Interim Unaudited Consolidated Financial Statements of

ALHAMBRA RESOURCES LTD.

Nine months Ended September 30, 2009

ALHAMBRA RESOURCES LTD.

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

	September 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 39,853	$ 25,818
Accounts receivable	1,689,792	11,275
Deposits and prepaid expenses	389,526	27,267
Supplies inventory	1,162,624	–
Work in progress	6,301,410	–
	9,583,205	64,360
Mineral assets (note 3)	84,357,525	–
Equipment	38,206	39,102
Investment in DOT Resources Ltd.	591,790	586,068
	$94,570,726	$ 689,530
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,857,534	$ 806,114
Secured debentures (note 4)	901,844	816,593
Secured subordinated promissory notes (note 5)	503,642	–
	6,263,020	1,622,707
Asset retirement obligation	166,585	–
Future income taxes	13,675,854	–
Shareholders' equity (deficiency):		
Share capital (note 6(b))	34,585,094	34,585,094
Warrants (note 6(c))	245,267	–
Debenture convertibility (note 6(d))	116,101	–
Contributed surplus (note 6(e))	4,743,486	4,417,966
Accumulated other comprehensive income (note 7)	(565,319)	(322,360)
Retained earnings (deficit)	35,340,638	(39,613,877)
	74,465,267	(933,177)
Going concern and nature of operations (note 1)	–	–
Commitment and contingency (note 13)	–	–
Legal dispute (note 15)	–	–
	$94,570,726	$ 689,530

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

Interim Consolidated Statements of Loss and Deficit
Nine months ended September 30, 2009 and 2008
(Unaudited)
(Expressed in U.S. Dollars)

	Three Months Ended September 30		Nine months Ended September 30	
	2009	2008	2009	2008
Revenue:				
Sales	$ 1,126,030	$ 4,251,565	$ 1,126,030	$10,079,347
Less net smelter royalty	33,920	127,547	33,920	302,380
	1,092,110	4,124,018	1,092,110	9,776,967
Interest and other	–	605	–	13,612
	1,092,110	4,124,623	1,092,149	9,790,579
Expenses:				
Operations	418,049	2,686,603	418,049	6,385,618
General and administrative	371,264	812,643	1,175,368	2,651,956
Interest and accretion on debt	144,151	41,785	257,897	92,359
Stock-based compensation (note 6(e))	215,454	148,578	325,520	1,258,226
Depreciation, depletion and accretion	2,262	411,411	6,317	1,035,285
Foreign exchange loss (gain)	(20,208)	(25,422)	(12,987)	(204,482)
	1,130,972	4,075,598	2,170,164	11,218,962
Loss before the undernoted	(38,862)	49,025	(1,078,054)	(1,428,383)
Income tax expense:				
Current	154,999	(205,239)	154,999	–
Future	81,942	431,198	81,942	459,301
	236,941	225,959	236,941	459,301
Loss before equity loss and gain re-acquisition of the former subsidiary	(275,803)	(176,934)	(1,314,995)	(1,887,684)
Equity loss	22,827	19,542	71,073	98,455
Loss before gain on re-acquisition of former subsidiary	(298,630)	(196,476)	(1,386,068)	(1,986,139)
Gain on re-acquisition of former subsidiary (note 3)	76,340,583	–	76,340,583	–
Net income (loss)	76,041,953	(196,476)	74,954,515	(1,986,139)
Deficit, beginning of period	(40,701,315)	(7,729,417)	(39,613,877)	(5,939,754)
Retained earnings (deficit) end of period	$ 35,340,638	(7,925,893)	35,340,638	(7,925,893)
Per share (note 10):				
Net income (loss)				
Basic and diluted	$ 1.00	$ (0.01)	$ 0.99	$ (0.03)

See accompanying notes to interim consolidated financial statements.

ALHAMBRA RESOURCES LTD.

Interim Consolidated Statements of Comprehensive Loss
Nine months ended September 30, 2009 and 2008
(Unaudited)

(Expressed in U.S. Dollars	Three Months Ended September 30		Nine months Ended September 30	
	2009	2008	2009	2008
Net income (loss)	$ 76,041,953	$ (196,476)	$ 74,954,515	$(1,986,139)
Translation gains (losses) on self-sustaining operations	(154,283)	(270,250)	(242,959)	(541,526)
Total comprehensive income (loss)	$ 75,887,670	$ (466,726)	$ 74,711,556	$(2,527,665)

See accompanying notes to interim consolidated financial statements.

ALHAMBRA RESOURCES LTD.

Interim Consolidated Statements of Cash Flows
Nine months ended September 30, 2009 and 2008
(Unaudited)
(Expressed in U.S. Dollars)

	Three Months Ended September 30		Nine months Ended September 30	
	2009	2008	2009	2008
Cash provided by (used in):				
Operating:				
Net loss	$76,041,953	$ (196,476)	$74,954,515	$(1,986,139)
Items not involving cash:				
Stock-based compensation	215,454	148,578	325,520	1,258,226
Accretion on debt	76,494	–	110,490	–
Depreciation, depletion and accretion	2,262	411,411	6,317	1,035,285
Future income taxes	81,942	431,198	81,942	459,301
Unrealized foreign exchange loss	130,458	–	202,557	–
Equity loss	22,827	19,542	71,073	98,455
Gain on re-acquisition of former subsidiary	(76,340,583)	–	(76,340,583)	–
	230,807	814,253	(588,169)	865,128
Change in non-cash working capital (note 9)	(292,625)	1,655,541	95,634	1,301,001
	(61,818)	2,469,794	(492,535)	2,166,129
Financing:				
Secured debentures	113,963	–	113,963	–
Secured notes	–	943,485	545,886	943,485
Issue of common shares	–	–	–	108,009
	113,963	943,485	659,849	1,051,494
Investing:				
Expenditures on mineral assets	(40,373)	(847,161)	(40,373)	(4,185,866)
Work in progress	–	(2,460,802)	–	(2,460,802)
Acquisition of equipment	–	(2,408)	(360)	(4,443)
Change in non-cash working capital (note 9)	–	(98,064)	–	809,235
	(40,373)	(3,408,435)	(40,733)	(5,841,876)
Cash acquired in re-acquisition	234,904	–	234,904	–
Effect of exchange rate changes on net working capital	(227,250)	(32,141)	(347,450)	(97,829)
Change in cash and cash equivalents	19,426	(27,297)	(14,035)	(2,722,082)
Cash and cash equivalents, beginning of period	20,427	362,027	25,818	3,056,812
Cash and cash equivalents, end of period	$ 39,853	$ 334,730	$ 39,853	$ 334,730
Supplemental disclosure of cash flow information:				
Interest paid	$ 113,963	$ 25,998	113,963	$ 76,570
Taxes paid	–	54,884	–	218,599

See accompanying notes to interim consolidated financial statements.

1. Going concern and nature of operations:

(a) Going concern:

On December 26, 2008, Alhambra Resources Ltd. ("Alhambra" or the "Corporation") lost ownership of assets that generated cash flow as a result of the unfavorable decision reached in the Kazakhstan Lawsuit (note 15). 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. During 2009 Alhambra Corporation raised some funds through the issue of secured debentures (note 4) and secured subordinated promissory notes (note 5) which enabled the Corporation to fund a portion of its obligations while it petitioned the courts in Kazakhstan to dismiss the plaintiffs' lawsuit. With the decision reached by the Supreme Court of Kazakhstan ("Supreme Court") on August 12, 2009 (note 15) reversing the unfavorable decisions of the lower court by dismissing the claim of the plaintiffs, Alhambra re-registered 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. Alhambra once again has 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 15), 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. With the loss of Kazakhstan Subsidiaries effective December 26, 2008, Alhambra no longer had any operations in Kazakhstan and as such took a $30,965,442 write off its investment in its Kazakhstan subsidiaries.

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

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 September 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) Basis of accounting

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

(b) Work in progress

All costs associated with the production of gold, including direct costs incurred in the mining, leaching and resin stripping process as well as amortization of revalued mineral property costs 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 the revalued cost and net realizable value on a weighted average basis.

(c) Mineral assets

Mineral properties consist of two general categories; namely the Uzboy gold deposit and Exploration projects. The carrying value of the Uzboy gold deposit is the fair value determined at September 15, 2009 (note 3) plus all tangible and intangible costs incurred subsequent to September 15, 2009 related to maintaining, exploring and developing the Uzboy gold deposit, including an allocation of management fees and salaries based on time spent, and other costs directly related to the Uzboy gold deposit. The carrying value of the Uzboy gold deposit is charged to work in progress based on the quantity of gold removed from the mine and placed on leach pads for processing as a percentage of the total estimated quantity of gold in the mine. For the period from revaluation on September 15 to September 30, 2009, a total of $390,000 was amortized to work in progress.

Accounting for exploration projects is recorded at cost.

(d) Adoption of new accounting standards

(i) Business combinations

In December 2008, the CICA issued Handbook Section 1582 - “Business Combinations”. This standard outlines new guidance which states that the purchase price is to be based on trading data at the closing date of the acquisition, not the announcement date of the acquisition, and that most acquisition costs are to be expensed as incurred. The new standard becomes effective on January 1, 2011 and early adoption is permitted. The Corporation has decided to early adopt this standard in the third quarter of 2009 as it primarily converges with International Financial Reporting Standards (“IFRS”) and provides better disclosure for shareholders in that it is more consistent with the legal decisions applicable to the Kazakhstan Lawsuit. The adoption of this standard was applied in the accounting for the re-acquisition of Saga Creek (note 3).

(ii) 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.

(iii) Goodwill and intangible assets, CICA section 3064

On January 1, 2009, the Corporation adopted the Handbook Section 3064 – Goodwill and Intangible Assets (“Section 3064”), which replaces CICA Handbook Section 3062 – Goodwill and Other Intangible Assets (“Section 3062”) and 3450 – Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill are unchanged from the standards included in Section 3062. The adoption of Section 3064 did not result in a material impact on the Corporation’s financial statements.

(iv) Mining exploration costs

In March 2009, the CICA issued EIC Abstract 174 – Mining Exploration Costs (“EIC-174”), which supersedes EIC Abstract 126 – Accounting by Mining Enterprises for Exploration Costs (“EIC-126”), to provide additional guidance for mining exploration enterprises on the accounting for capitalization of exploration costs and when an impairment test of these costs is required. EIC-174 is applicable for the Corporation’s interim and annual financial statements for its fiscal year ending December 31, 2009, with retroactive application. The adoption of EIC-174 did not result in a material impact on the Corporation's financial statements.

(v) 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.

As a result of the re-registration of the Corporation's ownership in the Kazakhstan Subsidiaries and the adoption of CICA Handbook Section 1582 Business Combinations, Alhambra has in effect completed certain tasks necessary in implementing IFRS regulations. The Corporation will continue to assess the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures.

While certain areas have been identified and changes implemented, it will be necessary to identify other areas of significant difference. The Corporation will perform an in-depth review of the significant areas of difference 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. Re-acquisition of Saga Creek Gold Company:

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

As a result of this re-registration, Alhambra re-acquired the ownership of Saga Creek for a consideration of $nil. Alhambra had previously written off its investment in Saga Creek as of December 26, 2008. **The following table reflects the combined net identifiable assets and liabilities of Saga Creek including provisional fair value adjustments at the time of re-registration. The Corporation undertook a review of the net identifiable assets and liabilities at the date of re-registration and, where available, third party information (including the NI 43-101 compliant report entitled "Resource and Reserve Estimation Study on the Uzboy Gold Deposit, Akmola Oblast Kazakhstan" with an effective date of December 31, 2007 prepared by Alhambra's Independent Geological Consultants) was utilized in determining these provisional fair values. In determining the fair value of Saga Creek's assets, the Corporation made assumptions about reserves, recovery rates, prices, operating, general and administration costs and capital costs and future income tax rates as well as made assumptions in determining the Corporation's weighted average cost of capital used to discount the annualized cash flows that were derived from the modeling work done. These values are management's best estimates based on current information and are preliminary in mature. The Corporation anticipates there will be changes once the calculations are finalized. Those changes may be material. Accounting standards permit up to 12 months for provisional acquisition accounting to be finalized following the re-registration date if any subsequent information provides better evidence of the item's fair value at the date of re-registration.**

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

	Book Value Reflected by Saga Creek on September 15, 2009	Provisional fair value adjustments at September 15, 2009	Provisional fair values recognized on re-acquisition at September 15, 2009
Cost of re-acquisition	$ –	$ –	$ –
Fair value of assets and liabilities:			
Cash	234,904	–	234,904
Accounts receivable	3,785,007	(2,384,896)	1,400,111
Prepaids	579,104	–	579,104
Inventories	1,218,778	(130,379)	1,088,399
Work in progress	8,894,412	(3,027,361)	5,867,051
Mineral properties	24,159,751	60,546,475	84,706,226
Accounts payable and accrued charges	(3,775,682)	–	(3,775,682)
Asset retirement obligation	(165,618)	–	(165,618)
Future income taxes	(1,310,512)	(12,283,400)	(13,593,912)
	33,620,144	42,720,439	76,340,583
Gain recognized on re-acquisition of former subsidary	$ 33,620,144	$ 42,720,439	$ 76,340,583
Net cash acquired	$ 234,904	$ –	$ 234,904

4. Secured debentures:

The Corporation had outstanding a series of twelve percent (12%) secured debentures due August 11, 2009 in the principle amount of CDN$1,000,000 (the “Debentures”). As the Corporation was unable to pay the outstanding principal and accrued interest at the maturity date, the holders of the Debentures agreed to add the accrued interest to the principal outstanding and extend the maturity date of the Debentures to August 11, 2010. The accrued interest at August 11, 2009 totaled CDN$125,222 resulting in the principal amount of the Debentures at August 11, 2009 totaling CDN$1,125,222. In consideration for agreeing to extend the term, the Corporation agreed to the following modifications to the Debentures:

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

(b) Warrants to purchase up to 2,500,450 common shares ("Debenture Warrants") were granted with an expiry date of August 11, 2011. Each Debenture Warrant may be converted into one common share of the Corporation at any time prior to expiry at a purchase price of CDN$0.45 per common share;

(c) Interest accrues on the new principal amount at a rate of 12% per annum, compounded quarterly and payable at the earlier of the date of conversion or the new maturity date; and

(d) The Corporation has the right at any time prior to maturity, to prepay all or a portion thereof, of the 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 were approved by the independent members of the board of directors with the applicable directors abstaining.

The Debentures are classified as current liabilities on the balance sheet with $50,795 ascribed to the fair value of the Debenture Warrants (note 6(c)) and $116,101 ascribed to the fair value of the conversion feature of the Debentures (note 6(d)). The fair value of the Debenture Warrants and the conversion feature has been recorded in shareholders' equity. The carrying value of the Debentures is accreted to the original face value of the obligations over the one year term of the Debentures. Accretion expense of $22,881 has been expensed as "interest and accretion on debt" during the three and nine month periods ended September 30, 2009.

5. 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 6(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 $53,613 and $87,609 has been expensed as "interest and accretion on debt" during the three and six month periods ended September 30, 2009.

Subsequent to September 30, 2009, 5,300,274 common shares of the Corporation were issued on the conversion of 5,300,274 Note Warrants for a gross proceeds of CDN$790,055 of which 1,620,274 common shares were purchased by insiders of the Corporation. The remaining 99,726 Note Warrants expired unexercised. The proceeds from the exercise of the Note Warrants were used to retire CDN$758,507 of principal and accrued interest on the Notes for which the Note Warrants were originally issued.

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

6. Share capital:

(a) Authorized:

Unlimited voting common shares

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

(b) Issued and outstanding:

	Nine months ended September 30, 2009		Year ended 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:

	Nine months ended September 30, 2009		Year ended December 31, 2008	
	Number	Amount	Number	Amount
Balance, beginning of period	–	$ –	2,333,333	$ 675,595
Pursuant to Notes (note 5)	5,400,000	194,472	–	–
Pursuant to Debentures(note 4)	2,500,450	50,795	–	–
Expired unexercised	–	–	(2,333,333)	(675,595)
Balance, end of period	7,900,450	$ 245,267	–	$ –

The fair value of the Debenture Warrants granted in 2009 in conjunction with the Debentures (note 4) was estimated on the date of the issue of the Debenture Warrants using the Black-Scholes option pricing model. The fair value of the Note Warrants was calculated to be $50,795 using the following weighted-average assumptions:

	2009
Fair value of warrants granted (CDN$/share)	0.02
Expected life (years)	1
Risk-free interest rate (%)	1.22
Expected volatility (%)	150
Expected dividend yield (%)	–

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

The fair value of the Note Warrants granted in 2009 in conjunction with the Notes (note 5) was estimated on the date of the issue of the Note 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 (CDN$/share)	0.04
Expected life (years)	0.50
Risk-free interest rate (%)	0.80
Expected volatility (%)	150
Expected dividend yield (%)	–

	Nine months ended September 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 5)	5,400,000		0.15	–		–
Pursuant to Debentures (note 4)	2,500,450		0.45	–		–
Expired	–			(2,333,333)		2.00
Outstanding, end of period	7,900,450	$	0.24	–	$	–
Exercisable, end of period	7,900,450	$	0.24	–	$	–

(d) Convertibility of Debentures:

The fair value of the conversion feature granted in 2009 in conjunction with the refinancing of the Debentures (note 5) was estimated on the date of the refinancing using the Black-Scholes option pricing model. The fair value of the conversion feature was calculated to be $116,101 using the following weighted-average assumptions:

	2009
Fair value of conversion feature (CDN$/share)	0.03
Expected life (years)	1
Risk-free interest rate (%)	1.22
Expected volatility (%)	150
Expected dividend yield (%)	–

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

(e) Options:

The Corporation has a stock option plan under which directors, officers, employees and consultants of the Corporation are eligible to receive stock options. The aggregate number of common shares to be issued upon the exercise of all options granted under the plan shall not exceed 10% of the issued common shares of the Corporation at the time of granting of the options. Options granted under the plan generally have a term of three years or five 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:

	Nine months ended September 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	3,050,000		0.22	2,750,000		1.15
Exercised	–		–	(196,000)		0.55
Expired	(1,230,000)		1.14	(789,000)		1.26
Outstanding, end of year	7,490,000	$	0.80	5,670,000	$	1.18
Exercisable, end of year	5,202,500	$	1.05	4,445,000	$	1.17

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

	Outstanding		Exercisable	
Exercise price	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
CDN $0.22	3,050,000	4.92	762,500	4.92
CDN $0.55	800,000	0.63	800,000	0.63
CDN $1.15	2,275,000	1.34	2,275,000	1.34
CDN $1.60	1,365,000	0.22	1,365,000	0.22
	7,490,000	2.52	5,202,500	1.46

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

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 2009 was calculated to be $608,260 using the following weighted-average assumptions:

	2008
Expected dividend yield (%)	–
Expected life (years)	5.00
Risk-free interest rate (%)	2.57
Expected volatility (%)	367
Fair value of options granted (CDN$/share)	0.22

Subsequent to September 30, 2009 the Corporation granted options to a director, employee and consultant to purchase up to 350,000 common shares at a price of CDN$0.315 per common share. Such stock options shall have a term of five years from the date of grant and shall vest as to 25% immediately and thereafter as to 25% on dates that are six, twelve and eighteen months from the date of grant.

A reconciliation of contributed surplus is provided below:

	Nine months ended September 30, 2009	Year ended December 31, 2008
Balance, beginning of period	$ 4,417,966	$ 2,576,263
Stock-based compensation expense	325,520	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	$ 4,743,486	$ 4,417,966

7. Accumulated other comprehensive income:

	Nine months ended September 30, 2009	Year ended December 31, 2008
Balance, beginning of period	$ (322,360)	$ 960,514
Translation losses on self-sustaining operations	(242,959)	(1,282,874)
Balance, end of period	$ (565,319)	$ (322,360)

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

8. Related party transactions:

(a) During the nine months ended September 30, 2009, the Corporation paid $nil (2008 - $68,503) in consulting fees to a corporation controlled by a former director and officer of the Corporation. Of this amount, $nil (2008 - $3,286) was capitalized to exploration and development costs.

(b) During the nine months ended September 30, 2009, the Corporation incurred $112,788 (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 nine months ended September 30, 2009 the Corporation billed DOT CDN$180,000 (2008 – CDN$180,000) under the Contract. As of September 30, 2009, CDN$40,353 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.

9. Supplementary cash flow information:

Changes in non-cash working capital are as follows:

	Three Months Ended September 30		Nine months Ended September 30	
	2009	2008	2009	2008
Accounts receivable	$ (241,709)	$ (428,047)	$ (278,406)	$ (369,404)
Deposits and prepaid expenses	193,613	123,537	216,845	(3,382)
Supplies inventory	(74,225)	(20,913)	(74,225)	36,638
Work in progress	(44,318)	1,088,565	(44,318)	(417,122)
Accounts payable and accrued liabilities	(125,986)	794,456	275,738	2,864,028
Advances	–	(121)	–	(522)
	$ (292,625)	$ 1,547,477	$ 95,634	$ 2,110,236
Relating to:				
Operating activities	$ (292,625)	$ 1,655,541	$ 95,634	$ 1,301,001
Investing activities	–	(98,065)	–	809,235
	$ (292,625)	$ 1,547,476	$ 95,634	$ 2,110,236

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

10. Loss per share:

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

	Three Months Ended September 30		Nine months Ended September 30	
	2009	2008	2009	2008
Basic and diluted weighted average shares outstanding	75,774,147	75,774,147	75,774,147	75,676,658

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

11. 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. Following of the Supreme Court's decision to reverse the decisions of the lower Kazakhstan courts and dismiss the Plaintiffs' lawsuit (note 15), Alhambra has re-registered the shares of the Kazakhstan Subsidiaries back in the name of the Corporation. This re-registration has again given Alhambra access to assets that generate cash 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 4 and 5), however, these funds were only adequate to fund a portion of its current and future obligations. While the Corporation's producing assets do generate cash flow, it will not be adequate to fund all the Corporation's commitments as well finance the development of its properties. 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.

12. Financial Instruments:

(a) Overview:

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

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

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

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

(b) Credit risk:

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its obligation and arises principally from Saga Creek's receivable from the Government of Kazakhstan owing as a result of refundable Value Added Tax ("VAT") paid on goods and services purchased by Saga Creek. To date Saga Creek has been able to collect all VAT due and owing but with the economic crisis that has affected Kazakhstan like most countries, there is no assurance that the refunds will be made on a timely basis in the future. At September 30, 2009 approximately 30% of the recorded value of accounts receivable relates to VAT.

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

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Corporation does not have an allowance for doubtful accounts as at September 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. With the re-registration of the shares of the Kazakhstan Subsidiaries, Alhambra now has ownership of revenue producing assets. However in defending the lawsuit, the Corporation incurred substantial liabilities and the cash generated from its properties will not likely be enough to meet all its obligations in addition to resume an aggressive development program. Therefore, additional financing must still be obtained in order to continue as a going concern. The Corporation is currently attempting to raise additional funds however there is no assurance that it will be able to do so.

(d) Market risk:

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

(i) Foreign currency exchange rate risk

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

(ii) Commodity price risk

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

(iii) Interest rate risk

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

(e) Fair value of financial instruments:

The Corporation's financial instruments as at September 30, 2009 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and the Debentures and Notes. Except for the Debentures and Notes, fair values of these financial instruments approximate their carrying amounts due to their short terms to maturity. The Debentures and 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 Debenture Warrants and conversion feature, both associated with the Debenture, and the Note Warrants associated with the Notes.

13. Commitments and contingencies:

(a) Net smelter royalty:

The Corporation has granted a net smelter royalty with respect to the production of minerals from the properties owned by the Corporation in Kazakhstan. The net smelter royalty ranges from 2.5% to 3.0% (dependent on the price of gold) of gross revenue as defined in the Agreement.

(b) 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 September 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 September 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.

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

14. Segment information:

As at September 30, 2009, the Corporation and its subsidiaries operate in one reportable segment, the exploration for and the development of mineral properties. Identifiable assets, revenues, and net income (loss) in each of its geographic areas are as follows:

Nine months ended September 30, 2009	Kazakhstan	Corporate	Total
Sales of gold	$ 1,126,030	$ –	$ 1,126,030
Net income (loss)	76,557,826	(1,603,311)	74,954,515
Depreciation, depletion and accretion[1]	–	6,317	6,317
Assets	93,893,242	677,484	94,570,726
Capital expenditures	40,373	363	40,736

Nine months ended September 30, 2008	Kazakhstan	Corporate	Total
Sales of gold	$10,079,347	$ –	$10,079,347
Net income (loss)	628,127	(2,614,266)	(1,986,139)
Depreciation, depletion and accretion	1,024,624	10,661	1,035,285
Assets	39,984,270	1,146,642	41,130,912
Capital expenditures	4,185,866	4,443	4,190,309

Three months ended September 30, 2009	Kazakhstan	Corporate	Total
Sales of gold	$ 1,126,030	$ –	$ 1,126,030
Net income (loss)	76,557,826	(515,873)	76,041,953
Depreciation, depletion and accretion[1]	–	2,262	2,262
Assets	93,893,242	677,484	94,570,726
Capital expenditures	40,373	–	40,373

Three months ended September 30, 2008	Kazakhstan	Corporate	Total
Sales of gold	$ 4,251,565	$ –	$ 4,251,565
Net income (loss)	326,509	(522,985)	(196,476)
Depreciation, depletion and accretion	407,970	3,441	411,411
Assets	39,984,270	1,146,642	41,130,912
Capital expenditures	847,161	2,408	849,569

1. A total of $390,000 of amortization related Kazakhstan mineral assets was charged to work in progress during the period September 15 to September 30, 2009.

15. 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. On September 15, 2009 the ownership of the shares of the Kazakhstan Subsidiaries was re-registered in the name of Alhambra.

.