)	3.17	4.20
Expected volatility (%)	79	79
Fair value of options granted ($/share)	0.58	0.74

A reconciliation of contributed surplus is provided below:

	2008	2007
Balance, beginning of year	$ 2,576,263	$ 1,913,473
Stock-based compensation expense	1,181,990	979,119
Stock-based compensation capitalized	28,896	87,792
Warrants expired	675,595	–
Transfer to share capital on the exercise of stock options	(44,778)	(404,121)
Balance, end of year	$ 4,417,966	$ 2,576,263

11. Accumulated other comprehensive income:

	2008	2007
Balance, beginning of year	$ 960,514	$ (223,791)
Translation gains (losses) on self-sustaining operations	(1,282,874)	1,184,305
Balance, end of year	$ (322,360)	$ 960,514

12. Related party transactions:

(a) During the year ended December 31, 2008, the Corporation paid $93,294 (2007 - $134,018) in consulting fees to a corporation controlled by a director and former officer of the Corporation. Of this amount, $nil (2007 - $40,205) was capitalized to exploration and development costs.

(b) During the year ended December 31, 2008, the Corporation incurred $158,018 (2007 - $243,472) in costs from a law firm in which an officer of the Corporation is a partner. Of that total $nil (2007 - $9,272) has been charged to share issue costs and $158,018 (2007 - $234,200) was expensed as legal expenses. The officer resigned his position effective April 29, 2009.

(c) 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$240,000 (2007 – CDN$80,000) under the Contract together with CDN$ nil (2007 - CDN$29,946) related to direct costs of DOT paid for by the Corporation. The amount uncollected as of December 31, 2008 was CDN$ nil.

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.

13. Supplementary cash flow information:

Changes in non-cash working capital are as follows:

	2008	2007
Accounts receivable	$ (620,559)	$ 295,369
Deposits and prepaid expenses	37,991	174,803
Supplies inventory	73,021	(277,093)
Work in progress	(2,193,714)	(2,137,459)
Accounts payable and accrued liabilities	3,608,720	(197,373)
Advances	(744,965)	(30,881)
	$ 160,494	$ (2,172,634)
Relating to:		
Operating activities	$ 253,369	$ (2,157,045)
Investing activities	(92,875)	(15,589)
	$ 160,494	$ (2,172,634)

14. Loss per share:

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

	2008	2007
Weighted average shares outstanding:		
Basic and diluted	75,701,163	71,298,944

No options or warrants have been included in the calculation of per share amounts as their effect would have been anti-dilutive.

15. 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. As a result of the unfavorable decision reached in the Kazakhstan Lawsuit (note 20(b)), Alhambra no longer has any assets that generate cash flow and therefore is totally dependent on external financing to fund its corporate costs and pursue all remedies to either recover ownership of Saga Creek and Goodwin or receive adequate compensation for its loss.

To date, the Corporation has raised some funds through the issue of secured indebtedness (notes 7 and 18) however these funds are only adequate to fund a portion of its current and future obligations. 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.

16. 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.

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. Accounts receivable primarily relate to GST receivable from the Government of Canada, the credit risk of which is considered to be very low.

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 December 31, 2008. During the year ended December 31, 2008, as part of the write-off of the net investment in Saga Creek and Goodwin that resulted from the unfavorable decision reached in the Kazakhstan Lawsuit (note 20(b)), the Corporation wrote off all receivables totaling $1,507,887 of Saga Creek and Goodwin as at December 26, 2008.

(c) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they come due. As a result of the unfavorable decision reached in the Kazakhstan Lawsuit (note 20(b)), Alhambra no longer has any assets that generate cash flow and therefore is totally dependent on external financing to fund its corporate costs and pursue all remedies to either recover ownership of Saga Creek and Goodwin or receive adequate compensation for its loss. To date the Corporation has raised some funds through the issue of secured indebtedness (notes 7 and 18), however, these funds are only adequate to fund a portion of its current and future obligations. 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 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 risks exposures within acceptable limits, while maximizing returns. As a result of the unfavorable decision reached in the Kazakhstan Lawsuit (note 20(b)), the Corporation's exposure to these risks has been virtually eliminated.

(e) Fair value of financial investments:

The Corporation's financial instruments as at December 31, 2008 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and secured debentures. The fair values of these financial instruments approximate their carrying amounts due to their short terms to maturity.

17. Commitment and contingency:

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, 2008 was approximately CDN$646,000 (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 will be reduced. The landlord has given the Corporation until June 30, 2009 to settle the claim. As at December 31, 2008 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.

18. Subsequent event:

Subsequent to December 31, 2008, the Corporation issued CDN$675,000 of subordinated secured promissory notes (the "Notes"). The Notes bear simple interest at an annual rate of 20%, mature one year after the date of receipt of the funds, are secured against assets of the Corporation and are subordinated to the Debentures. In connection with the Notes, the Corporation has issued 5,400,000 non-transferable warrants (the "Warrants") to purchase

5,400,000 common shares of the Corporation. Half of the Warrants issued have an exercise price of CDN$0.10 per common share and the other half have an exercise price of CDN$0.20 per common share. All Warrants are exercisable until October 29, 2009. The Warrants and any common shares acquired upon exercise of the Warrants are subject to a hold period expiring on August 29, 2009. A total of CDN$215,000 of Notes were subscribed for by officers and directors of the Corporation.

19. Segment information:

During 2008, the Corporation and its subsidiaries operated in one reportable segment, the exploration for and the development of mineral properties. As a result of the unfavorable decision reached in the Kazakhstan Lawsuit (note 20(b)), the assets related to mining activities have been written off as of December 26, 2008. The Corporation's consolidated statements of loss and consolidated statements of cash flow for the years ended December 31, 2008 and 2007 in each of its geographic areas are as follows:

(a) Segmented statements of loss:

2008	Kazakhstan	Corporate	Total
Revenue:			
Sales	$ 14,852,032	$ –	$ 14,852,032
Less net smelter royalty	(445,561)	–	(445,561)
	14,406,471	–	14,406,471
Interest and other	–	13,795	13,795
	14,406,471	13,795	14,420,266
Expenses:			
Operations	9,724,571	74,893	9,799,464
General and administrative	1,952,932	2,090,581	4,043,513
Interest	101,588	40,748	142,336
Stock-based compensation	–	1,181,990	1,181,990
Depreciation, depletion and accretion	1,623,541	13,109	1,636,650
Foreign exchange gain	(262,833)	(23,742)	(286,575)
	13,139,799	3,377,579	16,517,378
Income (loss) before the undernoted	1,266,672	(3,363,784)	(2,097,112)
Income tax expense:			
Future	507,514	–	507,514
Income (loss) before equity loss and write-off of investment in former subsidiary	759,158	(3,363,784)	(2,604,626)
Equity loss	–	(104,055)	(104,055)
Income (loss) before write-off of investment in former subsidiary	759,158	(3,467,839)	(2,708,681)
Write-off of investment in former subsidiary	(30,965,442)	–	(30,965,442)
Net loss	$ (30,206,284)	$ (3,467,839)	$ (33,674,123)

2007	Kazakhstan	Corporate	Total
Revenue:			
Sales	$ 12,952,684	$ –	$ 12,952,684
Less net smelter royalty	(388,581)	–	(388,581)
	12,564,103	–	12,564,103
Interest and other	–	261,722	261,722
	12,564,103	261,722	12,825,825
Expenses:			
Operations	6,547,410	96,794	6,644,204
General and administrative	1,558,008	2,225,256	3,783,264
Interest	125,104	–	125,104
Stock-based compensation	–	979,119	979,119
Depreciation, depletion and accretion	1,205,650	15,525	1,221,179
Foreign exchange loss	39,074	57,133	96,207
	9,475,246	3,373,827	12,849,073
Income (loss) before the undernoted	3,088,857	(3,112,105)	(23,248)
Income tax expense:			
Current	312,158	–	312,158
Future	867,984	–	867,984
	1,180,142	–	1,180,142
Income (loss) before equity loss	1,908,715	(3,112,105)	(1,203,390)
Equity loss	–	(109,959)	(109,959)
Net income (loss)	$ 1,908,715	$ (3,222,064)	$ (1,313,349)

Details of the write-off of investment in former subsidiaries are as follows:

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

The Corporation has not recorded any amount relating to recoveries due to the Corporation as a result of the loss of its subsidiaries, as more fully described in note 20(b), due to the uncertainty of ultimate collection of such amounts, if any. This includes approximately $21.5 million loaned from Alhambra to Saga Creek, evidenced by a loan agreement and supported by a ruling of the International Arbitration Court (IUS), dated April 3, 2009. Any recovery will be recorded when realized.

(b) Segmented statements of cash flows:

2008	Kazakhstan	Corporate	Total
Cash provided by (used in):			
Operating:			
Net loss	$ (30,206,284)	$ (3,467,839)	$ (33,674,123)
Items not involving cash:			
Stock-based compensation	–	1,181,990	1,181,990
Depreciation, depletion and accretion	1,623,541	13,109	1,636,650
Future income taxes	507,514	–	507,514
Equity loss	–	104,055	104,055
Unrealized foreign exchange gain	–	(120,087)	(120,087)
Write-off of investment in former subsidiary	30,965,442	–	30,965,442
	2,890,213	(2,288,772)	601,441
Change in non-cash working capital	(470,347)	771,724	301,377
	2,371,858	(1,517,048)	854,810
Financing:			
Issuance of common shares and warrants	–	108,009	108,009
Intercompany advances	2,005,940	(2,005,940)	–
Secured debentures	–	936,680	936,680
	2,005,940	(961,251)	1,044,689
Investing:			
Expenditures on mining assets	(4,431,954)	(184,904)	(4,616,858)
Acquisition of equipment	–	(4,245)	(4,245)
Change in non-cash working capital	(92,875)	–	(92,875)
	(4,524,829)	(189,149)	(4,713,978)
Effect of exchange rate changes on cash and cash equivalents	–	(216,515)	(216,515)
Change in cash and cash equivalents	(147,031)	(2,883,963)	(3,030,994)
Cash and cash equivalents, beginning of year	147,031	2,909,781	3,056,812
Cash and cash equivalents, end of year	$ –	$ 25,818	$ 25,818

2007	Kazakhstan	Corporate	Total
Cash provided by (used in):			
Operating:			
Net income (loss)	$ 1,908,715	$ (3,222,064)	$ (1,313,349)
Items not involving cash:			
Stock-based compensation	–	979,119	979,119
Depreciation, depletion and accretion	1,205,650	15,525	1,221,175
Future income taxes	867,984	–	867,984
Equity loss	–	109,959	109,959
	3,982,349	(2,117,461)	1,864,888
Change in non-cash working capital	(1,877,177)	(279,868)	(2,157,045)
	2,105,172	(2,397,329)	(292,157)
Financing:			
Issuance of common shares and warrants	–	7,927,557	7,927,557
Share issuance costs	–	(143,594)	(143,594)
Intercompany advances	4,549,886	(4,549,886)	–
	4,549,886	3,234,077	7,783,963
Investing:			
Expenditures on mining assets	(6,529,582)	(865,448)	(7,395,030)
Acquisition of equipment	–	(7,726)	(7,726))
Change in non-cash working capital	(15,589)	–	(15,589)
	(6,545,171)	(873,174)	(7,418,345)
Effect of exchange rate changes on cash and cash equivalents	–	445,313	445,313
Change in cash equivalents	109,887	408,887	518,774
Cash and cash equivalents, beginning of year	37,144	2,500,894	2,538,038
Cash and cash equivalents, end of year	$ 147,031	$ 2,909,781	$ 3,056,812

(c) Identifiable assets in each of its geographic segments are as follows:

2008	Kazakhstan	Corporate	Total
Assets	$ –	$ 689,530	$ 689,530

2007	Kazakhstan	Corporate	Total
Assets	$ 32,848,070	$ 4,081,849	$ 36,929,919

20. Legal disputes:

(a) Victoria Oil and Gas PLC ("Victoria"):

As a result of litigation in Kazakhstan to which Alhambra was not a party, legal title to an oil and natural gas license (the "Kemerkol License") was reinstated in the name of Saga Creek, which at the time was the Corporation's wholly-owned subsidiary in Kazakhstan. Prior to the litigation, the Kemerkol License was owned by a subsidiary of Victoria but title thereto was reinstated in the name of Saga Creek as a result of this litigation. Consequently, Victoria commenced legal proceedings in the Court of Queen's Bench of Alberta (the "Alberta Court") on September 26, 2008 against Alhambra and others to prevent Saga Creek from disposing of the Kemerkol License until entitlement thereto has been determined by the Alberta Court. The Alberta Court granted a temporary injunction in that regard on September 26, 2008, which decision Alhambra appealed to the Alberta Court of Appeal. The Alberta Court of Appeal dismissed Alhambra's appeal on February 26, 2009. The Alberta Court action alleges that the vendor who had previously sold the Kemerkol License to Victoria had acted fraudulently in bringing about the result of the Kazakhstan litigation and that Alhambra helped facilitate this outcome. Alhambra denies these allegations and believes they have no merit. The Alberta Court action seeks reinstatement of the Kemerkol License and punitive damages of $5,000,000 from the defendants. As a result of an agreement reached between the parties, the action was discontinued effective June 8, 2009 without costs.

(b) Marsa Aktiengesellschaft and Teragol Investments Limited:

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") of Kazakhstan 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 is 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 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 Corporation appealed the Lower Court's decision to Review Board but on December 26, 2008 the Review Board issued its ruling upholding the Lower Court's decision. The Corporation appealed to the next level of court system in Kazakhstan which was the Supervisory Chamber of the East-

Kazakhstan Oblast Court ("Supervisory Chamber") whose decision, rendered on February 27, 2009, again upheld the decisions of the previous courts. This final decision was made despite the Supervisory Court receiving a supervisory protest submitted in support of Alhambra's appeal by the Prosecutor of the East-Kazakhstan Oblast stating that the court decision and resolution of the Review Board have to be cancelled due to incorrect determination of the facts of the case as well as the incorrect application of the norms of material and procedural law. Alhambra's arguments which were supported by the Oblast Prosecutor are among the following:

(i) The effective date of the Agreement is not March 21, 2002, but August 8, 2003 when all the conditions precedent of the Agreement were fulfilled and the consideration was paid to and accepted by the Plaintiffs.
(ii) The Agreement provides for arbitration among the parties and as such the litigation should not be heard by Kazakhstan courts at all.
(iii) The Plaintiffs are not interested parties to the Agreement by virtue of their transferring the rights and title to the Agreement to a third party on August 9, 2005.
(iv) The claim is statute barred as it was filed on September 25, 2008 more than six and one half years from the date of the Agreement and five years beyond the final closing, rather within the three years required under the statute of limitation laws in Kazakhstan.
(v) The Plaintiffs cannot be considered victims as none of their rights were violated since all conditions precedent were satisfied and the Plaintiffs accepted the consideration as provided for under the Agreement.
(vi) Nothing in the civil code of Kazakhstan enables a vendor to cause a transaction to be voided as long as the rights of the vendor are not violated.
(vii) Despite receiving proper payment, the Plaintiffs are acting in bad faith in pursuing unjust enrichment by seeking to be returned to their original position, which has greatly appreciated through the actions of Alhambra since acquiring its interest.
(viii) The Plaintiffs, through their actions subsequent to March 21, 2002 did, on a number of occasions, admit validity of the Agreement.

On January 27, 2009 the ownership of the Kazakhstan Subsidiaries was re-registered back in the names of the Plaintiffs giving effect to the court decisions. The Corporation continues to believe that the Kazakhstan courts have erred in their decisions and will continue to seek remedies available under Kazakhstan law. On April 16, 2009 the Corporation filed an appeal with the Supreme Court of Kazakhstan (the "Supreme Court") asking the Supreme Court to overturn the decisions of the lower courts.