

Interim Unaudited Consolidated Financial Statements of

ALHAMBRA RESOURCES LTD.

Six Months Ended June 30, 2009

ALHAMBRA RESOURCES LTD.

Interim Consolidated Balance Sheets

(Unaudited)

(Expressed in U.S. Dollars)

	June 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 20,427	\$ 25,818
Accounts receivable	47,972	11,275
Deposits and prepaid expenses	4,035	27,267
	<u>72,434</u>	<u>64,360</u>
Equipment	37,374	39,102
Investment in DOT Resources Ltd.	567,379	586,068
	<u>\$ 677,187</u>	<u>\$ 689,530</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,207,838	\$ 806,114
Secured debentures (note 3)	860,215	816,593
Secured subordinated promissory notes (note 4)	413,887	-
	<u>2,481,940</u>	<u>1,622,707</u>
Shareholders' equity (deficiency):		
Share capital (note 5(b))	34,585,094	34,585,094
Warrants (note 5(c))	194,472	-
Contributed surplus (note 5(d))	4,528,032	4,417,966
Accumulated other comprehensive income (note 6)	(411,036)	(322,360)
Deficit	(40,701,315)	(39,613,877)
	<u>(1,804,753)</u>	<u>(933,177)</u>
Going concern and nature of operations (note 1)		
Commitment and contingency (note 12)		
Legal dispute (note 14)		
	<u>\$ 677,187</u>	<u>\$ 689,530</u>

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

Interim Consolidated Statements of Loss and Deficit

Six months ended June 30, 2009 and 2008

(Unaudited)

(Expressed in U.S. Dollars)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
Revenue:				
Sales	\$ -	\$ 2,927,788	\$ -	\$ 5,827,782
Less net smelter royalty	-	87,833	-	174,833
	-	2,839,955	-	5,652,949
Interest and other	-	1,397	-	13,007
	-	2,841,352	-	5,665,956
Expenses:				
Operations	-	1,930,029	-	3,699,015
General and administrative	247,150	1,006,597	804,104	1,839,313
Interest and accretion on Notes	82,205	25,075	113,746	50,574
Stock-based compensation (note 5(d))	47,246	434,440	110,066	1,109,648
Depreciation, depletion and accretion	2,105	362,647	4,055	623,874
Foreign exchange loss (gain)	6,930	(66,862)	7,221	(179,060)
	385,636	3,691,926	1,039,192	7,143,364
Loss before the undernoted	(385,636)	(850,574)	(1,039,192)	(1,477,408)
Income tax expense:				
Current	-	(207,004)	-	205,239
Future	-	302,525	-	28,103
	-	95,521	-	233,342
Loss before equity loss	(385,636)	(946,095)	(1,039,192)	(1,710,750)
Equity loss	25,067	27,848	48,246	78,913
Net loss	(410,703)	(973,943)	(1,087,438)	(1,789,663)
Deficit, beginning of period	(40,290,612)	(6,755,474)	(39,613,877)	(5,939,754)
Deficit, end of period	\$ (40,701,315)	\$ (7,729,417)	\$ (40,701,315)	\$ (7,729,417)
Per share (note 9):				
Net loss per share, basic and diluted	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)

See accompanying notes to interim consolidated financial statements.

Interim Consolidated Statements of Comprehensive Loss

Six months ended June 30, 2009 and 2008

(Unaudited)

(Expressed in U.S. Dollars)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
Net loss	\$ (410,703)	\$ (973,943)	\$ (1,087,438)	\$ (1,789,663)
Translation gains (losses) on self-sustaining operations	(122,142)	83,630	(88,676)	(271,276)
Total comprehensive loss	\$ (532,845)	\$ (890,313)	\$ (1,176,114)	\$ (2,060,939)

See accompanying notes to interim consolidated financial statements.

ALHAMBRA RESOURCES LTD.

Interim Consolidated Statements of Cash Flows

Six months ended June 30, 2009 and 2008

(Unaudited)

(Expressed in U.S. Dollars)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
Cash provided by (used in):				
Operating:				
Net loss	\$ (410,703)	\$ (973,943)	\$ (1,087,438)	\$ (1,789,663)
Items not involving cash:				
Stock-based compensation	47,246	434,440	110,066	1,109,648
Accretion on Notes	33,996	-	33,996	-
Depreciation, depletion and accretion	2,105	362,647	4,055	623,874
Future income taxes	-	302,525	-	28,103
Unrealized foreign exchange loss	96,772	-	72,099	-
Equity loss	25,067	27,848	48,246	78,913
	(205,517)	153,517	(818,976)	50,875
Change in non-cash working capital (note 8)	105,680	(132,735)	388,259	(354,540)
	(99,837)	20,782	(430,717)	(303,665)
Financing:				
Secured subordinated promissory notes	246,709	-	545,886	-
Issue of common shares	-	108,009	-	108,009
	246,709	108,009	545,886	108,009
Investing:				
Expenditures on mineral assets	-	(1,978,342)	-	(3,338,705)
Acquisition of equipment	-	(1,502)	(360)	(2,035)
Change in non-cash working capital (note 8)	-	1,409,390	-	907,299
	-	(570,454)	(360)	(2,433,441)
Effect of exchange rate changes on net working capital	(171,041)	(670)	(120,200)	(65,688)
Change in cash and cash equivalents	(24,169)	(442,333)	(5,391)	(2,694,785)
Cash and cash equivalents, beginning of period	44,596	804,360	25,818	3,056,812
Cash and cash equivalents, end of period	\$ (20,427)	\$ 362,027	\$ 20,427	\$ 362,027
Supplemental disclosure of cash flow information:				
Interest paid	\$ -	\$ 25,075	\$ -	\$ 50,574
Taxes paid	-	81,764	-	163,715

See accompanying notes to interim consolidated financial statements.

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Notes to Interim Consolidated Financial Statements

Six months ended June 30, 2009 and 2008

(Unaudited)

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

1. Going concern and nature of operations:

(a) Going concern:

On December 26, 2008, Alhambra Resources Ltd. ("Alhambra" or the "Corporation") lost ownership of assets that generated cash flow as a result of the unfavorable decision reached in the Kazakhstan Lawsuit (note 14). The loss of revenue producing assets combined with the Corporation's significant working capital deficiency raised significant doubt about Alhambra's ability to continue operating as a going concern and the Corporation was completely dependent upon its ability to raise additional capital. To date the Corporation has raised some funds through the issue of secured debentures (note 3) and secured subordinated promissory notes (note 4) however these funds are only adequate to fund a portion of its current and future obligations. With the decision reached by the Supreme Court of Kazakhstan ("Supreme Court") on August 12, 2009 (note 14) reversing the unfavorable decisions of the lower court by dismissing the claim of the plaintiffs, Alhambra is now in a position to re-register the shares of the Saga Creek Gold Company LLP ("Saga Creek") and Goodwin Golems LLP ("Goodwin") (together the "Kazakhstan Subsidiaries") back into Alhambra's name thereby restoring the ownership of the mineral assets to Alhambra. Once this is effective, Alhambra will once again have access to revenue producing assets, however the Corporation will still require significant new funding to carry out its exploration and development programs, pay for its corporate overhead costs and meet its obligations to its creditors. 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 14), Alhambra's interest in mineral licenses held by its former Kazakhstan Subsidiaries had been invalidated and the ownership was re-registered in the name of the former owners on January 27, 2009. The decision by the Supreme Court to reverse the decisions of the lower courts in Kazakhstan enables the ownership of the shares of the Kazakhstan Subsidiaries to be re-registered in the name of the Corporation (note 14).

With the loss of Kazakhstan Subsidiaries effective December 26, 2008, Alhambra no longer had any operations in Kazakhstan. The consolidated statement of loss and deficit for the six

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Six months ended June 30, 2009 and 2008

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

months ended June 30, 2009 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 were written off as of December 26, 2008. The Corporation is in the process of assessing the impact on the Supreme Court's decision on the future financial reporting of Alhambra.

2. Significant accounting policies:

These interim consolidated financial statements have been prepared by management following the same accounting policies and methods that were used and disclosed in the audited consolidated financial statements for the year ended December 31, 2008, except as disclosed below. The consolidated financial statements include all adjustments necessary to present fairly the results for the interim period ended June 30, 2009. These interim consolidated financial statements should be read in conjunction with the most recent audited consolidated financial statements and notes filed on SEDAR for the year ended December 31, 2008.

(a) Adoption of new accounting standards

(i) Credit risk and fair value of financial assets and financial liabilities

In January 2009, the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities including derivative instruments.

This standard is applicable to all financial assets and liabilities measured at fair value in interim and annual financial statement periods ending on or after January 20, 2009. The Corporation adopted EIC-173 effective January 1, 2009. The adoption of EIC-173 did not have a material impact the Corporation's consolidated financial statements.

(ii) Goodwill and intangible assets, CICA section 3064

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 adoption of Section 3064 did not have a material impact on the Corporation's consolidated financial statements.

(iii) 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.

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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.

3. Secured debentures:

The Corporation has outstanding a series of twelve percent (12%) 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 percent (12%) 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. Subsequent to June 30, 2009 the holders of the Debentures agreed to extend the maturity date to August 11, 2010. In consideration for agreeing to extend the term, the Corporation has agreed to the following modifications to the Debentures, subject to regulatory approval:

- (a) The Debenture holders will have the option to convert the principal amount and unpaid interest at any time prior to maturity into common shares of the Corporation at a price of CDN\$0.30 per common share;

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- (b) Warrants to purchase up to 2,500,450 common shares ("Debenture Warrants") will be granted with an expiry date of August 11, 2011. Each Debenture Warrant may be converted into one common share of the Corporation at any time prior to expiry at a purchase price of CDN\$0.45 per common share;
- (c) Interest shall accrue on the new principal amount at a rate of 12% per annum, compounded quarterly and payable at the earlier of the date of conversion or the new maturity date; and
- (d) The Corporation will have the right at any time prior to maturity, to prepay all or a portion thereof, of the Debentures and accrued interest, without notice, bonus or penalty. If the Corporation exercises this right, then the Debenture holders will have the option of converting the principal amount of the 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 Debentures continue to be secured by way of a first floating charge against all of the assets, property and undertakings of Alhambra, and are held by certain officers and/or directors of the Corporation. The modifications to the Debentures have been approved by the independent members of the board of directors with the applicable directors abstaining.

4. Secured subordinated promissory notes:

On April 29, 2009, 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 April 29, 2010, 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 "Note Warrants") to purchase 5,400,000 common shares of the Corporation. Half of the Note 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 Note Warrants are exercisable until October 29, 2009. The Note Warrants and any common shares acquired upon exercise of the Note 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.

The Notes are classified as current liabilities on the balance sheet with \$194,472 of the proceeds allocated to the fair value of the Note Warrants (note 5(c)). The fair value of the Note Warrants has been recorded in shareholders' equity. The carrying value of the Notes is accreted to the original face value of the obligations over the one year term of the Notes. Accretion expense of \$33,996 has been expensed as "interest and accretion on Notes" during the three and six month periods ended June 30, 2009.

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(Unaudited)

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

5. Share capital:

(a) Authorized:

Unlimited voting common shares

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

(b) Issued and outstanding:

	Six months ended		Year ended	
	June 30, 2009		December 31, 2008	
	Number	Amount	Number	Amount
Balance, beginning of period	75,774,147	\$ 34,585,094	75,578,147	\$ 34,432,307
Exercise of stock options	–	–	196,000	108,009
Transfer from contributed surplus	–	–	–	44,778
Balance, end of period	75,774,147	\$ 34,585,094	75,774,147	\$ 34,585,094

(c) Warrants:

	Six months ended		Year ended	
	June 30, 2009		December 31, 2008	
	Number	Amount	Number	Amount
Balance, beginning of period	–	\$ –	2,333,333	\$ 675,595
Pursuant to Notes (note 4)	5,400,000	194,472		
Expired unexercised	–	–	(2,333,333)	(675,595)
Balance, end of period	5,400,000	\$ 194,472	–	\$ –

The fair value of the Note Warrants granted in 2009 in conjunction with the Notes (note 4) was estimated on the date of the issue of the warrants using the Black-Scholes option pricing model. The fair value of the Note Warrants was calculated to be \$194,472 using the following weighted-average assumptions:

	2009
Fair value of warrants granted (\$/share)	0.04
Expected life (years)	0.50
Risk-free interest rate (%)	0.80
Expected volatility (%)	150
Expected dividend yield (%)	–

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Six months ended June 30, 2009 and 2008

(Unaudited)

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

	Six months ended June 30, 2009		Year ended December 31, 2008	
	Number of warrants	Weighted average exercise price CDN\$	Number of warrants	Weighted average exercise price CDN\$
Outstanding, beginning of period	–	\$ –	2,333,333	\$ 2.00
Pursuant to Notes (note 4)	5,400,000	0.15	–	–
Expired	–	–	(2,333,333)	2.00
Outstanding, end of period	5,400,000	\$ 0.15	–	\$ –
Exercisable, end of period	–	\$ –	–	\$ –

(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 options is as follows:

	Six months ended June 30, 2009		Year ended December 31, 2008	
	Number of options	Weighted average exercise price CDN\$	Number of options	Weighted average exercise price CDN\$
Outstanding, beginning of year	5,670,000	\$ 1.18	3,905,000	\$ 1.18
Granted	–	–	2,750,000	1.15
Exercised	–	–	(196,000)	0.55
Expired	(940,000)	1.06	(789,000)	1.26
Outstanding, end of year	4,730,000	\$ 1.20	5,670,000	\$ 1.18
Exercisable, end of year	4,117,500	\$ 1.20	4,445,000	\$ 1.17

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(Unaudited)

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

The following table summarizes information about stock options outstanding and exercisable at June 30, 2009.

Exercise price	Number	Outstanding	Number	Exercisable
		Weighted average remaining contractual life (years)		Weighted average remaining contractual life (years)
CDN \$0.55	800,000	0.88	800,000	0.88
CDN \$1.15	2,450,000	1.59	1,837,500	1.59
CDN \$1.60	1,480,000	0.47	1,480,000	0.47
	4,730,000	1.12	4,117,500	1.05

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 granted during 2008 was calculated to be \$1,595,975 using the following weighted-average assumptions:

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

A reconciliation of contributed surplus is provided below:

	Six months ended June 30, 2009	Year ended December 31, 2008
Balance, beginning of period	\$ 4,417,966	\$ 2,576,263
Stock-based compensation expense	110,066	1,181,990
Stock-based compensation capitalized	—	28,896
Warrants expired	—	675,595
Transfer to share capital on the exercise of stock options	—	(44,778)
Balance, end of period	\$ 4,528,032	\$ 4,417,966

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Six months ended June 30, 2009 and 2008

(Unaudited)

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

6. Accumulated other comprehensive income:

	Six months ended June 30, 2009	Year ended December 31, 2008
Balance, beginning of period	\$ (322,360)	\$ 960,514
Translation losses on self-sustaining operations	(88,676)	(1,282,874)
Balance, end of period	\$ (411,036)	\$ (322,360)

7. Related party transactions:

- (a) During the six months ended June 30, 2009, the Corporation paid \$nil (2008 - \$32,165) in consulting fees to a corporation controlled by a director and former officer of the Corporation. Of this amount, \$nil (2008 - \$3,286) was capitalized to exploration and development costs.
- (b) During the six months ended June 30, 2009, the Corporation incurred \$39,134 (2008 - \$55,931) in costs from a law firm in which an officer of the Corporation is a partner. All of the costs were expensed as legal expenses. The officer resigned his position effective April 29, 2009.
- (c) The Corporation and DOT Resources Inc. ("DOT") have 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. During the six months ended June 30, 2009 the Corporation billed DOT CDN\$120,000 (2008 - CDN\$120,000) under the Contract. As of June 30, 2009, CDN\$40,037 remains uncollected.

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.

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

8. Supplementary cash flow information:

Changes in non-cash working capital are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Accounts receivable	\$ (20,914)	\$ 767,051	\$ (36,697)	\$ 58,643
Deposits and prepaid expenses	18,882	943,945	23,232	(126,919)
Supplies inventory	–	20,116	–	57,551
Work in progress	–	(785,395)	–	(1,505,687)
Accounts payable and accrued liabilities	107,712	331,215	401,724	2,069,572
Advances	–	(277)	–	(401)
	<u>\$ 105,680</u>	<u>\$ 1,276,655</u>	<u>\$ 388,259</u>	<u>\$ 552,759</u>
Relating to:				
Operating activities	\$ 105,680	\$ (132,735)	\$ 388,259	\$ (354,540)
Investing activities	–	1,409,390	–	907,299
	<u>\$ 105,680</u>	<u>\$ 1,276,655</u>	<u>\$ 388,259</u>	<u>\$ 552,759</u>

9. Loss per share:

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

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Basic and diluted weighted average shares outstanding	75,774,147	75,676,609	75,774,147	75,627,378

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

10. 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 Supreme Court's decision to reverse the decisions of the lower Kazakhstan courts and dismiss the Plaintiffs' lawsuit (note 14), Alhambra is now in a position to re-register the shares of the Kazakhstan Subsidiaries back in the name of the Corporation. This re-registration will again give Alhambra access to assets that generate cash

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flow however the Corporation will remain dependent on external financing to assist in the funding Saga Creek's exploration and development programs, fund corporate costs and pay down creditors.

To date, the Corporation has raised some funds through the issue of secured indebtedness (notes 3 and 4), 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.

11. 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 and amounts due from DOT, 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 June 30, 2009.

(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 14), Alhambra no longer had any assets that generate cash flow and therefore was totally

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dependent on external financing to fund its corporate costs and defend the Kazakhstan Lawsuits. To date the Corporation has raised some funds through the issue of secured indebtedness (notes 3 and 4) however these funds are only adequate to fund a portion of its current and future obligations. As a result of the favorable decision by the Supreme Court on August 12, 2009, Alhambra is now in a position to re-register the shares of the Kazakhstan Subsidiaries which, once completed, will restore the Corporation's ownership of revenue producing assets. Additional financing, however, must still be obtained in order to continue as a going concern. The Corporation is currently attempting to raise additional funds however there is no assurance that it will be able to do so.

(d) Market risk:

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, commodity prices and interest rates will affect the Corporation's net earnings. The objective of market risk management is to manage and control market risks exposures within acceptable limits, while maximizing returns. As a result of the unfavorable decision reached in the Kazakhstan Lawsuit (note 14), the Corporation's exposure to these risks has been virtually eliminated.

(e) Fair value of financial investments:

The Corporation's financial instruments as at June 30, 2009 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and secured debentures and secured promissory notes. Except for the secured promissory notes, fair values of these financial instruments approximate their carrying amounts due to their short terms to maturity. The secured promissory notes are carried at their fair value which is equal to their face value less the unaccreted portion of the fair value assigned to the Note Warrants.

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12. 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 June 30, 2009 was approximately CDN\$612,000 (exclusive of occupancy costs). Effective June 1, 2009 the landlord terminated the lease as the Corporation had not paid its current obligation under the lease. Despite the landlord terminating the lease, it has informed the Corporation that it believes the Corporation wrongly repudiated the lease and remains liable for the loss of rental revenue over the unexpired term of the lease. On June 16, 2009 the landlord notified the Corporation that it is seeking to recover CDN\$97,793 in outstanding rent plus damages of CDN\$810,877 for the loss of the benefit of the lease over the balance of the term. To the extent that the landlord recovers rent from a subsequent tenant, the amount claimed by the landlord would be reduced. The landlord gave the Corporation until June 30, 2009 to settle the claim. The Corporation has held discussions with the landlord relative to their claim and to the best of the Corporation's knowledge, the landlord has not yet taken any further legal action regarding enforcement of their claim. As at June 30, 2009, 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.

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13. Segment information:

During 2009, 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 14), 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 three month and six month periods ended June 30, 2009 and 2008 in each of its geographic areas are as follows:

(a) Segmented statements of loss:

Three months ended June 30, 2009		Corporate	Total
Expenses:			
General and administrative		\$ 247,150	\$ 247,150
Interest and accretion on Notes		82,205	82,205
Stock-based compensation		47,246	47,246
Depreciation		2,105	2,105
Foreign exchange loss		6,930	6,930
		385,636	385,636
Loss before equity loss		(385,636)	(385,636)
Equity loss		25,067	25,067
Net loss		\$ (410,703)	\$ (410,703)
<hr/>			
Three months ended June 30, 2008	Kazakhstan	Corporate	Total
Revenue:			
Sales	\$ 2,927,788	\$ -	\$ 2,927,788
Less net smelter royalty	87,833	-	87,833
	2,839,955	-	2,839,955
Interest and other	-	1,397	1,397
	2,839,955	1,397	2,841,352
Expenses:			
Operations	1,912,760	17,269	1,930,029
General and administrative	410,946	595,651	1,006,597
Interest	25,075	-	25,075
Stock-based compensation	-	434,440	434,440
Depreciation, depletion and accretion	359,021	3,626	362,647
Foreign exchange gain	(73,277)	6,415	(66,862)
	2,634,525	1,057,401	3,691,926
Income (loss) before the undernoted	205,430	(1,056,004)	(850,574)
Income tax expense:			
Current	(207,004)	-	(207,004)
Future	302,525	-	302,525
	95,521	-	95,521
Income (loss) before equity loss	109,909	(1,056,004)	(946,095)
Equity loss	-	27,848	27,848
Net Income (loss)	\$ 109,909	\$ (1,083,852)	\$ (973,943)

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Six months ended June 30, 2009	Corporate		Total
Expenses:			
General and administrative	\$	804,104	\$ 804,104
Interest		113,746	113,746
Stock-based compensation		110,066	110,066
Depreciation		4,055	4,055
Foreign exchange loss		7,221	7,221
		1,039,192	1,039,192
Loss before equity loss		(1,039,192)	(1,039,192)
Equity loss		48,246	48,246
Net loss	\$	(1,087,438)	\$ (1,087,438)

Six months ended June 30, 2008	Kazakhstan	Corporate		Total
Revenue:				
Sales	\$ 5,827,782	\$	–	\$ 5,827,782
Less net smelter royalty	174,833		–	174,833
	5,652,949		–	5,652,949
Interest and other	–		13,007	13,007
	5,652,949		13,007	5,665,956
Expenses:				
Operations	3,665,073		33,942	3,699,015
General and administrative	789,392		1,049,921	1,839,313
Interest	50,574		–	50,574
Stock-based compensation	–		1,109,648	1,109,648
Depreciation, depletion and accretion	616,675		7,199	623,874
Foreign exchange gain	(154,189)		(24,871)	(179,060)
	4,967,525		2,175,839	7,143,364
Income (loss) before the undernoted	685,424		(2,162,832)	(1,477,408)
Income tax expense:				
Current	205,239		–	205,239
Future	28,103		–	28,103
	233,342		–	233,342
Income (loss) before equity loss	452,082		(2,162,832)	(1,710,750)
Equity loss	–		78,913	78,913
Net Income (loss)	\$ 452,082	\$	(2,241,745)	\$ (1,789,663)

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(Unaudited)

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(b) Segmented statements of cash flows:

Three months ended June 30, 2009	Corporate	Total
Cash provided by (used in):		
Operating:		
Net loss	\$ (410,703)	\$ (410,703)
Items not involving cash:		
Stock-based compensation	47,246	47,246
Accretion on Notes	33,996	33,996
Depreciation, depletion and accretion	2,105	2,105
Unrealized foreign exchange gain	96,772	96,772
Equity loss	25,067	25,067
	(205,517)	(205,517)
Change in non-cash working capital	105,680	105,680
	(99,837)	(99,837)
Financing:		
Secured subordinated promissory notes	246,709	246,709
	246,709	246,709
Effect of exchange rate changes on net working capital	(171,041)	(171,041)
Change in cash and cash equivalents	(24,169)	(24,169)
Cash and cash equivalents, beginning of period	44,596	44,596
Cash and cash equivalents, end of period	\$ 20,427	\$ 20,427

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(Unaudited)

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

Three months ended June 30, 2008	Kazakhstan	Corporate	Total
Cash provided by (used in):			
Operating:			
Net loss	\$ 109,909	\$ (1,083,852)	\$ (973,943)
Items not involving cash:			
Stock-based compensation	–	434,440	443,440
Depreciation, depletion and accretion	359,021	3,626	362,647
Future income taxes	302,525	–	302,525
Equity loss	–	27,848	27,848
	771,455	(617,938)	153,517
Change in non-cash working capital	(349,872)	217,137	(132,735)
	421,583	(400,801)	20,782
Financing:			
Issue of common shares	–	108,009	108,009
Intercompany advances	1,105,883	(1,105,883)	–
	1,105,883	(997,874)	108,009
Investing:			
Expenditures on mining assets	(1,795,572)	(182,770)	(1,978,342)
Acquisition of equipment	–	(1,502)	(1,502)
Change in non-cash working capital	314,172	1,095,218	1,409,390
	(1,481,400)	910,946	(570,454)
Effect of exchange rate changes on net working capital	–	(670)	(670)
Change and cash equivalents	46,066	(488,399)	(442,333)
Cash and cash equivalents, beginning of period	28,360	776,000	804,360
Cash and cash equivalents, End of period	\$ 77,426	\$ 287,601	\$ 362,027

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(Unaudited)

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

Six months ended June 30, 2009	Corporate	Total
Cash provided by (used in):		
Operating:		
Net loss	\$ (1,087,438)	\$ (1,087,438)
Items not involving cash:		
Stock-based compensation	110,066	110,066
Accretion on Notes	33,996	33,996
Depreciation, depletion and accretion	4,055	4,055
Unrealized foreign exchange gain	72,099	72,099
Equity loss	48,246	48,246
	(818,976)	(818,976)
Change in non-cash working capital	(388,259)	(388,259)
	(430,717)	(430,717)
Financing:		
Secured subordinated promissory notes	545,886	545,886
	545,886	545,886
Investing:		
Acquisition of equipment	(360)	(360)
	(360)	(360)
Effect of exchange rate changes on Net working capital	(120,200)	(120,200)
Change in cash and cash equivalents	(5,391)	(5,391)
Cash and cash equivalents, beginning of period	25,818	25,818
Cash and cash equivalents, end of period	\$ 20,427	\$ 20,427

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

Six months ended June 30, 2008	Kazakhstan	Corporate	Total
Cash provided by (used in):			
Operating:			
Net loss	\$ 452,082	\$ (2,241,745)	\$ (1,789,663)
Items not involving cash:			
Stock-based compensation	–	1,109,648	1,109,648
Depreciation, depletion and accretion	616,675	7,199	623,874
Future income taxes	28,103	–	28,103
Equity loss	–	78,913	78,913
	1,096,860	(1,045,985)	50,875
Change in non-cash working capital	(575,405)	220,865	354,540
	521,455	(825,120)	(303,665)
Financing:			
Issue of common shares	–	108,009	108,009
Intercompany advances	1,505,853	(1,505,853)	–
	1,505,853	(1,397,844)	108,009
Investing:			
Expenditures on mining assets	(3,007,212)	(331,493)	(3,338,705)
Acquisition of equipment	–	(2,035)	(2,035)
Change in non-cash working capital	907,299	–	907,299
	(2,099,913)	(333,528)	(2,433,441)
Effect of exchange rate changes on net working capital	–	(65,688)	(65,688)
Change and cash equivalents	(72,605)	(2,622,180)	(2,694,785)
Cash and cash equivalents, beginning of period	147,031	2,909,781	3,056,812
Cash and cash equivalents, end of period	\$ 74,426	\$ 287,601	\$ 362,027

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

2009	Corporate	Total
Assets as of June 30, 2009	\$ 677,187	\$ 677,187
2008	Corporate	Total
Assets as of December 31, 2008	\$ 689,530	\$ 689,530

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14. Legal dispute:

Marsa Aktiengesellschaft and Teragol Investments Limited (the "Plaintiffs"):

On September 26, 2008 a statement of claim ("Kazakhstan Lawsuit") was filed in the Specialized Interdistrict Economical Court of the East-Kazakhstan Oblast ("Lower Court") seeking to invalidate Alhambra's ownership of its former Kazakhstan Subsidiaries. Alhambra had acquired 100% interest in the Kazakhstan Subsidiaries from Marsa Aktiengesellschaft ("Marsa"), a Liechtenstein company and Teragol Investments Limited ("Teragol"), a Cyprus company (jointly the "Plaintiffs") by virtue of a Partnership Unit Purchase and Exchange Agreement dated March 21, 2002 (the "Agreement"), as amended. The basis for the claim was that the Corporation's 100% owned subsidiary, Alhambra Overseas Limited, incorporated to hold Alhambra's interest in the Kazakhstan Subsidiaries, was not incorporated at the time the Agreement was initially entered into and despite the fact that such incorporation was subsequently completed soon thereafter. Alhambra applied to the Lower Court to have the litigation dismissed for the lack of jurisdiction, however, such application was denied as was the appeal to the Civil Cases Review Board of the East-Kazakhstan Oblast Court (the "Review Board"). As a result, hearings in the Lower Court on the merits of the case began on November 17, 2008 and were completed on November 24, 2008. On November 25, 2008 the Lower Court rendered its decision in favor of the Plaintiffs. The Corporation appealed the Lower Court's decision to the Review Board but on December 26, 2008 the Review Board issued their ruling upholding the Lower Court's decision. The Corporation appealed to the Supervisory Chamber of the East-Kazakhstan Oblast Court whose decision, rendered on February 27, 2009, again upheld the decisions of the previous courts. 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.

On April 16, 2009 the Corporation filed an appeal with the Supreme Court of Kazakhstan asking the Supreme Court to overturn the decisions of the lower courts. The Supreme Court hearing was held on August 12, 2009 at which time the Supreme Court reversed the decisions of the Lower Courts and dismissed the Plaintiffs' claim. The Corporation has initiated procedures necessary to have the ownership of the shares of the Kazakhstan Subsidiaries re-registered in the name of Alhambra.