Consolidated Financial Statements of

ALHAMBRA RESOURCES LTD.

Years ended December 31, 2010, 2009 and 2008

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 International Financial Reporting Standards. 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 of Directors.

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. The Audit Committee is responsible for determining their reappointment and the setting of their fees.

May 2, 2011

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

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Alhambra Resources Ltd.

We have audited the accompanying consolidated financial statements of Alhambra Resources Ltd., which comprise the consolidated statements of financial position as at December 31, 2010, December 31, 2009, December 31, 2008 and January 1, 2008, the consolidated statements of income and expense, comprehensive income, changes in equity and cash flows for the years ended December 31, 2010, 2009 and 2008, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Alhambra Resources Ltd. as at December 31, 2010, December 31, 2009, December 31, 2008 and January 1, 2008, and its financial performance and its cash flows for the years ended December 31, 2010, 2009 and 2008 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that Alhambra Resources Ltd. incurred a net loss of $5.0 million during the year ended December 31, 2010 and does not have sufficient cash flow to meet its obligations. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about Alhambra Resources Ltd.'s ability to continue as a going concern.

(Signed) "KPMG LLP"

Chartered Accountants

Calgary, Canada
May 2, 2011

ALHAMBRA RESOURCES LTD.

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

As at	Note	December 31, 2010	December 31, 2009 (see note 26)	December 31, 2008 (see note 26)	January 1, 2008 (see note 26)
Assets					
Current assets:					
Cash and cash equivalents	8	$ 3,375	$ 344	$ 26	$ 3,057
Trade and other receivables	9	2,335	1,803	12	862
Deposits and prepaid expenses		1,019	264	27	54
Inventories	10	12,456	10,857	–	6,434
Total current assets		19,185	13,268	65	10,407
Non-current assets:					
Property, plant and equipment	11	72,023	78,846	39	10,620
Intangible assets	12	20,185	4,856	–	15,123
Investment in equity accounted investee	13	534	562	586	835
Inventories	10	13,110	6,791	–	–
Trade and other receivables	9	764	101	–	–
Total non-current assets		106,616	91,156	625	26,578
Total assets		$ 125,801	$ 104,424	$ 690	$ 36,985
Liabilities and Equity					
Current liabilities:					
Loans and borrowings	14	$ –	$ 968	$ 817	$ 745
Trade and other payables	15	6,953	4,475	806	1,678
Provisions	16	4,447	–	–	–
Total current liabilities		11,400	5,443	1,623	2,423
Non-current liabilities:					
Provisions	16	9,646	225	–	424
Deferred tax liabilities	17	31,597	30,832	–	1,428
Total non-current liabilities		41,243	31,057	–	1,852
Total liabilities		52,643	36,500	1,623	4,275
Equity / (deficiency):					
Share capital	19	42,075	35,495	34,585	34,432
Warrants	19	2,247	51	–	676
Contributed surplus		6,140	5,250	4,726	2,598
Equity portion of convertible debentures	14	–	116	–	–
Foreign currency translation reserve		1,041	315	(186)	–
Retained earnings (deficit)		21,655	26,697	(40,058)	(4,996)
		73,158	67,924	(933)	32,710
Total liabilities and equity		$ 125,801	$ 104,424	$ 690	$ 36,985

See accompanying notes to consolidated financial statements.

APPROVED ON BEHALF OF THE BOARD:

(Signed) John J. Komarnicki, Director

(Signed) Clarence K. Wagenaar, Director

ALHAMBRA RESOURCES LTD.

Consolidated Statements of Income and Expense
(Expressed in thousands of U.S. dollars)

	Note	Years ended December 31, 2010	2009 (See note 26)	2008 (See note 26)
Revenue:				
Sales		$ 15,991	$ 6,160	$ 14,852
Less royalty and production taxes:				
Net smelter royalty		(480)	(184)	(446)
Mineral extraction tax		(998)	(284)	–
		14,513	5,692	14,406
Cost of sales		9,120	3,650	9,443
Gross profit		5,393	2,042	4,963
Expenses:				
Administrative expenses	7	6,022	2,244	5,456
Depletion and depreciation	11, 12	2,028	264	1,581
Loss / (gain) on loss / acquisition of control of subsidiaries	24	–	(68,816)	31,601
		(2,657)	68,350	(33,675)
Finance income		–	(356)	(300)
Finance costs		887	527	198
Net finance costs (income)	6	887	171	(102)
Share of loss of equity accounted investee	13	55	115	104
Profit (loss) before income taxes		(3,599)	68,064	(33,677)
Income tax expense	17	1,443	1,309	1,385
Net profit (loss) for the year attributable to the equity holders of the Corporation		$ (5,042)	$ 66,755	$ (35,062)
Earnings (loss) per share:				
Basic	20	$ (0.06)	$ 0.87	$ (0.46)
Diluted	20	$ (0.06)	$ 0.81	$ (0.46)

Consolidated Statements of Comprehensive Income
(Expressed in thousands of U.S. dollars)

	Note	Years ended December 31, 2010	2009	2008
Net profit (loss) for the year		$ (5,042)	$ 66,755	$ (35,062)
Other comprehensive income:				
Foreign currency translation difference for foreign operations		726	501	(1,283)
Reclass to statement of income and expense on loss of control of subsidiaries	24	–	–	1,097
Total comprehensive income (loss) for the year		$ (4,316)	$ 67,256	$ (35,248)

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

Consolidated Statements of Changes in Equity/ (Deficiency)
(Expressed in thousands of U.S. dollars)

	Issued Share Capital	Contributed surplus	Warrants	Foreign currency translation reserve	Equity portion of convertible debenture	Retained earnings (deficit)	Total
Balance, January 1, 2008 (See note 26)	$ 34,432	$ 2,598	$ 676	$ –	$ –	$ (4,996)	$ 32,710
Warrants expired unexercised	–	676	(676)	–	–	–	–
Share options exercised	108	–	–	–	–	–	108
Transfer on exercise of options	45	(45)	–	–	–	–	–
Share based payments expense	–	1,413	–	–	–	–	1,413
Share based payments capitalized	–	84	–	–	–	–	84
Loss for the year	–	–	–	–	–	(35,062)	(35,062)
Other comprehensive income (loss)	–	–	–	(186)	–	–	(186)
Balance, December 31, 2008	34,585	4,726	–	(186)	–	(40,058)	(933)
Issued pursuant to notes	–	–	194	–	–	–	194
Issued pursuant to debentures	–	–	51	–	116	–	167
Warrants exercised	719	–	–	–	–	–	719
Warrants expired	–	3	(3)	–	–	–	–
Transfer from warrants	191	–	(191)	–	–	–	–
Share based payments expense	–	521	–	–	–	–	521
Profit for the year	–	–	–	–	–	66,755	66,755
Other comprehensive income	–	–	–	501	–	–	501
Balance, December 31, 2009	35,495	5,250	51	315	116	26,697	67,924
Pursuant to private placement	8,000	–	–	–	–	–	8,000
Share issuance costs	(589)	–	–	–	–	–	(589)
Transfer to warrants	(2,196)	–	2,196	–	–	–	–
Conversion of secured debentures	1,211	–	–	–	–	–	1,211
Transfer on conversion of secured debentures	116	–	–	–	(116)	–	–
Share options exercised	20	–	–	–	–	–	20
Transfer on exercise of options	18	(18)	–	–	–	–	–
Share based payments expense	–	908	–	–	–	–	908
Loss for the year	–	–	–	–	–	(5,042)	(5,042)
Other comprehensive income	–	–	–	726	–	–	726
Balance, December 31, 2010	$ 42,075	$ 6,140	$ 2,247	$ 1,041	$ –	$ 21,655	$ 73,158

For details on movement in shares please see Note 19.

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

Consolidated Statements of Cash Flows
(Expressed in thousands of U.S. dollars)

	Years ended December 31,		
	2010	2009	2008
Cash provided by (used in):			
Cash flows from operating activities:			
Profit (loss) for the year	$ (5,042)	$ 66,755	$ (35,062)
Adjustments for:			
Depletion and depreciation	2,028	264	1,581
Net finance costs	41	(63)	(65)
Share of loss of equity accounted investee	55	115	104
Equity-settled share-based payment transactions	908	521	1,413
Deferred income tax expense	542	823	1,385
Gain (loss) on acquisition / loss of control of subsidiaries	–	(68,816)	31,601
	(1,468)	(401)	957
Change in inventories	(1,580)	43	(2,477)
Change in trade and other receivables	(792)	(582)	516
Change in deposits and prepaid expenses	(537)	100	86
Change in trade and other payables	2,895	(132)	2,613
Interest paid	–	(144)	(102)
Income taxes paid	(589)	(48)	(256)
Cash acquired in acquisition of control of subsidiaries	–	1,235	–
Net cash flows from operating activities	(2,071)	71	1,337
Cash flows from financing activities:			
Secured debentures issued	–	1,024	937
Secured debentures retired	–	(817)	–
Secured notes issued	–	546	–
Secured notes retired	–	(631)	–
Repayment of advances against gold sales	–	–	(745)
Issuance of common shares and warrants	7,431	719	108
Net cash flows from financing activities	7,431	841	300
Cash flows from investing activities:			
Acquisition of property, plant and equipment	(16,093)	(349)	(4,621)
Change in non-cash working capital	13,650	71	170
Net cash flows from investing activities	(2,443)	(278)	(4,451)
Effect of exchange rate changes on cash and cash equivalents	114	(316)	(217)
Change in cash and cash equivalents	3,031	318	(3,031)
Cash and cash equivalents, beginning of year	344	26	3,057
Cash and cash equivalents, end of year	$ 3,375	$ 344	$ 26

See accompanying notes to consolidated financial statements.

1. Reporting entity and nature of operations:

Alhambra Resources Ltd. (the “Corporation”), including all of its subsidiaries, see note 5, (“Alhambra” or the “Group”) is engaged in exploration for and development of mineral properties in the Kazakhstan. In addition to its exploration and development activities, Alhambra also produces gold from a pilot project on a portion of its Kazakhstan license that commenced production on May 1, 2006.

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

The consolidated financial statements of the Group as at and for the year ended December 31, 2009, which were prepared under Canadian Generally Accepted Accounting Principles (“GAAP”), are available upon request from the Corporation’s registered office or at www.sedar.com.

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

2. Going concern:

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

On December 26, 2008, the Corporation lost ownership of assets that generated cash flow as a result of the unfavorable decision reached in the Kazakhstan Lawsuit, (the “Lawsuit”) (note 24). With the ruling by the Supreme Court of the Republic of Kazakhstan (“Kazakhstan”), the Corporation re-acquired ownership of its Kazakhstan operating subsidiary, Saga Creek Gold Group LLP (“Saga Creek”) and Goodwin Golems LLP, (“Goodwin”) effective September 15, 2009. The re-acquisition of Saga Creek returned to the Corporation ownership of revenue producing assets, which has once again provided the Group access to cash flow to meet its obligations. This cash flow, however, is not sufficient to enable the Group to meet all its obligations and carry out significant exploration and development programs. Effective September 28, 2010, the Group completed an equity private placement, the net proceeds from which are being used to fund the Group’s exploration and development programs and general working capital purposes. During the year ended December 31, 2010, the Group incurred a net loss of $5,042, and the Group is not generating a sufficient amount of cash flow from operations to cover its commitments. As a result there is significant doubt about the ability of the Corporation to continue as a going concern.

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

3. Basis of preparation:

On March 18, 2011, the Alberta Securities Commission granted Alhambra exemptive relief to early adopt International Financial Reporting Standards ("IFRSs") with an adoption date of January 1, 2010 and a transition date of January 1, 2008.

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). These are the Group's first consolidated financial statements prepared in accordance with IFRSs and IFRS 1 '*First-time Adoption of International Financial Reporting Standards'* has been applied. These consolidated financial statements were approved by the Board of Directors on May 2, 2011.

An explanation of how the transition to IFRSs from Canadian GAAP has affected the reported financial position, financial performance and cash flows of the Group is provided in note 26.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the financial instruments at fair value through profit or loss are measured at fair value.

(c) Functional and presentation currency:

These consolidated financial statements are presented in U.S. dollars ("US$") which is the functional currency of the subsidiaries, see note 5, other than Saga Creek Gold Company LLP whose functional currency is the Kazakhstan Tenge. The functional currency of the Corporation is the Canadian dollar. A U.S. dollar presentation currency is used as this is the primary currency of global gold producing companies.

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Estimates and underlying

assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 11 – valuation of property, plant and equipment;

Note 12 – valuation of intangible assets;

Note 14 – loans and borrowings;

Note 16 – provisions;

Note 17 – valuation and utilization of tax losses;

Note 19 – measurement of share-based payments; and

Note 24 – business combinations.

4. Summary of significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position as at January 1, 2008 for the purposes of transition to IFRS. The accounting policies have been applied consistently by Group entities.

(a) Principles of consolidation and accounting for investments:

These consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation.

(i) Business combinations:

Acquisitions on or after January 1, 2008

For acquisitions on or after January 1, 2008, the Group measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisitions prior to January 1, 2008

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after January 1, 2008.

(ii) Acquisitions of non-controlling interests:

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders; therefore, no goodwill is recognized as a result of such transactions.

(iii) Subsidiaries:

Subsidiaries are entities controlled by the Corporation and its controlled subsidiaries. Control is obtained when the Corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iv) Investments in associates (equity accounted investees):

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

The Group assesses at each reporting period whether there is any objective evidence that its interests in an investee is impaired. If impaired, the carrying value of the Group's share of the underlying assets of investee is written down to its estimated recoverable amount and the amount of the write-down is charged to the statement of income and expense.

(v) Transactions eliminated on consolidation:

Intra-group balances and transactions, and any unrealized income or expense arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency:

(i) Foreign currency transactions:

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year. Foreign currency differences arising on re-translation are recognized in profit or loss. The Kazakhstan subsidiaries have a Kazakhstan Tenge functional currency and the Corporation has a Canadian dollar functional currency.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations:

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated into U.S. dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to U.S. dollars at exchange rates at the average rates for the quarter in which the transaction took place. Since January 1, 2008, the Group's date of transition to IFRSs, such differences have been recognized in the foreign currency translation reserve ("FCTR"). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future, are considered to form part of the net investment in a foreign operation and are recognized directly in equity in the FCTR.

(c) Financial instruments:

(i) Non-derivative financial assets:

The Group initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group may have the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss:

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss.

Held-to-maturity financial assets:

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying

investment securities as held to-maturity for the current and the following two financial years.

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents:

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Available-for-sale financial assets:

Available-for-sale financial assets are non-derivative financial assets that are designated as available for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(ii) Non-derivative financial liabilities:

The Group initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, provisions and trade and other payables.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Share capital:

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Preferred shares

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Corporation's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Corporation's shareholders.

(iv) Compound financial instruments:

Compound financial instruments issued by the Group are comprised of convertible debentures that can be converted to share capital at the option of the holder and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognized in profit or loss. Distributions to the equity holders are recognized in equity, net of any tax benefit.

(v) Warrants:

Warrants are classified as equity if they are non-redeemable or redeemable only at the Corporation's option. The fair value of warrants issued is measured indirectly by reference to the equity instruments granted.

(d) 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 sale is reasonably assured.

(e) Share-based payments:

The Group has a share-based payment plan for employees and non-employees as described in note 19.

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. In determining the fair value of the share options granted, the Black-Scholes model is used and assumptions are made regarding interest rates, underlying volatility of the Corporation's shares and expected life of the options. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service vesting conditions are met, such that the amount ultimately recognized as an expense is based on the number of awards that actually vest.

Share-based payments to non-employees are accounted for by measuring the fair value of goods or services received directly at the date the Group receives the goods or services.

(f) Borrowing costs:

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as a part of the cost of that asset. Other borrowing costs not directly attributable to a qualifying asset are expensed in the period incurred.

(g) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable

temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(h) Earnings (loss) per share:

The Group presents basic and diluted earnings per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise convertible debentures, warrants and share options granted to employees and non-employees.

(i) Property, plant and equipment:

(i) Recognition and measurement:

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2008.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

Exploration and evaluation expenditures:

Pre-license costs are recognized in the statement of operations as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centers by field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units ("CGUs).

Exploration and evaluation expenditures related to areas of interest are capitalized and carried forward to the extent that:

(i) Rights to tenure of the area of interest are current; and

(ii) (a) Costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively by sale; or

(b) Where activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, active and significant operations in, or in relation to, the areas are continuing.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and probable reserves are determined to exist. The Group 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 Group will continue exploration on the project. The Group 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.

Depreciation on equipment utilized in the exploration and evaluation of mineral properties is capitalized to exploration and evaluation costs until such time as 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 as these properties are considered to have commenced commercial production.

Plant and equipment includes office equipment in the Group's head office. Items of property, plant and equipment, which include mineral assets, include development and production costs, and construction in progress related to the Uzboy Project, the Group's producing assets and CGU. The amount shown for exploration costs includes the direct costs of acquiring, maintaining, exploring properties, an allocation of management fees and salaries based on time spent and other costs directly related to specific properties. Mineral asset development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGU's for impairment testing.

(ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized only when it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. All other expenditures, such as the costs of the day-to-day servicing of property, plant and equipment, are recognized in profit or loss as incurred.

Capitalized mineral assets represent costs incurred in developing proved and/or probable reserves and are accumulated on a field area basis.

(iii) Depreciation:

Once a mineral property reaches commercial production, the accumulated costs of exploration and development costs related to that mineral property are amortized to the statement of income and expense on a unit-of-production basis over economically recoverable gross proved plus probable reserves, determined by the Group's independent geological and engineering consultant, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves.

Plant and equipment are recorded at cost less accumulated depreciation. These assets are depreciated using the straight-line method based on estimated useful lives, which generally range from 3 to 14 years. Where an item of plant and equipment comprises significant components with different useful lives, the components are accounted for as separate items of plant and equipment.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. Office equipment is depreciated using the declining balance method.

The estimated maximum useful lives of assets and rates of depreciation are:

Asset type	Depreciation rate	Useful life (years)
Mineral properties being depleted	Unit of production	10
Building and construction	7%	14
Plant and equipment	15% to 20%	5-7
Computer equipment	20% to 30%	3-5
Office equipment	20% to 30%	3-5

(iv) Software:

Costs incurred in developing information technology systems and acquiring software are capitalized as intangible assets. Costs capitalized include external costs of materials and services. Amortization is on a straight-line basis over the asset's useful life. Amortization is recognized in profit or loss, from the date that the assets are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are 5 years.

(j) Inventories:

(i) 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 a portion of depreciation of equipment used in each process, and depletion of mineral assets, are charged to work in progress inventories and expensed based on the quantity of gold sold as a percentage of total gold mined. The quantity of gold mined is based on the estimate of gold that can be recovered from ore that is placed on leach pads. The portion of work in progress inventories that is not expected to be recovered within the next year is classified as non-current. The group does not charge any overheads to inventories.

While the Group monitors the amount of gold that is recovered from the leach pads, the nature of the leaching process inherently limits the ability to precisely monitor inventory levels. The actual recovery of gold from the leach pads is not known until leaching process has concluded at the end of the mine life.

(ii) Raw materials and supplies:

Inventory of raw materials and supplies is recorded at cost, is based on the first-in first-out principle and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

(iii) Impairment:

The carrying amount of the Group's inventories is reviewed at each reporting date, or earlier if an indicator is identified, to determine whether there is impairment. Inventories are valued at the lower of cost and net realizable value and on a weighted average basis. An impairment loss is recognized if the carrying amount exceeds its net realizable value.

(k) Impairment:

(i) Financial assets:

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held to-maturity investment securities with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized

through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains / losses on available-for-sale financial assets in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

(ii) Non-financial assets:

The carrying amounts of the Group's non-financial assets, other than exploration and evaluation assets, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. Exploration and evaluation assets are assessed for impairment when they are reclassified to property, plant and equipment, as mineral assets, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

(l) Operating leases:

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in the statement of income and expense on a straight-line basis over the term of the lease.

(m) Finance income and finance costs:

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(n) Provisions:

Provisions are recorded when a present legal or constructive obligation exists as a result of past events, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are determined by discounting the expected future cash flows at a pre-tax non-credit risk specific rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

The Group recognizes the fair value of site reclamation provisions 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 reclamation provision 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 unwinding of the discount is expensed to income in the period. Actual costs incurred upon the settlement of the reclamation provision are charged against the provision to the extent recorded. Any difference between the actual costs incurred and the reclamation provision recorded is recognized as a gain or loss in earnings in the period the costs are incurred.

(o) Segment reporting:

An operating segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's geographical segments. The Group's primary format for segment reporting, and the information presented to the chief operating decision maker, is based on geographical segments as the Group has one principal business activity, being gold exploration and production. There are no inter-segment sales.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related losses, loans and borrowings and related expenses, corporate assets (primarily the Corporation's headquarters) and head office expenses and

liabilities. Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment and intangible assets.

(p) Accounting standards issued but not yet effective:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2010, and have not been applied in preparing these consolidated financial statements. The following standards and updates ("IFRS") are assessed to not have a significant impact on the Group's financial statements.

(i) IAS 24 Related Party Disclosures:

Effective for accounting periods commencing on or after 1 January 2011;

(ii) IFRS 9 Financial Instruments:

Effective for accounting periods commencing on or after 1 January 2013; and

(iii) IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments:

Effective for accounting periods commencing on or after 1 July 2010.

5. Particulars of subsidiaries:

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, Alhambra Overseas Limited, Alhambra Cooperatief U.A., 1450165 Alberta Limited, Saga Creek Gold Company LLP and Goodwin Golems LLP. For 2009, the accounts for Saga Creek and Goodwin have been consolidated from September 15, 2009, being the effective date of the re-acquisition of control (note 24).

			Proportion of ownership interest and voting power held directly or indirectly			
		Place of incorporation	December 31			January 1,
	Principal activity	and operation	2010	2009	2008	2008
Saga Creek Gold Company LLP	Mining	Kazakhstan	100%	100%	–	100%
Goodwin Golems LLP	Holding Company	Kazakhstan	100%	100%	–	100%
Alhambra Overseas Ltd.	Holding Company	Cyprus	100%	100%	100%	100%
Alhambra Cooperatief U.A.	Holding Company	Netherlands	100%	100%	–	–
1450165 Alberta ltd.	Holding Company	Canada	100%	100%	–	–

6. Finance income and costs:

For the year ended December 31,	2010	2009	2008
Foreign exchange gain	$ –	$ (356)	$ (286)
Interest Income	–	–	(14)
Finance income	–	(356)	(300)
Interest on advances against gold sales	–	–	85
Interest on secured debentures	85	116	41
Interest on secured notes	–	74	–
Unwinding of the discount on provisions	5	–	55
Interest on trade payables	(3)	29	17
Interest expense on financial liabilities measured at amortized cost	109	282	–
Interest on unpaid taxes	423	26	–
Foreign exchange loss	268	–	–
Finance costs	887	527	198
Net finance costs (income)	$ 887	$ 171	$ (102)

A total of $85 (2009 - $141, 2008 - $41) of interest and $109 (2009 – $138, 2008 - $nil) of interest expense on financial liabilities measured at amortized cost related to debentures and notes held by officers and directors of the Corporation.

7. Administrative Expenses:

For the year ended December 31,	2010	2009	2008
Employee costs	$ 2,300	$ 1,296	$ 3,060
Professional fees	931	803	1,074
Corporate maintenance costs	1,741	119	571
Office costs	1,283	237	973
Less: recovery	(233)	(211)	(222)
	$ 6,022	$ 2,244	$ 5,456

Administrative expenses include share based payments expenses (a non-cash item) of $908, $521 and $1,413 which have been included in employee costs for the years ended December 31, 2010, 2009 and 2008, respectively.

8. Cash and cash equivalents:

As at	December 31, 2010	December 31, 2009	December 31, 2008	January 1, 2008
Bank balances	$ 3,375	$ 344	$ 26	$ 328
Short-term deposits	–	–	–	2,729
Total cash and cash equivalents	$ 3,375	$ 344	$ 26	$ 3,057

9. Trade and other receivables:

The Group's trade and other receivables arise from two main sources: trade receivables due from customers for gold sales and value added tax ("VAT") and goods and services tax ("GST") receivable due from various government taxation authorities. These are analyzed as follow:

As at	December 31, 2010	December 31, 2009	December 31, 2008	January 1, 2008
Trade receivables	$ 984	$ 936	$ –	$ –
VAT and GST receivables	1,335	848	12	741
Other receivables	16	19	–	121
Total current trade and other receivables	2,335	1,803	12	862
Non-current trade and other receivables:				
Due from DOT Resources Ltd. (Associate)	764	101	–	–
Total trade and other receivables	$ 3,099	$ 1,904	$ 12	$ 862

As at	December 31, 2010	December 31, 2009	December 31, 2008	January 1, 2008
Less than 1 month	$ 1,018	$ 977	$ –	$ 22
1 to 3 months	69	41	12	42
Over 3 months	1,248	785	–	798
Total trade and other receivables	$ 2,335	$ 1,803	$ 12	$ 862

Current trade and other receivables older than one month relate primarily to refundable VAT which is paid by the Group on goods and services purchased in Kazakhstan that are utilized in its operations. The Group applies for a refund of VAT in the first quarter of the following the year end for the previous year's VAT paid. The refund claim is subject to audit by the tax authorities in Kazakhstan with the refund due at the end of the second quarter. Historically the Group has been successful in collecting all amounts due.

10. Inventories:

	December 31,			January 1,
As at	2010	2009	2008	2008
Ore	$ 14,860	$ 10,380	$ –	$ 4,422
Gold in circuit	8,341	5,442	–	479
Concentrate	1,118	464	–	725
Total work in progress	24,319	16,286	–	5,626
Raw material and supplies	1,247	1,362	–	808
Total inventories	25,566	17,648	–	6,434
Less:				
Non-current inventories	13,110	6,791	–	–
Total current inventories	$ 12,456	$ 10,857	$ –	$ 6,434

(i) Virtually 100% of cost of goods sold reported for the years ended December 31, 2010, 2009 and 2008 are the result of the amortization of inventories based on the quantity of gold sold as a percentage of total gold mined.

(ii) See note 24 for amount of inventory written off pursuant to loss of control over assets of subsidiaries and fair value of inventory on acquisition of control of subsidiaries.

11. Property, plant and equipment:

	Machinery and equipment	Mining assets being depleted	Buildings and construction	Total
Cost:				
Balance as at January 1, 2008	$ 4,564	$ 2,798	$ 5,914	$ 13,276
Additions	1,366	27	151	1,544
Pursuant to loss of control of subsidiaries (note 24)	(5,646)	(2,689)	(5,774)	(14,109)
Effect of foreign exchange	(177)	(136)	(291)	(604)
Balance as at December 31, 2008	107	–	–	107
Additions	20	14	52	86
Pursuant to acquisition of control of subsidiaries (note 24)	2,648	73,186	4,152	79,986
Effect of foreign exchange	63	1,227	70	1,360
Balance as at December 31, 2009	2,838	74,427	4,274	81,539
Additions	118	580	136	834
Effect of foreign exchange	25	537	31	593
Balance as at December 31, 2010	$ 2,981	$ 75,544	$ 4,441	$ 82,966
Accumulated depletion and depreciation:				
Balance as at January 1, 2008	$ 1,022	$ 964	$ 670	$ 2,656
Depletion and depreciation for the year	931	446	450	1,827
Pursuant to loss of control of subsidiaries (note 24)	(1,793)	(1,344)	(1,067)	(4,204)
Effect of foreign exchange	(92)	(66)	(53)	(211)
Balance as at December 31, 2008	68	–	–	68
Depletion and depreciation for the year	258	2,225	109	2,592
Effect of foreign exchange	(5)	37	1	33
Balance as at December 31, 2009	321	2,262	110	2,693
Depletion and depreciation for the year	778	7,062	384	8,224
Effect of foreign exchange	5	20	1	26
Balance as at December 31, 2010	$ 1,104	$ 9,344	$ 495	$ 10,943
Carrying amounts:				
At January 1, 2008	$ 3,542	$ 1,834	$ 5,244	$ 10,620
At December 31, 2008	39	–	–	39
At December 31, 2009	2,517	72,165	4,164	78,846
At December 31, 2010	1,877	66,200	3,946	72,023

An impairment test was not triggered during the years presented. On transition to IFRSs, no impairment was identified.

12. Intangible assets:

	Exploration and evaluation expenditures	Computer software	Total
Cost:			
Balance as at January 1, 2008	$ 15,108	$ 20	$ 15,128
Additions	3,064	12	3,076
Effect of foreign exchange	(411)	–	(411)
Loss of control of subsidiaries (note 24)	(17,761)	(32)	(17,793)
Balance as at December 31, 2008	–	–	–
Acquisition of control of subsidiaries (note 24)	4,505	14	4,519
Additions	239	20	259
Effect of foreign exchange	78	1	79
Balance as at December 31, 2009	4,822	35	4,857
Additions	15,272	13	15,285
Effect of foreign exchange	49	–	49
Balance as at December 31, 2010	$ 20,143	$ 48	$ 20,191
Accumulated depreciation:			
Balance as at January 1, 2008	$ –	$ 5	$ 5
Depreciation for the year	–	3	3
Loss of control of subsidiaries (note 24)	–	(8)	(8)
Balance as at December 31, 2008	–	–	–
Depreciation for the year	–	1	1
Balance as at December 31, 2009	–	1	1
Depreciation for the year	–	5	5
Balance as at December 31, 2010	$ –	$ 6	$ 6
Carrying amounts:			
At January 1, 2008	$ 15,108	$ 15	$ 15,123
At December 31, 2008	–	–	–
At December 31, 2009	4,822	34	4,856
At December 31, 2010	20,143	42	20,185

The carrying amounts of exploration and evaluation expenditures represent non-producing exploration projects and undeveloped land in Kazakhstan. An impairment test was not triggered during the years presented. No impairment was recognized at the date of transition to IFRS.

13. Investment in equity accounted investee:

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

	For the years ended December 31,			As at January 1,
	2010	2009	2008	2008
DOT Resources Ltd.				
Ownership	27%	27%	36%	36%
Current assets	$ 51	$ 163	$ 190	$ 1,544
Non-current assets	3,535	3,093	1,999	1,552
Total assets	3,586	3,256	2,189	3,096
Current liabilities	809	299	40	164
Total liabilities	809	299	40	164
Revenues	$ –	$ –	$ –	
Expenses	203	362	287	
Loss	$ (203)	$ (362)	$ (287)	

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

Balance as at January 1, 2008	$ 835
Share of loss	(104)
Effect of foreign exchange	(145)
Balance as at December 31, 2008	586
Share of loss	(115)
Effect of foreign exchange	91
Balance as at December 31, 2009	562
Share of loss	(55)
Effect of foreign exchange	27
Balance as at December 31, 2010	$ 534

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

As a result of the Arrangement, Alhambra holds 15,000,001 common shares of DOT which represents approximately 27% of the outstanding common shares of DOT. At December 31, 2010, the market trading value of the 15,000,001 DOT shares owned by Alhambra was CDN$1,950.

As at December 31, 2010 the Corporation has an amount outstanding from DOT of $764 which represents amounts outstanding under an Administrative and Corporate Services Contract (note 21(b)(iii)) plus an advance made by Alhambra to DOT during 2010 to help DOT meet certain obligations. The Corporation has classified these amounts as long term as it is uncertain at this time when DOT may be able to repay these amounts outstanding.

14. Loans and borrowings:

	December 31,			January 1,
	2010	2009	2008	2008
Current:				
Advances against gold sales	$ –	$ –	$ –	$ 745
Secured debentures	–	968	817	–
Total loans and borrowings	$ –	$ 968	$ 817	$ 745

(a) Advances against gold sales:

On 2004 the Group entered into a Gold Sales and Marketing Agreement (the "Sales Agreement") and a $780 Pre-Payment Gold Sales Facility Agreement (the "Pre-payment Facility"). Under the Sales Agreement as renewed, the purchaser had the right to purchase all the gold produced from the Uzboy Project until December 31, 2008. The Group was responsible for all costs related to transportation and refining and during 2008 paid a marketing fee of 0.50% of gross revenue. The Group accounted for the marketing fee as a reduction from revenue. Under the Pre-payment Facility, the Group had the right to receive up to $750 as a pre-payment for gold to be sold to the vendor under the Sales Agreement. Amounts drawn under the Pre-payment Agreement bore interest at LIBOR plus 8% and were secured by a pledge of future deliveries of gold up to a maximum value of $1,000 and a corporate guarantee by the Group. Any unused portion under the Pre-Payment Facility bore interest at LIBOR plus 3%. At January 1, 2008, advances received from the purchaser were $745. The gold sales and marketing agreement expired on December 31, 2008 and the advances previously received under the Pre-payment Facility were repaid at that time.

(b) Secured debentures:

The Corporation had outstanding a series of 12% secured debentures due August 11, 2009 in the principal amount of CDN$1,000 (the "Debentures"). As the Corporation was unable to pay the outstanding principal and accrued interest at the maturity date, the holders of the Debentures agreed to add the accrued interest to the principal outstanding and extend the

maturity date of the Debentures to August 11, 2010. The accrued interest at August 11, 2009 totaled CDN$125 resulting in the principal amount of the Debentures at August 11, 2009 totalling CDN$1,125. In consideration for agreeing not to call the Debentures, the Corporation issued convertible debentures including warrants (“the Convertible Debentures”) as follows:

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

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

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

(iv) The Corporation had the right at any time prior to maturity, to prepay all or a portion thereof, of the Convertible Debentures and accrued interest, without notice, bonus or penalty. If the Corporation chose to exercise this right, then the Convertible Debenture holders would have had the option of converting the principal amount of the Convertible Debentures plus accrued interest, or any portion thereof prior to the prepayment date, into common shares of the Corporation at a price of CDN$0.30 per common share.

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

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

The Convertible Debentures were classified as current liabilities on the balance sheet with $51 ascribed to the fair value of the Debenture Warrants and $116 ascribed to the fair value of the conversion feature of the Convertible Debentures (note 19(e)). The fair value of the Debenture Warrants and the conversion feature has been recorded in shareholders’ equity. The carrying value of the Convertible Debentures is accreted to the original face value of the obligations over the one year term of the Convertible Debentures. Accretion expense of $108 was expensed within finance costs during year ended December 31, 2010 (2009 - $67).

(c) Secured subordinated promissory notes:

On April 29, 2009, the Corporation issued Cdn$675 of subordinated secured promissory notes (the "Notes"). The Notes bore simple interest at an annual rate of 20%, were to mature April 29, 2010, were secured against assets of the Corporation and were subordinated to the Debentures.

In connection with the Notes, the Corporation issued 5,400,000 non-transferable warrants (the "Note Warrants") to purchase 5,400,000 common shares of the Corporation. Of the 5,400,000 Note Warrants issued, 2,700,000 had an exercise price of CDN$0.10 per common share and the other 2,700,000 had an exercise price of CDN$0.20 per common share. All Note Warrants were exercisable until October 29, 2009. The Note Warrants and any common shares acquired upon exercise of the Note Warrants were subject to a hold period expiring on August 29, 2009. A total of CDN$215 of Notes were subscribed for by officers and directors of the Group.

The Notes were classified as current liabilities on the balance sheet with $194 of the proceeds allocated to the fair value of the Note Warrants. The fair value of the Note Warrants was recorded in shareholders' equity. The carrying value of the Notes was accreted to the original face value of the obligation over the one year term of the Notes. Unwinding of the discount of $nil was expensed as "finance costs" during year ended December 31, 2010 (2009 - $215).

On October 29, 2009, 5,300,274 common shares of the Corporation were issued on the conversion of 5,300,274 Note Warrants for gross proceeds of CDN$790 of which 1,620,274 common shares were issued to insiders of the Group. The remaining 99,726 of Note Warrants expired unexercised and were recorded to contributed surplus. The proceeds from the exercise of the Note Warrants were used to retire CDN$759,000 of principal and accrued interest on the Notes for which the Note Warrants were originally issued.

15. Trade and other payables:

As at	December 31, 2010	December 31, 2009	December 31, 2008	January 1, 2008
Current:				
Trade payables	$ 1,552	$ 2,607	$ 715	$ 1,160
Accrued liabilities	322	129	82	350
Taxes payable	2,741	1,527	9	122
Other	2,338	212	–	46
Total trade and other payables	$ 6,953	$ 4,475	$ 806	$ 1,678

As at	December 31, 2010	December 31, 2009	December 31, 2008	January 1, 2008
Less than 1 month	$ 6,712	$ 4,199	$ 653	$ 1,614
1 to 3 months	181	111	77	64
Over 3 months	60	165	76	–
Total trade and other payables	$ 6,953	$ 4,475	$ 806	$ 1,678

16. Provisions:

Changes to the provisions are as follows:

	Historical Costs	Site restoration	Total
Balance, January 1, 2008	$ –	$ 424	$ 424
Revisions	–	(2)	(2)
Unwinding of the discount	–	55	55
Loss of control of subsidiaries (note 24)	–	(477)	(477)
Balance, December 31, 2008	–	–	–
Re-acquisition of control of subsidiaries (note 24)	–	216	216
Revisions	–	2	2
Unwinding of the discount	–	7	7
Balance, December 31, 2009	–	225	225
Liabilities incurred	13,828	–	13,828
Unwinding of the discount	–	5	5
Revision	–	35	35
Balance, December 31, 2010	$ 13,828	$ 265	$ 14,093
Current	$ 4,447	$ –	$ 4,447
Non-current	9,381	265	9,646

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

The liability for the site reclamation provision at December 31, 2010 is approximately $265. The liability was determined using an inflation rate of 5% (December 31, 2009 - 5%) and an estimated life of mine of 10 years for Uzboy (December 31, 2009 - 10 years). A discount rate of 7% was used (December 31, 2009 – 7%). The undiscounted value of this liability is approximately $316 (2009 - $439).

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

In late 2010, as the result of an audit of Saga Creek by the Kazakhstan tax authorities, the Government of Kazakhstan assessed Saga Creek for the liability plus interest and penalties for nonpayment and subsequently rejected the Group's appeal of that assessment. The Group has filed a claim in the economic court in Kazakhstan seeking to have the decision of the tax authorities reversed together with the obligation and related interest and penalties. While Alhambra believes that its position is defendable, there is a high risk that it will not be successful in the Kazakhstan courts and as such has recorded the provision. The interest and penalties assessed to December 31, 2010 total approximately $1,860 and have been included in trade and other payables.

The liability associated with the provision for Historical Data is approximately $13,829 of which $9,381 has been recorded as non-current. A discount rate of 3.2% was used to determine the amount of the liability. The undiscounted value of the liability is $15,738.

17. Income taxes:

The income tax recognized in the consolidated statement of income and expense comprises:

For the year ended December 31,		2010		2009		2008
Current	$	901	$	486	$	--
Deferred		542		823		1,385
Total income tax expense	$	1,443	$	1,309	$	1,385

The provision for income taxes reported differs from the amounts computed by applying the cumulative Canadian federal and provincial income tax rates to the loss before tax provision due to the following:

For the year ended December 31,		2010		2009		2008
Statutory tax rate		28.0%		29.0%		29.5%
Expected tax recovery (expense) on profit / loss before income taxes	$	1,008	$	(19,738)	$	9,935
Items not deductible for income tax purposes:						
Non-deductible items		(1,375)		(730)		(2,421)
Share based payments		(254)		(166)		(417)
Tax assets not recognized		(864)		1,386		(3,671)
Tax rate reduction		42		(2,032)		(348)
Non-taxable gain		–		19,971		–
Permanent portion of write-down		–		–		(4,400)
Other		–		–		(63)
Income tax recovery (expense)	$	(1,443)	$	(1,309)	$	(1,385)

Deferred liabilities are attributable to the following:

As at December 31,		2010		2009		2008
Mineral assets	$	31,597	$	30,832	$	–
Net deferred tax liabilities	$	31,597	$	30,832	$	–

The Group has the following deferred tax assets not recognized:

As at December 31,	2010	2009	2008
Tangible and intangible assets	$ 1,356	$ 1,246	$ 1,062
Tax loss carry forwards	2,021	1,460	909
Investment in subsidiaries	281	266	5,802
Share issue costs	130	14	40
	$ 3,788	$ 2,986	$ 7,813

At December 31, 2010, the Group has non-capital losses of approximately CDN$8 million available to apply against future Canadian income for tax purposes. The Canadian non-capital losses commence expiring in 2014. In Kazakhstan, the Group has unredeemed capital expenditures available for utilization against future mining taxable income of approximately $16 million.

The Group's current tax expense is generated from the Group's operations in Kazakhstan where the current tax rate is 20%.

18. Commitments:

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

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

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

19. Share capital:

(a) Authorized:

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

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

(b) Issued:

	Issued share capital	
	Number	Amount
Balance, January 1, 2008	75,578,147	$ 34,432
Share options exercised	196,000	108
Transfer on exercise of options	–	45
Balance, December 31, 2008	75,774,147	34,585
Warrants exercised	5,300,274	719
Transfer on exercise of warrants	–	191
Balance, December 31, 2009	81,074,421	35,495
Pursuant to private placement	18,604,650	8,000
Share issuance costs	–	(589)
Allocation to warrants	–	(2,196)
Conversion of secured debentures	4,221,488	1,211
Transfer on conversion of secured debentures	–	116
Share options exercised	93,750	20
Transfer on exercise of options	–	18
Balance, December 31, 2010	103,994,309	$ 42,075

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

(c) Share options (equity settled):

The Corporation has a share option plan under which directors, officers, employees and consultants of the Group are eligible to receive share options. The aggregate number of common shares to be issued upon the exercise of all options granted under the plan shall not exceed 10% of the issued common shares of the Corporation at the time of granting of the options. Options granted under the plan generally have a term of five years which is also the maximum term available and vest at terms to be determined by the directors at the time of grant. The exercise price of each option shall be determined by the directors

at the time of grant but shall not be less than the price permitted by the policies of the stock exchanges on which the Corporation's common shares are then listed.

Share-based payments have been recorded within Administrative Expenses (see note 7).

A summary of the status of the Group's share option plan as at December 31, 2010, 2009 and 2008 and changes during the years then ended are as follows:

	Number of options	Weighted average exercise price (CDN$/option)
Balance, January 1, 2008	3,905,000	$ 1.18
Granted during the year	2,750,000	1.15
Exercised during the year	(196,000)	0.55
Expired during the year	(789,000)	1.26
Balance, December 31, 2008	5,670,000	1.18
Granted during the year	3,600,000	0.25
Expired during the year	(2,745,000)	1.36
Balance, December 31, 2009	6,525,000	0.59
Granted during the year	2,100,000	0.54
Exercised during the year	(93,750)	0.22
Expired during the year	(800,000)	0.55
Balance, December 31, 2010	7,731,250	$ 0.59

(i) Fair value of share options granted in the year:

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

(Weighted average)	2010	2009	2008
Exercise price (CDN$/option)	$ 0.54	$ 0.25	$ 1.15
Grant date share price (CDN$/option)	0.54	0.25	1.15
Risk-free interest rate (%)	1.91	2.60	3.17
Expected life (years)	5.00	5.00	3.00
Expected volatility (%)	150	150	79
Dividend rate (%)	–	–	–
Grant date fair value ($/option)	0.43	0.22	0.58

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

(ii) Share options exercised during the year ended December 31, 2010

The following table outlines share options exercised during the year:

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

Share options exercised during the year ended December 31, 2008:

The following table outlines share options exercised during the year:

Number of options	Date of issue	Exercised	Exercise price	Closing share price at exercise date
35,000	May 17, 2005	May 12, 2008	CDN $0.55	CDN $0.81
161,000	May 17, 2005	May 16, 2008	CDN $0.55	CDN $0.90

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

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

Exercise Price ($/option)	Options outstanding	Options exercisable	Remaining Contractual life (years)	Grant date fair value ($/per option)
$ 0.22	2,956,250	2,193,750	3.67	$ 0.18
$ 0.315	350,000	262,500	3.88	0.27
$ 0.53	2,200,000	950,000	3.56	0.44
$ 0.55	100,000	–	2.85	0.53
$ 1.15	2,125,000	2,125,000	0.09	0.60
	7,731,250	5,531,250	2.65	$ 0.38

The following table summarizes information concerning outstanding and exercisable options at December 31, 2009:

Exercise Price ($/option)	Options outstanding	Options exercisable	Remaining Contractual life (years)	Grant date fair value ($/per option)
$ 0.22	3,050,000	762,500	4.67	$ 0.18
$ 0.315	350,000	87,500	4.88	0.27
$ 0.53	200,000	50,000	4.97	0.45
$ 0.55	800,000	800,000	0.38	0.29
$ 1.15	2,125,000	2,125,000	1.06	0.59
	6,525,000	3,825,000	2.99	$ 0.34

The following table summarizes information concerning outstanding and exercisable options at December 31, 2008:

Exercise Price ($/option)	Options outstanding	Options exercisable	Remaining Contractual life (years)	Grant date fair value ($/per option)
$ 0.55	800,000	800,000	1.38	$ 0.29
$ 1.06	940,000	940,000	0.04	0.46
$ 1.15	2,450,000	1,225,000	2.09	0.60
$ 1.60	1,480,000	1,480,000	0.97	0.82
	5,670,000	4,445,000	1.36	$ 0.59

(d) Warrants:

The changes in warrants during the years ended December 31, 2010, 2009 and 2008 were as follows:

	Number of Warrants	$	Weighted average exercise price CDN$
Balance, January 1, 2008	2,333,333	676	$ 2.00
Expired unexercised	(2,333,333)	(676)	2.00
Balance, December 31, 2008	–	–	–
Issued pursuant to notes (note (14 (c))	5,400,000	194	0.14
Issued pursuant to debentures (note 14 (b))	2,500,450	51	0.44
Exercised	(5,300,274)	(191)	0.14
Expired	(99,726)	(3)	0.19
Balance, December 31, 2009	2,500,450	51	0.44
Issued pursuant to private placement	9,302,325	2,196	0.72
Balance, December 31, 2011	11,802,775	2,247	$ 0.66

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

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

The fair value of the Debenture Warrants granted in 2009 in conjunction with the Convertible Debentures (note 14(b)) 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 $51 using the following weighted-average assumptions:

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

(e) Equity portion of convertible debentures:

The fair value of the conversion feature granted in 2009 in conjunction with the issuance of the Debentures (note 14(b)) was estimated on the date of the reissuance using the Black-Scholes option pricing model. The fair value of the conversion feature was calculated to be $116 using the following weighted-average assumptions:

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

20. Earnings (loss) per share:

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

	2010	2009	2008
Weighted average number of common shares (basic)	88,710,746	76,688,989	75,701,163
Effect of conversion of convertible debentures	–	3,750,740	–
Effect of warrants outstanding	–	813,629	–
Effect of share options outstanding	–	704,627	–
Weighted average number of common shares (diluted) at December 31,	88,710,746	81,957,985	75,701,163

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

For the year ended December 31,	2010	2009	2008
Options	7,731,250	3,125,000	5,670,000
Warrants	11,802,775	2,500,450	–
	19,534,025	5,625,450	5,670,000

21. Related party transactions:

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

(a) Compensation of key management personnel:

The remuneration of directors and other members of key management personnel during the years ended December 31, 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Short-term employee benefits	$ 816	$ 513	$ 587
Share-based payments	664	431	1,092
Director fees	–	–	–
	$ 1,480	$ 944	$ 1,679

In addition to their salaries, executive officers also participate in the Group's share option program (see note 19(c)).

(b) Other transactions:

(i) During the year ended December 31, 2010, the Group paid $6 (2009 - $2, 2008 - $93) in consulting fees to a company controlled by a former director and officer of the Group. The amount owing to the company controlled by the former director and officer as of December 31, 2010 was $nil (2009 - $nil, 2008 - $12). The former director and officer resigned his position on September 23, 2009.

(ii) During the year ended December 31, 2010, the Group incurred $137 (2009 - $48, 2008 - $158) in costs from a law firm in which an officer of the Group is a partner. The officer resigned from the Group effective April 29, 2009. The amount owing to the law firm as of December 31, 2010 was $31 (2009 - $126, 2008 - $123).

(iii) On August 29, 2007, the Corporation and DOT entered into an Administrative and Corporate Services Contract (the "Contract") whereby DOT agreed to engage the Corporation to provide management, administration and corporate services to DOT. The Contract provides for a monthly remuneration of CDN$20 plus all reasonable out of pocket expenses and is for an indefinite term but may be terminated by either party upon providing 30 days prior written notice. The Corporation billed DOT CDN$240

(2009 - CDN$240, 2008 – CDN$240) under the Contract. The amount uncollected as of December 31, 2010 was CDN$359 (2009 - CDN$105, 2008 – CDN $nil). Effective January 1, 2011, the Corporation suspended billing DOT the monthly remuneration. In addition, the Corporation advanced DOT CDN$400,000 to enable DOT to meet working capital requirements while DOT is investigating options regarding financing. At this time the Corporation is not charging DOT any interest. The Corporation has classified the loan as a long term receivable until such time there is more certainty that DOT will be able to repay the loan.

22. Operating Segments:

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

For the years ended December 31, 2010, 2009 and 2008, substantially all of the Group's gold production was sold to one customer.

2010	Kazakhstan	Canada	Total
Segment assets	$ 120,664	$ 5,137	$ 125,801
Segment liabilities	52,059	584	52,643
Sales	$ 15,991	$ –	$ 15,991
Net smelter royalty	(480)	–	(480)
Mineral extraction tax	(998)	–	(998)
Cost of sales	(9,120)	–	(9,120)
Administrative expenses	(3,699)	(2,323)	(6,022)
Depletion and depreciation	(2,020)	(8)	(2,028)
Finance income	–	–	–
Finance costs	(422)	(465)	(887)
Share of loss of equity accounted investee	–	(55)	(55)
Loss before income taxes	(748)	(2,851)	(3,599)
Income tax expense	(1,443)	–	(1,443)
Segment loss	$ (2,191)	$ (2,851)	$ (5,042)
Capital expenditures	$ 16,090	$ 3	$ 16,093

2009	Kazakhstan	Canada	Total
Segment assets	$ 103,436	$ 988	$ 104,424
Segment liabilities	34,533	1,967	36,500
Sales	$ 6,160	$ –	$ 6,160
Net smelter royalty	(184)	–	(184)
Mineral extraction tax	(284)	–	(284)
Cost of sales	(3,650)	–	(3,650)
Administrative expenses	(468)	(1,776)	(2,244)
Depletion and depreciation	(255)	(9)	(264)
Finance income	356	–	356
Finance costs	(26)	(501)	(527)
Share of loss of equity accounted investee	–	(115)	(115)
Gain on acquisition of control of subsidiaries	68,816	–	68,816
Income (loss) before income taxes	70,465	(2,401)	68,064
Income tax expense	(1,309)	–	(1,309)
Segment profit/ (loss)	$ 69,156	$ (2,401)	$ 66,755
Capital expenditures	$ 349	$ –	$ 349

2008	Kazakhstan	Canada	Total
Segment assets	$ –	$ 690	$ 690
Segment liabilities	–	1,623	1,623
Sales	$ 14,852	$ –	$ 14,852
Net smelter royalty	(446)	–	(446)
Cost of sales	(9,443)	–	(9,443)
Administrative expenses	(1,940)	(3,516)	(5,456)
Depletion and depreciation	(1,568)	(13)	(1,581)
Finance income	263	37	300
Finance costs	(157)	(41)	(198)
Share of loss of equity accounted investee	–	(104)	(104)
Loss on loss of control of subsidiaries	(31,601)	–	(31,601)
Loss before income taxes	(30,040)	(3,637)	(33,677)
Income tax expense	(1,385)	–	(1,385)
Segment loss	$ (31,425)	$ (3,637)	$ (35,062)
Capital expenditures	$ 4,617	$ 4	$ 4,621

23. Management of capital:

The Group defines capital that it manages as its equity. The Group'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 Group to excess risk. The Group manages its capital structure and makes adjustments to it based on the level of funds available to support the exploration and development of its mineral properties. While the re-acquisition of Saga Creek effective September 15, 2009 has resulted in the Group once again owning assets that generate cash flow, it is still necessary for the Group to raise funds to carry out its capital expenditure programs.

To date, the Group has raised some funds through the issue of secured indebtedness (note 14(b)) however these funds were raised to fund a portion of its obligations incurred during the period in which the Group had lost its ownership of Saga Creek. Additional financing must be obtained in order to continue as a going concern. The Group is currently attempting to raise additional funds, however, there is no assurance it will be able to do so. The Group is not subject to externally imposed capital requirements.

24. Loss and re-acquisition of control of Kazakhstan subsidiaries:

On September 26, 2008 a statement of claim (the "Lawsuit") was filed in the Specialized Inter district Economical Court of the East-Kazakhstan Oblast ("Lower Court") seeking to invalidate the Group's ownership of its Kazakhstan subsidiaries (Saga Creek and Goodwin). The Group had acquired 100% interest in the Kazakhstan subsidiaries from Marsa Aktiengesellschaft ("Marsa"), a Liechtenstein entity and Teragol Investments Limited ("Teragol"), a Cyprus entity (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 Group's 100% owned subsidiary, Alhambra Overseas Limited, incorporated to hold the Group'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 Group 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 Group appealed to the Supervisory Chamber of the East-Kazakhstan Oblast Court whose decision, rendered on February 27, 2009, again upheld the decisions of the previous courts.

As a result of the decision of the courts in favor of the Plaintiffs, the Group ceased to control the Kazakhstan subsidiaries and recognized a loss of control in the Kazakhstan subsidiaries effective December 26, 2008 which resulted in a loss of $31.6 million. Details of the loss are as follows:

	December 26, 2008
Trade and other receivables	$ 1,507
Inventories	8,555
Property, plant and equipment	9,905
Intangible assets	17,785
Trade and other payables	(4,479)
Provisions	(477)
Future income taxes	(2,292)
Reclass of FCTR on loss of control of subsidiaries	1,097
	$ 31,601

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

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

As a result of this re-registration, Alhambra re-acquired 100% of the ownership and control of Saga Creek and Goodwin for no consideration which resulted in a recognized gain of $68.8 million. The following table reflects the combined fair value of the net identifiable assets and liabilities of the Kazakhstan subsidiaries at the time of regaining control. The Group undertook a review of the net identifiable assets and liabilities at the date of acquisition of control and, where available, third party information (including the NI 43-101 compliant report entitled "Resource and Reserve Estimation Study on the Uzboy Gold Deposit, Akmola Oblast Kazakhstan" with an effective date of December 31, 2007 prepared by Alhambra's Independent Geological Consultants) was utilized in determining these fair values.

In determining the fair value of Saga Creek's assets, the Group made assumptions about reserves and resources, recovery rates, prices, operating, administrative costs, capital costs and deferred income tax rates as well as made assumptions in determining the Group's weighted average cost of capital used to discount the estimated annualized cash flows that were derived from the modeling work done.

		Fair values recognized on regaining control at September 15, 2009
Consideration	$	–
Fair value of assets and liabilities of re-acquired subsidiaries:		
Cash		1,235
Trade and other receivables		1,400
Deposits and prepaid expenses		392
Inventories		15,088
Property, plant and equipment		79,986
Intangible assets		4,519
Trade and other payables		(4,083)
Provisions		(216)
Deferred income tax		(29,505)
Gain recognized on re-acquisition of control of former subsidiaries	$	68,816

Sales revenue and net income from the Kazakhstan subsidiaries from the date of re-acquisition to December 31, 2009 are recorded in these financial statements.

25. Financial instruments:

Overview:

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

(a) Credit risk

(b) Liquidity risk

(c) Market risk

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

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

(a) Credit risk:

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its obligation and arises principally from Saga Creek's receivable from the Government of Kazakhstan owing as a result of refundable Value Added Tax ("VAT") paid on goods and services purchased by Saga Creek and from Saga Creek's receivable from the purchaser of its gold. To date, Saga Creek has been able to collect all VAT due and owing but with the economic crisis that has affected Kazakhstan like most countries, there is no assurance that the refunds will be made on a timely basis in the future. As at December 31, 2010 approximately 42% (December 31, 2009 - 45%, December 31, 2008 - nil %) of the recorded value of accounts receivable relates to VAT.

Saga Creek sells its gold to a single customer who also completes the final refining process necessary to make the gold readily saleable. Typically it takes approximately two weeks from the time the customer takes control of the gold for the refining to be completed. At December 31, 2010 approximately 31% (December 31, 2009 - 50%, December 31, 2008 - nil%) of the recorded value of accounts receivable relates to the sale of gold to one customer.

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

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

(b) Liquidity risk:

Liquidity risk is the risk that the Group 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 Group incurred substantial liabilities and the cash generated from its properties will not be enough to meet all its obligations in addition to resuming an aggressive exploration and development program. Therefore, additional financing must still be obtained in order to continue as a going concern. The Group is currently attempting to raise additional funds; however, there is no assurance that it will be able to do so.

(c) Market risk:

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

(i) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Group's revenue is denominated in USD or Euros, its operating costs are primarily denominated in Kazakhstan Tenge, while its administrative costs are denominated in either Canadian dollars or Kazakhstan Tenge. To date, the Group has not attempted to mitigate these foreign currency risks, except for maintaining adequate funds in the currencies required for timely payment of liabilities and to maintain efficient business operations.

CDN monetary assets and liabilities	December 31,		
	2010	2009	2008
Cash and cash equivalents	$ 3,137	$ 295	$ 32
Trade and other receivables	791	108	14
Deposits and prepaid expenses	616	4	33
Trade and other payables	(581)	(1,045)	(987)
Loans and borrowings	–	(1,013)	(1,000)
Total net monetary assets/ (liabilities) in foreign currency	$ 3,963	$ (1,651)	$ (1,908)

For the year ended December 31, 2010, based on the net foreign exchange exposure at the end of the period, if the CDN$ had strengthened or weakened by 10% compared to the USD and all other variables were held constant, the after tax net loss would have decreased or increased by approximately $398 in 2010 and increased or decreased by approximately $158 in 2009 and $156 in 2008.

Kazakhstan Tenge monetary assets and liabilities	December 31,		
As at	2010	2009	2008
Cash and cash equivalents	$ 32,526	$ 9,179	$ –
Trade and other receivables	339,515	267,334	–
Deposits and prepaid expenses	58,883	38,551	–
Trade and other payables	(1,594,236)	(516,035)	–
Provisions	(1,382,814)	–	–
Total net monetary assets/ (liabilities) in foreign currency	$(2,546,126)	$ (200,971)	$ –

For the year ended December 31, 2010, based on the net foreign exchange exposure at the end of the period, if the Kazakhstan Tenge had strengthened or weakened by 10% compared to the USD and all other variables were held constant, the after tax net loss would have increased or decreased by approximately $1,727 (2009 - $135, 2008 - $nil).

(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 Group has not attempted to mitigate this commodity price risk.

(iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Group’s debt is all at fixed interest rates; therefore, there is no exposure to variations in interest rates except on cash balances which for the years 2010, 2009 and 2008 would have been insignificant.

(d) Fair value of financial assets and liabilities:

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

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

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

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

As at December 31, 2010, 2009 and 2008 the financial assets measured at fair value on the Group's balance sheet using level 1 is cash and cash equivalents. Except for the Debentures, fair values of financial instruments approximate their carrying amounts due to their short terms to maturity. The Debentures are carried at their amortized cost which is equal to their face value less the un-accreted portion of the fair value assigned to the Debenture Warrants and conversion feature.

26. IFRS transition:

These consolidated financial statements for the year ended December 31, 2008, 2009 and 2010 are the Group's first financial statements prepared under IFRS. For all accounting periods prior to 2008, the Group prepared its financial statements under generally accepted accounting principles in Canada ('Canadian GAAP'). In accordance with IFRS 1 'First time adoption of IFRS', certain disclosures relating to the transition to IFRS are given in this note. These disclosures are prepared under IFRS as set out in the basis of preparation in note 3.

The accounting policies set out in note 4 have been applied in preparing the financial statements for the year ended December 31, 2009, the comparative information presented in these financial statements for the year ended December 31, 2008 and in the preparation of an opening IFRS statement of financial position at January 1, 2008 (the Group's date of transition).

IFRS 1 First-time Adoption of International Financial Reporting Standards sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards applicable at December 31, 2010 are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Group has applied the following exemptions to its opening statement of financial position dated January 1, 2008:

(a) Business combinations:

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the date of transition to IFRS. The Group has taken advantage of this election and therefore has only applied IFRS 3 to business combinations that occurred on or after January 1, 2008.

(b) Cumulative translation differences:

IFRS 1 allows a first-time adopter to not comply with the requirements of IAS 21 The Effects of Changes in Foreign Exchange Rates for cumulative translation differences that existed at the date of transition to IFRS. The Group has chosen to apply this election and has eliminated the foreign currency translation reserve and adjusted deficit by the same amount at the date of transition to IFRS.

(c) Share-based payment transactions:

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payment to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested

before the later of the date of transition to IFRS and January 1, 2005. The Group has elected not to apply IFRS 2 to awards that vested prior to January 1, 2008, which had been accounted for in accordance with Canadian GAAP.

(d) Provision for decommissioning provisions

The Group has elected to apply the exemption from full retrospective application of decommissioning obligation as allowed under IFRS 1. As such the Group has re-measured the provisions as at January 1, 2008 under IAS 37, estimated the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose using best estimates of the pre-tax, non-credit risk specific rate that reflects current market assessments of the time value of money and the risks specific to the obligation, and recalculated the accumulated depletion and depreciation under IFRS.

The January 1, 2008 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

		As at January 1, 2008		
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets:				
Cash and cash equivalents		$ 3,057	$ –	$ 3,057
Trade and other receivables		862	–	862
Deposits and prepaid expenses		54	–	54
Inventories		6,434	–	6,434
Total current assets		10,407	–	10,407
Non-current assets:				
Property, plant and equipment	(a) (d)	25,688	(15,068)	10,620
Intangible assets	(a)	–	15,123	15,123
Investments in equity accounted investees		835	–	835
Total non-current assets		26,523	55	26,578
Total assets		$ 36,930	$ 55	$ 36,985
Liabilities				
Current liabilities:				
Loans and borrowings		$ 745	$ –	$ 745
Trade and other payables		1,678	–	1,678
Total current liabilities		2,423	–	2,423
Non-current liabilities:				
Provisions	(d)	374	50	424
Deferred tax liabilities		1,428	–	1,428
Total non-current liabilities		1,802	50	1,852
Total liabilities		4,225	50	4,275
Equity:				
Share capital		34,432	–	34,432
Warrants		676	–	676
Contributed surplus	(c)	2,576	22	2,598
Foreign currency translation reserve	(e)	961	(961)	–
Deficit	(f)	(5,940)	944	(4,996)
Total equity		32,705	5	32,710
Total liabilities and equity		$ 36,930	$ 55	$ 36,985

Explanation of the effect of the transition to IFRS:

The following explains the material adjustments to the statement of financial position of the Group:

(a) Reclassification of cost from property, plant and equipment to intangible assets.
In accordance with IAS 16, IAS 38 and IFRS 6 the Group reallocated certain costs relating to exploration and evaluation and software acquisition costs from property, plant and equipment to intangible assets. $ 15,118

Increase in carrying value of property, plant and equipment due to capitalization of revalued options issued to consultants on adoption of IFRS 2. 5

Net effect –increase in intangible assets $ 15,123

(b) Reclassification of cost from property plant and equipment to intangible assets $(15,118)

Increase in carrying value of property, plant and equipment due to restatement of the de-commisioning obligation. 50

Net effect – decrease in property, plant and equipment $(15,068)

(c) Impact of revaluation of options on reclassification of certain options issued to consultants to employees on adoption of IFRS 2. $ 22

Effect - increase contributed surplus $ (22)

(d) Increase in de-commissioning provision. The provision relating to the cost of future restoration cost of mining properties increases in line with the increase noted in (b) above. $ 50

Effect – increase in provisions for liabilities and charges. $ (50)

(e) Elimination of foreign currency translation reserve to deficit. $ 961

(f) The cumulative effect of all transition adjustments on the accumulated deficit as at January 1, 2008. $ 944

The Canadian GAAP income statement for the year ended December 31, 2008 has been reconciled to IFRS as follows:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue		$ 14,852	$ –	$ 14,852
Less Net smelter royalty		(446)	–	(446)
		14,406		14,406
Cost of sales		9,443	–	9,443
Gross profit		$ 4,963	$ –	$ 4,963
Expenses:				
Administrative costs	(a)	5,225	231	5,456
Depletion and depreciation	(b)	1,637	(56)	1,581
Loss on loss of control of subsidiaries	(c)	30,444	1,157	31,601
Results from operating activities		$ (32,343)	$ (1,332)	$ (33,675)
Finance income		(300)	–	(300)
Finance cost	(b)	142	56	198
Net finance (income) costs		$ (158)	$ 56	$ (102)
Share of loss of equity accounted investee		104	–	104
Loss before income taxes		$ (32,289)	$ (1,388)	$ (33,677)
Income tax expense		1,385	–	1,385
Net loss for the year		$ (33,674)	$ (1,388)	$ (33,965)
Loss per share:				
Basic		$ (0.44)		$ (0.46)
Diluted		(0.44)		(0.46)

Explanation of the effect of the transition to IFRS

The following explains the material adjustments to the income statement for the year ended December 31, 2008.

(a) Impact of revaluation of options on reclassification of certain option issued to consultants to employees category on adoption of IFRS 2.

(b) Reclassification of accretion expense to finance cost

(c) Increase in loss on loss of control of subsidiaries relating to the additional cost capitalized to property, plant and equipment's pursuant to IFRS transitional adjustment as at January 1, 2008 and for the year ended December 31, 2008 and elimination of foreign currency translation reserve related to those assets written off.

The consolidated statement of comprehensive income (loss) for the year ended December 31, 2008 has been reconciled to IFRS as follows:

	Canadian GAAP	Effect of transition to IFRS	IFRS
Net loss for the year	$ (33,674)	$ (1,388)	$ (35,062)
Other comprehensive loss:			
Foreign currency translation difference for foreign operation	(1,283)	–	(1,283)
Reclass to statement of income and expense on loss of control over assets of subsidiaries	–	1,097	1,097
Total comprehensive loss for the year	$ (34,957)	$ (291)	$ (35,248)

The Canadian GAAP consolidated statement of financial position at December 31, 2008 has been reconciled to IFRS as follows:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets:				
Cash and cash equivalents		$ 26	$ –	$ 26
Trade and other receivables		12	–	12
Deposits and prepaid expenses		27	–	27
Total current assets		65	–	65
Non-current assets:				
Property, plant and equipment		39	–	39
Investments in equity accounted investees		586	–	586
Total non-current assets		625	–	625
Total assets		$ 690	$ –	$ 690
Liabilities				
Current liabilities:				
Loans and borrowings		$ 817	$ –	$ 817
Trade and other payables		806	–	806
Total current liabilities		1,623	–	1,623
Total liabilities		1,623	–	1,623
Equity/deficiency:				
Share capital		34,585	–	34,585
Contributed surplus	(a)	4,418	308	4,726
Foreign currency translation reserve	(b)	(322)	136	(186)
Deficit	(c)	(39,614)	(444)	(40,058)
Total Deficiency		(933)	–	(933)
Total liabilities and deficiency		$ 690	$ –	$ 690

The following explains the material adjustments to the statement of financial position as at December 31, 2008.

(a) Impact of revaluation of options on reclassification of certain options issued to consultants to employees on adoption of IFRS 2 as at January 1, 2008.	$	22
Impact of revaluation of options on reclassification of certain options issued to consultants to employee's category on adoption of IFRS 2 for the year ended. December 31, 2008.		286
Effect – increase in contributed surplus	$	308
(b) Elimination of foreign currency translation reserve on adoption of IFRS as at January 1, 2008 to deficit.	$	(961)
Reclass of FCTR to income on loss of control of subsidiaries		1,097
Net effect – decrease in foreign currency translation reserve	$	136
(c) The cumulative effect of all transition adjustments on the retained earnings as at December 31, 2009.	$	(444)

The Canadian GAAP statement of income and expense for the year ended December 31, 2009 has been reconciled to IFRS as follows:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue		$ 6,160	$ –	$ 6,160
Less royalty and production taxes:				
Net smelter royalty		(184)	–	(184)
Mineral extraction tax		(284)	–	(284)
		$ 5,692	$	$ 5,692
Cost of sales		3,650	–	3,650
Gross profit		$ 2,042	$ –	$ 2,042
Expenses:				
Administrative costs	(a)	2,322	(78)	2,244
Depletion and depreciation	(b)	264	–	264
Gain on reacquisition of control of subsidiaries	(c)	(68,866)	50	(68,816)
Results from operating activities		$ 68,322	$ 28	$ 66,350
Finance income		(356)	–	(356)
Finance cost		501	26	527
Net finance (income) costs		$ 145	$ 26	$ 171
Share of loss of equity accounted investee		115	–	115
Profit before income taxes		$ 68,062	$ 2	$ 68,064
Income tax expense		1,309	–	1,309
Net profit for the year		$ 66,753	$ 2	$ 66,755
Earnings per share:				
Basic		$ 0.87		$ 0.87
Diluted		0.81		0.81

Explanation of the effect of the transition to IFRS

The following explains the material adjustments to the income statement for the year ended December 31, 2009.

(a) Impact of revaluation of options on reclassification of certain options issued to consultants to employees category on adoption of IFRS 2.

(b) Reclassification of accretion expense to finance cost.

(c) Decrease in gain on acquisition of control of subsidiaries pursuant to an increase in decommissioning provision as per IFRS relating to the cost of future restoration cost of mining properties.

The consolidated statement of comprehensive income for the year ended December 31, 2009 has been reconciled to IFRS as follows:

	Canadian GAAP	Effect of transition to IFRS	IFRS
Net profit for the year	$ 66,753	$ 2	$ 66,755
Other comprehensive income:			
Foreign currency translation difference for foreign operations	501	–	501
Total comprehensive income for the year	$ 67,254	$ 2	$ 67,256

The Canadian GAAP consolidated statement of financial position at December 31, 2009 has been reconciled to IFRS as follows:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets:				
Cash and cash equivalents		$ 344	$ –	$ 344
Trade and other receivables		1,803	–	1,803
Deposits and prepaid expenses		264	–	264
Inventories		10,857	–	10,857
Total current assets		$ 13,268	$ –	$ 13,268
Non-current assets:				
Property, plant and equipment	(b)	90,493	(11,647)	78,846
Intangible assets	(a)	–	4,856	4,856
Investments in equity accounted investees		562	–	562
Trade and other receivables		101	–	101
Inventories	(c)	–	6,791	6,791
Total non-current assets		91,156	–	91,156
Total assets		$ 104,424	$ –	$ 104,424
Liabilities				
Current liabilities:				
Loans and borrowings		$ 968	$ –	$ 968
Trade and other payables		4,475	–	4,475
Total current liabilities		$ 5,443	$ –	$ 5,443
Non-current liabilities:				
Provisions	(f)	175	50	225
Deferred tax liabilities		30,832	–	30,832
Total non-current liabilities		31,007	–	31,057
Total liabilities		$ 36,450	$ 50	$ 36,500
Equity:				
Share capital		35,495	–	35,495
Warrants		51	–	51
Equity portion of convertible debentures		116	–	116
Contributed surplus	(d)	4,995	255	5,250
Foreign currency translation reserve	(e)	179	136	315
Retained earnings	(g)	27,138	(441)	26,697
Total equity		67,974	(50)	67,924
Total liabilities and equity		$ 104,424	$ –	$ 104,424

The following explains the material adjustments to the statement of financial position as at December 31, 2009.

(a) Reclassification of cost from property, plant and equipment to intangible assets. In accordance with IAS 16, IAS 38 and IFRS 6 the Group reallocated certain costs relating to exploration and evaluation and software acquisition costs from property, plant and equipment to intangible assets.	$ 4,856
Net effect –increase in intangible assets	$ 4,856
(b) Reclassification of cost from property plant and equipment to intangible assets.	$ (4,856)
Reclassification of long-term portion of work in progress from property, plant and equipment to non-current inventories.	(6,791)
Net effect – decrease in property, plant and equipment	$(11,647)
(c) Reclassification of long-term portion of work in progress from property, plant and equipment to non-current inventories.	$ 6,791
Net effect –increase in non-current inventories	$ 6,791
(d) Impact of revaluation of options on reclassification of certain options issued to consultants to employees on adoption of IFRS 2 as at January 1, 2008.	$ 22
Impact of revaluation of options on reclassification of certain options issued to consultants to employee's category on adoption of IFRS 2 for the year ended. December 31, 2008.	286
Impact of revaluation of options on reclassification of certain options issued to consultants to employee's category on adoption of IFRS 2 for the year ended. December 31, 2009.	(53)
Effect – net increase in contributed surplus	$ (255)
(e) Elimination of foreign currency translation reserve on adoption of IFRS as at January 1, 2008 to deficit.	$ (961)
Reclass of FCTR to income on loss of control of subsidiaries	$ 1,097
Net effect – decrease in foreign currency translation reserve	$ (136)

(f) Increase in asset retirement provision relating to future restoration cost of mining properties on reacquisition of subsidiaries	$	50
Effect – increase in non-current provisions.	$	50
(g) The cumulative effect of all transition adjustments on the retained earnings as at December 31, 2009.	$	(441)

Cash flows

The adoption of IFRS has had no impact on the net cash flows of the Group. The changes made to the consolidated statements of financial position, consolidated statements of income and expense and consolidated statements of comprehensive income (loss) have resulted in reclassification of various amounts on the consolidated statements of cash flows, however as there have been no changes to the net cash flows by category, no reconciliations have been prepared.

27. Subsequent event:

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$12 (exclusive of occupancy costs) up until expiry of the lease on August 31, 2013. 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 informed the Corporation that it believed the Corporation wrongly repudiated the lease and remained liable for the loss of rental revenue over the unexpired term of the lease. On October 1, 2010 the landlord filed a statement of claim in the Court of Queen's Bench of Alberta claiming the following:

(a) Judgment in the sum of CDN$356 for amounts due and owing under the lease up to and including September 1, 2010 and for the present value of rent and other amounts payable under the lease for the balance of the term in the sum of CDN$672;

(b) Interest pursuant to terms of the lease, or in the alternative, interest pursuant to the Judgment Interest Act;

(c) Costs of this action on a solicitor client basis; and

(d) Such further costs and other relief as this Honourable Court deems just.

On January 5, 2011 the Corporation and landlord settled the claim for a total of CDN$59 which included the net amount owing at the time the lease was terminated of CDN$32 plus CDN$30 in damages and legal costs. The discontinuance of the claim was registered in the Court of Queen's Bench of Alberta on January 6, 2011. The settlement amount has been reflected in the accounts of the Corporation as of December 31, 2010.