

ALHAMBRA RESOURCES LTD

Consolidated Financial Statements
(Unaudited)

For the Three Months Ended March 31, 2005



Alhambra Resources Ltd.
Consolidated Balance Sheets

	March 31, 2005 (unaudited)	December 31, 2005 (unaudited)
Assets		
Current assets		
Cash	\$ 4,881,374	\$ 82,488
Accounts receivable	344,433	490,902
Deposits and prepaid expenses	274,300	69,589
Assets of discontinued operations (note 2)	<u>1,329,640</u>	<u>1,308,833</u>
	6,829,747	1,951,812
Mineral properties, equipment and deferred exploration and development costs (note 3)	12,304,497	11,411,289
Property and equipment	<u>27,204</u>	<u>29,674</u>
	<u>\$ 19,161,448</u>	<u>\$ 13,392,775</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,430,530	\$ 1,842,675
Convertible debenture (note 4)	822,528	-
Convertible promissory notes (note 5)	551,200	540,000
Due to officers and directors	540,000	550,250
Liabilities of discontinued operations (note 2)	<u>266,075</u>	<u>281,893</u>
	3,610,333	3,214,818
Convertible debenture (note 4)	-	1,418,360
Asset retirement obligation on mineral properties (note 6)	<u>79,899</u>	<u>77,938</u>
	<u>3,690,232</u>	<u>4,711,116</u>
Shareholders' Equity		
Share capital (note 7)	17,169,854	10,273,768
Contributed surplus (note 8[c])	554,758	527,292
Deficit	<u>(2,253,396)</u>	<u>(2,119,401)</u>
	<u>15,471,216</u>	<u>8,681,659</u>
	<u>\$ 19,161,448</u>	<u>\$ 13,392,775</u>

Approved by the Board,

_____, Director

_____, Director

Alhambra Resources Ltd.
Consolidated Statements of Loss and Deficit
Three Months Ended March 31

	2005 (unaudited)	2004 (unaudited)
Expenses		
General and administrative	\$ 146,585	\$ 172,730
Interest	45,542	52,918
Stock-based compensation costs (note 8[c])	30,039	34,640
Depreciation	<u>2,470</u>	<u>2,140</u>
	<u>224,636</u>	<u>262,428</u>
Loss before the following	(224,636)	(262,428)
Foreign exchange loss	<u>(28,779)</u>	<u>(26,980)</u>
Net loss before discontinued operations	(253,415)	(289,408)
Discontinued operations (note 2)	<u>119,420</u>	<u>62,243</u>
Net loss	(133,995)	(227,165)
Deficit, beginning of period	<u>(2,119,401)</u>	<u>(1,540,141)</u>
Deficit, end of period	<u><u>\$ (2,253,396)</u></u>	<u><u>\$ (1,767,306)</u></u>
Net loss per share before discontinued operations (note 10)		
– basic and diluted	<u><u>\$ (0.006)</u></u>	<u><u>\$ (0.011)</u></u>
Net loss per share (note 10) - basic and diluted	<u><u>\$ (0.003)</u></u>	<u><u>\$ (0.008)</u></u>

Alhambra Resources Ltd.
Consolidated Statements of Cash Flows
Three Months Ended March 31

	2005 (unaudited)	2004 (unaudited)
Operating activities		
Net loss for the period from continuing operations	\$ (253,415)	\$ (289,408)
Items not involving cash		
Stock-based compensation costs	30,039	34,640
Depreciation	2,470	2,140
Unrealized foreign exchange loss	<u>6,118</u>	<u>19,315</u>
	(214,788)	(233,313)
Change in continuing non-cash working capital items	<u>(122,373)</u>	<u>(413,052)</u>
Operating activities from continuing operations	(337,161)	(646,365)
Operating activities from discontinued operations	<u>92,560</u>	<u>87,250</u>
	<u>(244,601)</u>	<u>(559,115)</u>
Financing activities		
Issuance of shares	7,402,950	911,625
Repayment of convertible debenture	(601,000)	-
Share issuance costs	(509,437)	-
Repayments to officers and directors, net	<u>-</u>	<u>(40,000)</u>
	<u>6,292,513</u>	<u>871,625</u>
Investing activities		
Acquisition of mineral properties, equipment and deferred exploration and development costs	(891,247)	(206,079)
Change in continuing non-cash working capital items	(348,012)	-
Other assets	-	(2,180)
Acquisition of property and equipment, net	-	(1,011)
Discontinued operations	<u>(9,767)</u>	<u>(4,072)</u>
	<u>(1,249,026)</u>	<u>(213,342)</u>
Cash inflow	4,798,886	99,168
Cash, beginning of period	<u>82,488</u>	<u>29,982</u>
Cash, end of period	<u>\$ 4,881,374</u>	<u>\$ 129,150</u>
Supplemental disclosure of cash flows information:		
Interest paid	<u>\$ 51,489</u>	<u>\$ 42,124</u>

Alhambra Resources Ltd.
Notes to Consolidated Financial Statements
March 31, 2005
(unaudited)

1. Nature of operations and basis of presentation

Nature of operations

Alhambra Resources Ltd. (the "Company" or "Alhambra") was incorporated on January 27, 1993 and amalgamated with its wholly-owned subsidiaries, Signature Capital Corp. and Tarco Oil & Gas Ltd., effective January 1, 2002.

The Company's business is the exploration for and development of mineral properties in the Republic of Kazakhstan ("Kazakhstan"). Effective January 1, 2005 the Company entered into an agreement to sell 100% of its oil and natural gas properties thus allowing management to focus all of its attention on the mineral exploration and development business. Prior to the sale these properties generated cash flow to offset corporate overhead. The net proceeds received from the sale will be used to fund the continued development of the Company's Uzboy property located in north central Kazakhstan, pay down debt, and for working capital.

The Company's operations are subject to country risk being the economic, political and social risks inherent in doing business in Kazakhstan. These risks include matters arising out of the policies of the government, economic conditions, imposition of or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights. The accompanying financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

Basis of presentation

These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles following the same accounting principles and methods of computation as the consolidated financial statements for the year ended December 31, 2004. The specific accounting principles used are described in the annual consolidated financial statements of the Company and should be read in conjunction with these interim financial statements.

Due to Alhambra's continued net losses and working capital deficiency, its ability to continue with its business plan is dependent upon its ability to raise additional capital to fund these activities and on achieving positive earnings and cash flow. Management believes the equity capital raised (note 7) and the sale of the oil and natural gas assets in 2005 have increased Alhambra's ability to carry out its business plan and to continue as a going concern.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a "going concern", which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

If the going concern assumption was not appropriate for these interim consolidated financial statements, then adjustments would be necessary to the carrying values of the assets and liabilities, the reported revenues and expenses and the balance sheet classifications used.

Alhambra Resources Ltd.
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2. Discontinued operations and assets held for sale

In late 2004, the Company evaluated its oil and natural gas operations in Canada and decided to pursue the sale of these assets. The assets for sale comprise 100% of the Company's oil and natural gas assets in Canada. These assets have been classified as discontinued operations at March 31, 2005. Certain financial information has been reclassified in the prior period as discontinued operations.

Effective January 1, 2005, the Company entered into an agreement with a private Canadian corporation for the sale of the discontinued operations. The sale resulted in gross proceeds of \$2,200,000 prior to working capital adjustments and transaction costs. The sale closed on April 8, 2005 with an estimated pre-tax gain on sale of \$1.2 million before final purchase price adjustments and transaction costs. Under Canadian generally accepted accounting principles all revenues and expenses incurred between the effective date (January 1, 2005) and the closing date (April 8, 2005) will be recorded as discontinued operations with an equivalent adjustment to gain on disposal of property and equipment.

Selected financial information for the operations included in discontinued operations is reported below:

	Period ended March 31	
	2005	2004
Oil and gas sales, net of royalties	\$ 174,237	\$ 139,367
Net income from discontinued operations	<u>\$ 119,420</u>	<u>\$ 62,243</u>

The major classes of assets and liabilities of discontinued operations are as follows:

	March 31, 2005	December 31, 2004
Accounts receivable	\$ 98,870	\$ 71,724
Property and equipment	1,047,960	1,106,982
Future income tax asset	<u>182,810</u>	<u>-</u>
	<u>1,329,640</u>	<u>1,178,706</u>
Accounts payable	167,816	122,544
Asset retirement obligation on oil and gas assets	<u>98,259</u>	<u>91,560</u>
	<u>266,075</u>	<u>214,104</u>
Net assets of discontinued operations	<u>\$ 1,063,565</u>	<u>\$ 964,602</u>

Alhambra Resources Ltd.
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3. Mineral properties, equipment and deferred exploration and development costs

Mineral properties, equipment and deferred exploration and development costs as at March 31, 2005 consist of the following:

Deferred exploration and development costs	\$ 8,509,764
Equipment, net of accumulated depreciation of \$167,277	2,906,532
Construction in progress	216,307
Inventory	<u>671,894</u>
	<u>\$12,304,497</u>

During the period ended March 31, 2005, all expenditures relating to the Uzboy Project were capitalized. These expenditures consisted of pre-production costs, property and equipment and construction in process costs. Pre-production costs are expenditures that related to geological exploration, pre-production works and directly attributable overhead expenditures.

4. Convertible debenture

During the year ended December 31, 2003, the Company issued a 10% secured convertible debenture (the "debenture"), due March 31, 2006, with a face value of US\$680,000. On November 10, 2004, the Company and the holder of the debenture entered into a First Supplemental Debenture agreement whereby a previously issued 10% unsecured convertible subordinated promissory note in the amount of US\$500,000 (note 5) was transferred to the debenture holder thus increasing the principal amount from US\$680,000 to US\$1,180,000. The principal amount of the debenture is convertible at any time, in whole or in part, at the option of the holder into common shares at Can\$0.60 (the "Conversion Price") based on the exchange rate in effect at the time of conversion (US\$0.83 at March 31, 2005). The debenture can be converted at the option of the Company if the common shares of the Company trade over a ten day consecutive period at a closing price equal to or greater than Can\$1.20 per common share. Interest on the debenture is compounded semi-annually and is payable on a quarterly basis. The debenture is secured against the assets of the Company. The Company recorded an expense for a finder's fee of \$100,000 associated with this financing. On February 25, 2005, US\$500,000 of the secured convertible debenture was repaid.

The Company has not allocated its convertible debenture or convertible promissory notes (note 5) into an equity component as the calculation of the equity component is not significant using an approximate interest rate that would have been applicable to the issuance of similar debt without the conversion features at the time the debenture and notes were issued. The interest rate used in calculating the components was 12% and the time period used was 37 months and 21 months for the debenture and notes, respectively.

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5. Convertible promissory notes

During the year ended December 31, 2003, the Company issued 10% unsecured convertible subordinated promissory notes, due June 30, 2005, totaling Can\$400,000 ("Can\$ notes") and US\$625,000 ("US\$ notes"). The Can\$ notes are convertible at any time, in whole or in part, at the option of the holder into common shares at Can\$0.60. A US\$ note in the amount of \$500,000 was transferred to the debenture holder pursuant to an agreement dated November 4, 2004 (note 4). The remaining US\$ notes are convertible at any time, in whole or in part, at the option of the holder into common shares at a rate of 11,459 common shares for each US\$5,000 of principal amount converted. The Can\$ notes and US\$ notes can be converted at the option of the Company if the common shares of the Company trade over a ten day consecutive period at a closing price equal to or greater than Can\$0.90 per common share. Interest on the Can\$ notes and US\$ notes are payable on a quarterly basis. The holders of the Can\$ notes are directors of the Company. The Company recorded an expense for a finder's fee of \$82,506 in the form of 137,510 common shares of the Company related to the US\$ notes. On April 29, 2005, Can\$350,000 of the Can\$ notes and US\$125,000 (Can\$150,250) of US\$ notes were repaid.

6. Asset retirement obligation on mineral properties

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the asset retirement obligations associated with the retirement of the Uzboy gold project in Kazakhstan.

	March 31, 2005	December 31, 2004
Balance, beginning of period	\$ 77,938	\$ -
Future site restoration provision	-	70,853
Liabilities settled	-	-
Accretion	<u>1,961</u>	<u>7,085</u>
Balance, end of period	<u>\$ 79,899</u>	<u>\$ 77,938</u>

Total estimated future retirement costs of \$114,869 have been discounted using a credit-adjusted risk free rate of 10%. Most of these obligations are not expected to be paid for several years and will be funded from general company resources at the time of abandonment.

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7. Share capital

(a) Authorized

Unlimited voting common shares
 Unlimited non-voting preferred shares

(b) Issued

	Number	Stated Value
Common shares		
Balance, beginning of period	35,233,612	\$10,273,768
Shares issued pursuant to a private placement (note 7 [c])	13,510,818	7,430,950
Exercise of stock options (note 7 [d])	<u>12,500</u>	<u>7,573</u>
	<u>48,756,930</u>	17,712,291
Less: Share issue costs		<u>542,437</u>
Balance, end of period		<u>\$17,169,854</u>

(c) Pursuant to a Brokered Private Placement announced on January 28, 2005, the Company completed an initial issue of 10,920,000 units on February 25, 2005 for cash proceeds of \$6,006,000 and an additional 349,000 units on March 4, 2005 for cash proceeds of \$191,950 at a price of \$0.55 per unit. Each unit comprises one common share and one-half common share purchase warrant. Each full common share purchase warrant entitles the holder to purchase one common share of the Company at \$0.75 per share until August 24, 2006 on the initial units and September 4, 2006 on the additional units. The Company paid cash equal to 7% of gross proceeds raised and issued agent's warrants to purchase 1,092,000 common shares of the Company at a price of \$0.60 per share expiring August 24, 2006 on the initial units and 34,900 common shares at a price of \$0.60 expiring September 4, 2006 on the additional units, as commission for the financing. In addition, the Company paid the agent a corporate finance fee equal to 60,000 units exercisable on the same terms and conditions as those provided in the Brokered Private Placement. The net proceeds from the Brokered Private Placement are to be used for exploratory drilling on the Company's Uzboy gold deposit, together with four other zones of gold mineralization on the Company's licenses and for working capital.

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In conjunction with the Brokered Private Placement announced on January 28, 2005, the Company issued 2,181,818 units at a price of \$0.55 per unit for cash proceeds of \$1,199,999 by way of a Non-Brokered Private Placement. The warrants expire on September 4, 2006 with the same terms and conditions as the Brokered Private Placement except that the sale of the non-brokered units is not subject to any commissions, agent's warrants or fees. The net proceeds from the non-brokered private placement will be used to retire outstanding unsecured loans and promissory notes and for working capital.

- (d) During the period ended March 31, 2005, a total of 12,500 stock options were exercised for total proceeds of \$5,000. In addition, a total of \$2,573 was transferred from contributed surplus to reflect the value of the options calculated on the grant date and charged as stock-based compensation expense.

8. Stock-based compensation

- (a) The Company has a stock option plan under which directors, officers, employees and consultants of the Company are eligible to receive stock options. The aggregate number of common shares to be issued upon the exercise of all options granted under the plan shall not exceed 10% of the issued common shares of the Company at the time of granting of the options. Options granted under the plan generally have a term of five years but may not exceed five years and vest at terms to be determined by the directors at the time of grant. The exercise price of each option shall be determined by the directors at the time of grant but shall not be less than the price permitted by the policy or policies of the stock exchange(s) on which the Company's common shares are then listed.

A summary of the status of the Company's stock option plan as at March 31, 2005 and changes during the period then ended are as follows:

	Number of options	Weighted Average Exercise Price
Outstanding, beginning of period	3,045,000	\$0.43
Exercised	<u>(12,500)</u>	<u>\$0.40</u>
Outstanding at March 31, 2005	<u>3,032,000</u>	<u>\$0.43</u>
Exercisable at March 31, 2005	<u>2,055,000</u>	<u>\$0.43</u>

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In addition to the above, there are 162,216 broker options outstanding to purchase units at \$0.50 per unit until September 8, 2005. The value of these options was not recorded as it is not significant. The Company also granted during 2004, 250,000 options to an officer at \$0.45 per share with vesting to begin when the Company attains 7,000 ounces of gold production. No compensation cost has been recorded for this option as it is not practical to determine if or when the Company will reach the required level of production.

- (b) The following table summarizes information about stock options outstanding and exercisable at March 31, 2005.

Exercise Prices	Outstanding		Exercisable	
	Number	Weighted-Average Remaining Contractual Life	Number	Weighted-Average Remaining Contractual Life
\$ 0.20	50,000	1.44 years	-	1.44 years
\$ 0.30	290,000	1.92	290,000	1.92
\$ 0.35	50,000	2.85	37,500	2.85
\$ 0.40	1,172,500	2.25	797,500	2.25
\$ 0.45	500,000	2.07	125,000	2.07
\$ 0.50	470,000	0.47	305,000	0.47
\$ 0.52	500,000	2.13	500,000	2.13
	<u>3,032,500</u>	<u>1.89 years</u>	<u>2,055,000</u>	<u>1.91 years</u>

- (c) During the three months ended March 31, 2005, 12,500 stock options were exercised and a total of \$2,573 was transferred from contributed surplus to reflect the value of the options calculated on the grant date and charged as stock-based compensation expense. The remaining \$30,039 charged to compensation expense and contributed surplus for the three months ended March 31, 2005 relates to options granted in 2004 in the amount of \$23,732 and options granted prior to 2004 in the amount of \$6,307.

9. Related party transactions

- (a) During the period, the Company paid \$18,694 in rent and other expenses to a public company with common officers and directors.
- (b) During the period, the Company paid \$30,000 in consulting fees to a company controlled by the President and Chief Operating Officer of Alhambra. Of this amount, \$22,500 was capitalized to mineral properties, equipment and deferred exploration and development costs.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

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10. Loss per share

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is not separately calculated as the Company is in a loss position.

Period Ended March 31	2005	2004
Loss before discontinued operations	\$ (0.006)	\$ (0.011)
Discontinued operations	<u>0.003</u>	<u>0.003</u>
Net loss per share	<u>\$ (0.003)</u>	<u>\$ (0.008)</u>
Basic and diluted weighted average shares	40,129,857	27,133,886

11. Financial instruments

(a) Fair values

The fair values of accounts receivable, accounts payable and accrued liabilities, amounts due to officers and directors, convertible debenture and convertible promissory notes are approximated by their carrying values because of their short-term nature or because they bear interest at market rates.

(b) Interest rate risk

The Company is exposed to interest rate price risk to the extent that the convertible debenture and convertible promissory notes are at a fixed rate of interest.

(c) Foreign currency risk

The convertible debenture, a portion of the convertible promissory notes and the Pre-Payment Gold Sales Facility Agreement (note 13) are denominated in U.S. dollars and therefore the Company is subject to the risk of fluctuating exchange rates between the Canadian and U.S. dollars.

12. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

Alhambra Resources Ltd.
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March 31, 2005
(unaudited)

13. Commitment

On December 14, 2004, the Company's wholly owned subsidiary, Saga Creek, entered into a Gold Sales and Marketing Agreement (the "Sales Agreement") and a US\$780,000 Pre-Payment Gold Sales Facility Agreement (the "Pre-Payment Facility") with PLADIS Platinum Metals Distribution AG ("PLADIS") of Switzerland. Under the Sales Agreement, PLADIS has the right to purchase all the gold produced from the current test heap leach and any additional gold that may be produced from the Uzboy project for the next three years. Saga Creek will be responsible for all costs related to transportation and refining and will pay a marketing fee of 0.95% per troy ounce of gold sold. Under the Pre-Payment Facility, Saga Creek has the right to receive up to US\$750,000 as a pre-payment for gold to be sold to PLADIS under the Sales Agreement. Amounts drawn under the Pre-Payment Agreement bear interest at LIBOR plus 8% and are secured by pledge of future deliveries of gold up to a maximum value of US\$1.0 million and a corporate guarantee by Alhambra. Any unused portion under the Pre-Payment Facility bears interest at LIBOR plus 3%.

At March 31, 2005, advances received from PLADIS totaled US\$638,184 (CDN\$771,948) and is included in accounts payable and accrued liabilities.

14. Subsequent events

On April 8, 2005, pursuant to an Agreement of Purchase and Sale effective January 1, 2005, the Company concluded the sale of 100% of its oil and natural gas properties to a private Canadian corporation (note 1).

On April 29, 2005, \$540,000 representing advances due to officers and directors and bearing interest at 10% with no set terms of repayment were repaid.

Corporate Information

Officers

John J. Komarnicki
Chairman and Chief Executive Officer

Elmer B. Stewart
President and Chief Operating Officer

Donald D. McKechnie
Vice President Finance and Chief Financial Officer

Directors

John J. Komarnicki
Chairman of the Board
Calgary, Alberta

James S. Bunyan ⁽²⁾⁽³⁾
London, England

Michael E. Hriskevich ⁽¹⁾⁽²⁾
Calgary, Alberta

Gordon L. Levang ⁽¹⁾⁽³⁾
Calgary, Alberta

Elmer B. Stewart
Calgary, Alberta

Clarence K. Wagenaar ⁽¹⁾⁽²⁾⁽³⁾
Calgary, Alberta

⁽¹⁾ Audit Committee

⁽²⁾ Corporate Governance

⁽³⁾ Compensation Committee

Stock Exchange Listing

TSX Venture Exchange
Trading Symbol: "ALH"

Registrar And Transfer Agent

Olympia Trust Company
Calgary, Alberta

Bankers

Royal Bank of Canada
Main Branch
Calgary, Alberta

Auditors

Collins Barrow Calgary LLP
Calgary, Alberta

KPMG Janat, LLC
Almaty, Kazakhstan

Legal Counsel

Borden Ladner Gervais LLP
Calgary, Alberta

Aequitas Law Firm
Almaty, Kazakhstan

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