



**Advanced Gold Project
in Kazakhstan:**
Accelerating Growth

Corporate Overview

Alhambra Resources Ltd. ("Alhambra", "Company" or "Corporation") is incorporated under the laws of Alberta, Canada. Alhambra's major asset consists of two mining licences covering approximately 2.7 million acres in north central Kazakhstan. Alhambra is a Tier 2 company and trades under the symbol "ALH" on the TSX Venture Exchange Inc. The Company has 48.8 million shares issued and outstanding as at May 16th, 2005.

Alhambra's plans for 2005 include conducting a \$US3.5 million exploration program, completing the leaching of 327,000 tonnes of material stacked on the test leach pad and the test mining and leaching of an additional 720,000 tonnes of oxide gold mineralization.

Annual General and Special Meeting

The Annual General and Special Meeting of Alhambra will be held in the Bonavista Room at The Westin Calgary, 320 - 4th Avenue S.W., Calgary, Alberta on Wednesday, June 22, 2005. The meeting will begin at 2:00 p.m. (local time). All shareholders are encouraged to attend.

Year End: December 31

TSX Venture Exchange Symbol: ALH

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Forward-looking Information

This document contains certain forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond Alhambra's control, including: the impact of general economic conditions in Canada and in countries in which Alhambra and its subsidiaries currently do business, industry conditions, increased competition, the lack of available qualified personnel or management, equipment failures, fluctuations in product prices and in foreign exchange or interest rates, and stock market volatility. Alhambra's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur or, if any of them do so, what benefits Alhambra will derive.

Uzboy Highlights

- **Fourth quarter 2004:** commenced leaching of a 140,000 tonne portion of the planned heap leach test
- **To April 30, 2005:** gold precipitated on resin estimated to be 78,409 grams (2,520 troy ounces) since commencement of heap leach test
- **To April 30, 2005:** 54,131 grams (1,740 troy ounces) of gold from heap leach test sold
- **2005 plan:** conduct a \$US3.5 million exploration program, complete the leaching of the test heap commenced in 2004 and continue the testing program with an additional 720,000 tonne test mining and leaching program.



Photos, top to bottom:

- *Test mining operation, Uzboy west zone, October 2004*
- *Test leaching operations with gold recovery plant in background, April 2005*
- *Test leaching operation, October 2004*
- *Resin columns in gold recovery plant*



Chairman's Message to Shareholders

I am pleased to present the Annual Report and the Audited Consolidated Financial Statements of Alhambra Resources Ltd. for the year ended December 31, 2004.

The sale of our oil and natural gas properties in early 2005 for gross proceeds of \$2.2 million completed Alhambra's transition to a gold exploration company. Accordingly, management can now focus 100% of its attention on the further exploration and development of the Uzboy project. In addition, the Company recently completed two equity financings for gross proceeds of approximately \$7.4 million. The proceeds from both the oil and natural gas properties sale and equity financing will be mainly utilized to fund the aggressive 2005 exploration and development programs and other field development costs.

Alhambra first became involved in the Uzboy project in May 2002. Since that time, the Uzboy west and Uzboy east zones of gold mineralization have been advanced from the trenching and drilling stage to production of gold from a large scale heap leach test. The completion of the infrastructure and the commencement of gold production from the heap leach test in 2004 were two significant milestones toward our objective of becoming an exploration and gold production company.

Management's prior experience in the development and operation of resource projects in Kazakhstan and their understanding of the political, social and cultural environment were fundamental to Alhambra's success and will continue to be in future endeavors.

Exploration is an integral part of the mineral business and is a high priority to Alhambra. The Uzboy project covers approximately 11,000 square kilometres of land and has a considerable number of gold and other mineral occurrences. The licences that make up the Uzboy project provide Alhambra the right to explore for and exploit a wide range of minerals including but not limited to gold, copper, uranium, molybdenum and zinc. In 2005, Alhambra plans to conduct a US\$3.5 million exploration program for these and other minerals on approximately 50 mineral occurrences in four areas of the Uzboy project. Exploration on other areas of the licence area will continue in 2006 and beyond.

Management has been very encouraged by the results to date from the exploration activities and the test heap leach. Management's continued enthusiasm and commitment to uncovering the potential of the Uzboy project is reflected in the increased size of the exploration and heap leach test programs during 2005.

In 2005, we will continue to build on the successes achieved in 2004. The senior management team and Board of Directors of the Company are ready to meet the challenges as we continue to implement the strategy to achieve our objective of becoming a significant growth-oriented gold and minerals producer.

On behalf of the Board of Directors



John J. Komarnicki
Chairman of the Board

May 12, 2005

President's Message to Shareholders



outstanding indebtedness of approximately \$1.6 million. Alhambra enters 2005 with a strong balance sheet, gold production from a 320,000 tonne test heap, plans for a 720,000 tonne test mining program and a planned \$US3.5 million exploration program. On completion of the sale of the oil and natural gas properties, Alhambra has completed its transition to a mineral exploration company. Accordingly, management can focus 100% of its energy and attention to the further exploration and development of the Uzboy gold project.

Uzboy Gold Project

The Uzboy gold project covers approximately 2.7 million acres of land in an area that contains over 50% of the known gold resources identified in Kazakhstan. The location of the project is strategic in that the “world class” Vasilkovoskya gold project is located 12 kilometres west of the project and the Aksu gold deposits are located approximately three kilometres south of the project area. Based on the three mineral trends that cross the property, two past producing gold mines within the property boundary and 110 significant gold occurrences, management is of the opinion that the property has the potential to host a world class gold deposit.

Protection of the environment is of primary importance to Alhambra. To achieve this, all aspects of our exploration and test leaching operations were performed in compliance with the laws of the Republic of Kazakhstan. Alhambra has established an excellent working relationship with administrative departments at the local and federal levels of government. Through these efforts, all permits required to conduct our operation have been received and are in good standing.

The Heap Leach Method

The purpose of the test heap leach is to demonstrate to certain regulatory bodies in Kazakhstan that the oxide gold mineralization in the Uzboy west and Uzboy east zones has potential economic viability. This test assesses, among other things, the stacking techniques, average gold recovery rate, reagent consumptions per tonne of material leached and expected operating costs. The results from this test form an integral part of the information required to complete a feasibility study to determine the economic viability of the oxide gold mineralization at Uzboy west and Uzboy east.

HIGHLIGHTS

Prior to Alhambra’s involvement in the Uzboy project, Saga Creek was granted a “mining allotment” over the Uzboy west and Uzboy east zones of gold mineralization. The granting of the mining allotment commenced a process under Kazakhstan law regarding subsoil use which, among other things, requires a company to perform a “semi-industrial” test to demonstrate the economic viability of the zone of mineralization being explored. Over the past 2.5 years, Alhambra has been working toward completing this semi-industrial test by implementing a “heap leach test” on the Uzboy west and Uzboy east zones of oxide gold mineralization. As a result of this, Alhambra achieved its first gold production from the test heap leach on its Uzboy west zone in late 2004. This achievement marked a significant milestone toward becoming an emerging gold exploration and production company. Our objective in 2005 is to build on the strong foundation established in 2004 as we work toward establishing commercial gold production from the Uzboy west and Uzboy east zones.

Subsequent to the year end, Alhambra completed two private placements of common shares for gross proceeds of approximately \$7.4 million, sold its oil and natural gas properties for gross proceeds of \$2.2 million and paid down

The material for the test heap is extracted from the Uzboy west zone by a Kazakhstani mining contractor. For the purposes of the heap leach test, the material from the Uzboy west zone is divided into three categories based on gold content. The material with a gold grade of greater than 0.5 g/t is moved directly to the test leach pad. Lower grade material that contains between 0.2 g/t and 0.5 g/t gold is stockpiled for test leaching at a later date and material with a gold content of less than 0.2 g/t is moved to the waste pile. The oxide gold mineralization is loaded into 30 tonne off-road haul trucks and moved from the Uzboy west zone (“run of mine”) and dumped onto the leach pad, a process commonly referred to as “end dumping”.

A leach pad, an impermeable structure designed specifically to retain the solution used in the leaching process, is required. To prepare a heap for leaching, the stacked material is saturated with water followed by the addition of alkali to achieve a pH of between 10.5 and 11.0 in the heap. A solution containing very low concentrations of cyanide is applied to the heap utilizing a drip emitting system. The drip emitting system is preferred over other available sprinkler systems as it minimizes exposure of the solution to sunlight and prevents dispersion of the solution due to wind. As this solution seeps down through the heap, it dissolves the gold. The gold bearing solution is collected in a berm located around the foot of the heap and is then pumped to the gold recovery plant.

Resin is used in the gold recovery plant to recover gold from the solution by way of a chemical reaction. After the resin is loaded with gold, it is removed from the resin columns and shipped to a stripping plant operated by an independent third party. At the resin stripping plant, a cathodic sediment with an average gold content of 85% is produced and then shipped to Alhambra’s gold marketing agent in Switzerland for refining and sale.

2004 ACTIVITIES

Heap Leach Test

Over the past 2.5 years, Alhambra has been working toward completing the heap leach test at Uzboy. The construction of a gold recovery plant, a leach pad and the last of the infrastructure required for the test was completed in the third quarter of 2004. The permanent infrastructure at the Uzboy site consists of a 110 person camp, a 17 kilometre hydroelectric line, 30 kilometres of upgraded road, a leach pad

with a 600,000 tonne capacity and a gold recovery plant with a capacity to leach 1,200,000 tonnes per year. On completion of the test, this infrastructure can also be used if commercial production has been established.

A total of 167 employees is required to conduct the test leaching operation working on two 12-hour shifts per day and a 15-day rotation.

In 2004, 282,000 tonnes of material were stacked on the leach pad and 30,240 tonnes of low grade material were stockpiled for leaching at a later date. The waste material, including excavation of the access ramp to the Uzboy west zone, totaled 669,500 tonnes. Due to the oxidized nature of the gold mineralization, a minimal amount of drilling and blasting of the oxide gold mineralization was required in 2004.

The stacking of the gold mineralization on the leach pad commenced in the third quarter of 2004. Saturation of a 140,000 tonne portion of the test heap commenced in October and the first gold was precipitated on resin in early December. At December 31, 2004, a total of 282,000 tonnes of oxide gold mineralization at an estimated average grade of 1.87 g/t gold was stacked on the leach pad for leaching. Approximately 527,000 grams (16,900 troy ounces) of gold were stacked on the test heap in 2004. By December 31, 2004, approximately 32,000 grams (1,029 troy ounces) of gold had been precipitated on resin. The actual percentage of gold recovered and reagents consumed will not be known until the test heap is fully leached and a metallurgical balance is completed.

The production of gold from a heap leach mine located in a northern climate is seasonal. Typically the lowest gold production occurs between January and March due mainly to cold temperatures. Other factors such as tonnes of material under leach, temperature of solution from the heap and daily circulating solution volumes affect gold production from a heap leach operation. Subsequent to the year end, the amount of gold precipitated on resin during the period from January to the end of April 2005 exceeded our expectation. To the end of April 2005, gold precipitated on resin was estimated to be 78,409 grams (2,521 troy oz.) of which 54,131 grams (1,740 troy oz.) has been sold. Toward the end of April, the gold content of the solution from the test heap and the estimated amount of gold precipitated daily at the Uzboy site increased substantially due to the onset of warmer weather.

Exploration

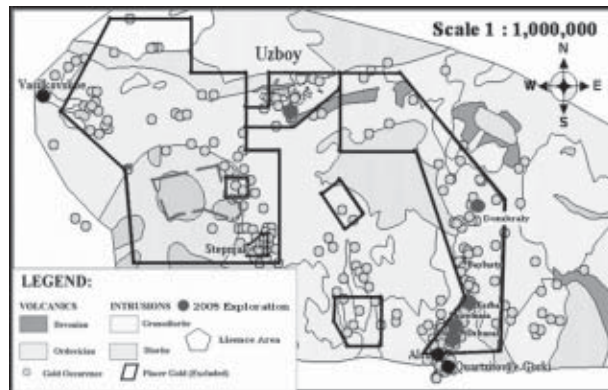
In 2004, a considerable amount of work related to the heap leach test yielded the following results:

- a) column leach tests indicate gold recoveries from oxide gold mineralization from the Uzboy west zone ranging from 82% to 88%,
- b) reagent consumption based on the column leach tests is estimated to be 0.41 kilograms of cyanide and 0.25 kilograms of alkali per tonne of material leached, and
- c) the oxide gold mineralization in the Uzboy west zone consists of very fine disseminated grains of gold and contains low concentrations of copper and zinc, all positive factors suited to heap leach technology.

These results are considered to be very encouraging in that they suggest higher gold recoveries and lower reagent consumption could be achieved.

The main focus of the 2004 exploration program was the trenching and diamond drilling of the Uzboy east zone of oxide gold mineralization. A total of 2,850 metres of diamond drilling in 33 holes over a strike length of 700 metres was completed on the Uzboy east zone. The diamond drilling also tested the gold mineralization in the transition zone and in the upper part of the primary zone. The fire assays for all diamond drill cores are expected to be received during the second quarter of 2005. Based on the trenching results, the Uzboy east zone consists of two areas of higher grade (>0.5 g/t) gold mineralization separated by a central portion of lower grade (>0.2 g/t) oxide gold mineralization. The width of the Uzboy east zone is interpreted to range from 70 to 150 metres over the 700 metres of strike length tested by the trenching.

Trenching and limited reverse air blast circulation drilling were completed on the Kirtoge gold occurrence and in the vicinity of the Uzboy west zone of gold mineralization in 2004. This work resulted in the expansion of the known zone of oxide gold mineralization at Kirtoge and the discovery of a new zone of oxide gold mineralization approximately 800 metres northeast of the Uzboy west zone. Both of these areas will be explored in 2005.



Blast-hole drilling, Uzboy west zone, April 2005



30-tonne off-road haul truck

Exploration

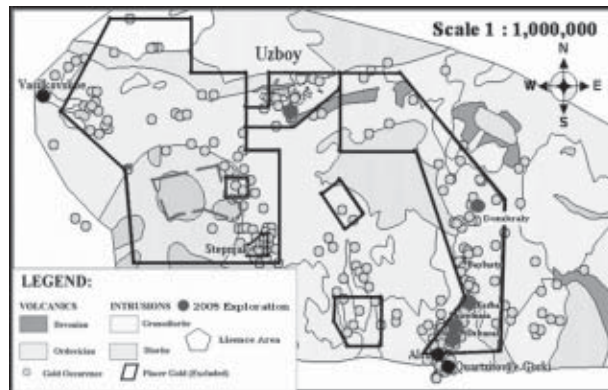
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Blast-hole drilling, Uzboy west zone, April 2005



30-tonne off-road haul truck

■ **Kerby-Shirtonaia area:** is also located within the north-south striking Aksu-Bailusti mineral trend. At Kerby, historical exploration has outlined multiple gold in soil anomalies that occur within an area that measures (at a 0.3 g/t cutoff contour) approximately 4,000 metres long by 250 metres wide. At Shirtonaia, historical exploration consisting of trenching, reverse air blast circulation drilling and soil sampling has outlined a zone of gold mineralization that measures approximately 1,500 metres long and 50 metres wide. Trenching and reverse air blast circulation drilling are planned in these areas to define potential targets for diamond drilling.

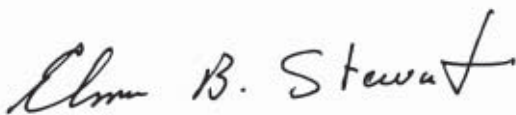
■ **Stepnyak area:** trenching and reverse air blast circulation drilling is planned on 22 gold showings previously defined by historical exploration located in the area around the former Stepnyak gold mine to outline potential targets for diamond drilling.

ACKNOWLEDGMENTS

Looking back, our objective, to commence leaching on the Uzboy test heap before the end of 2004, was achieved. This objective could not have been accomplished without the hard work and dedication of the management and staff of both Alhambra and Saga Creek. We also want to gratefully acknowledge the patience shown over the last year by our shareholders.

As we enter 2005, the exploration program and the 720,000 test mining and leaching program will bring new challenges. The information collected in 2004 will be invaluable in meeting these challenges. Our management and staff are prepared to meet these challenges to achieve Alhambra's goal of entering the ranks of an emerging junior gold producer.

On behalf of the Board of Directors



Elmer B. Stewart
President & Chief Operating Officer

May 16, 2005



Stacking test heap utilizing "end dumping" method



Leach pad construction



Camp, with facilities to house 110 people at Uzboy site

Management's Discussion and Analysis of Financial Conditions and Results of Operations

This Management's Discussion and Analysis ("MD&A") focuses on key items from the Consolidated Financial Statements for Alhambra Resources Ltd. (also referred to as "Alhambra" or the "Company") for the years ended December 31, 2004 and 2003 and the factors reasonably expected to impact future operations and results as prepared on April 13, 2005. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other matters may occur which could affect the Company in the future. This discussion should be read in conjunction with the audited Consolidated Financial Statements and the related notes.

FORWARD-LOOKING INFORMATION

Certain statements contained in the following MD&A constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from actual future results and achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made. Readers are also advised to consider such forward-looking statements while considering the risks set forth below.

NON-GAAP FINANCIAL MEASURES

The MD&A contains the term cash flow from operations, which should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with Canadian generally accepted accounting principles as an indicator of the Company's performance.

BUSINESS OVERVIEW

The Company 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 is in the business of exploring and developing mineral properties in the Republic of Kazakhstan ("Kazakhstan"). The properties consist of two exploration licenses totaling 11,059 square kilometers located in north central Kazakhstan (the "Uzboy project").

HIGHLIGHTS

The Company's capital expenditure program for 2004 was focused on the Uzboy west zone project. A total of \$5,235,963 was spent during the year to complete the infrastructure required to conduct a heap leach test. Leaching of the first 140,000 tonne pilot heap leach test commenced in the fourth quarter of 2004. Approximately 31,931 grams of gold were precipitated on resin to December 31, 2004 and sold in January, 2005. Diamond drilling on the Uzboy west zone confirmed the presence of a significant zone of gold mineralization.

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. As a result of this sale, Alhambra has presented all of the assets, liabilities, revenues and expenses associated with the operations included in the sale as discontinued operations for financial reporting purposes. Accordingly, the MD&A will be focused on the Company's continuing operations being the exploration and development of the Uzboy gold project. Any prior year comparative figures have been restated to give meaningful comparison for the current year's activities.

During 2004, the Company successfully completed the closing of a private placement for aggregate cash proceeds of \$4,317,070 through the issuance of 8,654,140 units at \$0.50 per unit.

On December 14, 2004, the Company's wholly-owned subsidiary, Saga Creek Gold Company LLP, entered into a Gold Sales and Marketing Agreement and a \$US780,000 Pre-Payment Gold Sales Facility Agreement with PLADIS Platinum Metals Distribution AG of Switzerland. The agreement provides that Pladis will purchase all of the gold production for three years at market prices.

FINANCIAL REVIEW

Selected annual information

Year ended December 31	2004	2003	2002
	(\$)	(\$)	(\$)
Continuing operations			
Loss for the year	999,109	1,112,308	1,228,298
Basic and diluted loss per share	0.031	0.052	0.078
Mineral properties, equipment and deferred exploration and development costs	11,411,289	6,097,388	-
Total assets	12,083,942	6,471,001	3,188,258
Total liabilities	4,429,223	2,557,811	1,646,732
Discontinued operations			
Net income	419,849	521,112	358,303
Total assets	1,308,833	1,216,628	1,324,772
Total liabilities	281,893	231,091	86,896

Results of continuing operations

Revenue

The Company had no operating revenues from continuing operations in either 2004 or 2003, as it had not commenced commercial mining operations.

Interest expense

Interest for 2004 was \$224,481, an increase of \$70,771 over the 2003 amount of \$153,710. This increase was a result of a higher average outstanding debt balance during 2004.

General and administrative expenses

General and administrative expenses for 2004 related to continuing operations decreased \$246,447 to \$616,658 from the 2003 amount of \$863,105. The decrease is primarily the result of the Company being more active in 2003 in increasing its profile in the investment community.

Stock-based compensation

Stock-based compensation relates to the fair value of stock options granted to directors, officers, employees and consultants calculated at the date of grant and expensed over the vesting period of the option. The fair value is determined using the Black-Scholes option pricing model which takes into account the risk free interest rate, the expected life of the options, the expected volatility and

the expectation of dividends being paid during the life of the option. Due primarily to the high volatility of the Corporation's stock price, this calculation gives a significant value to the options which must be expensed during their vesting period. The amount of this expense for 2004 and 2003 was \$257,678 and \$125,100, respectively. This increase is a result of the number of options being granted in mid-year 2003 and 2004.

Future income taxes

Alhambra is currently not taxable and has available tax credits to offset future income. Due to the history of operating losses, the Company does not consider it more likely than not that it would be able to realize a future tax benefit relating to its continuing operations and as a result, no future income tax asset was recorded at December 31, 2004.

The Company has recorded a future tax benefit of \$182,810 related to its discontinued operations as it will be realized in 2005 upon the completion of the sale of the oil and natural gas assets. This amount is included in assets of discontinued operations on the Consolidated Balance Sheet and in net loss from discontinued operations on the Consolidated Statement of Loss and Deficit.

As a result of a loss before income taxes, the Company recorded a future income tax recovery in 2003 of \$108,062. Alhambra's 2003 recovery was limited to the amount recorded on the Company's Balance Sheet at December 31, 2002 due to the uncertainty that the Company would have sufficient income in the future to utilize available deductions.

Cash flow

Cash utilized in continuing operations was \$855,083 in 2004 compared to \$925,385 in 2003. The decrease is primarily the result of the Company being more active in 2003 in increasing its profile in the investment community.

Net losses

The Company incurred a net loss from continuing operations of \$999,109 for the year ended December 31, 2004, compared to a net loss of \$1,112,308 for the year ended December 31, 2003. The reduction in net loss in 2004 was primarily attributable to the reduction in general and administrative expenses and future income taxes as described above. This was partially offset by increases in interest and stock-based compensation expenses.

Based on a weighted average number of shares of 31,750,980 in 2004 and 21,407,639 in 2003, the Company's net loss per share from continuing operations for the years ended 2004 and 2003 was \$0.031 and \$0.052 respectively.

LIQUIDITY AND CAPITAL RESOURCES

During 2004, Alhambra raised \$4,317,070 from the issue of 8,654,140 common shares pursuant to private placement agreements and \$52,750 from the issue of 210,000 shares upon the exercise of stock options. In addition, the Company received advances from officers and directors in the amount of \$500,000. This cash has been used for funding the Uzboy project as well as general working capital requirements.

At December 31, 2004 the Company had \$82,488 of cash on hand and a deficiency in other working capital of \$1,345,494. Included in this deficiency is \$550,250 in unsecured promissory notes of which \$150,250 are denominated in US\$ (\$125,000 US), \$540,000 in non-interest bearing loans from officers and directors of the Company and \$281,893 in liabilities relating to discontinued operations. All the notes are convertible at the option of the holder or depending on the trading price of the Company's stock, at the option of Alhambra. The US dollar based revenue stream from the sale of gold from the Uzboy test leach program will help to mitigate foreign exchange risk. Subsequent to year end, Can\$350,000 of the Can\$ notes and US\$125,000 (Can\$150,250) of US\$ notes were repaid.

Alhambra is continuing to raise equity capital in 2005 to fund its program in Saga Creek. Subsequent to December 31, 2004, \$7,397,949 has been received pursuant to a private placement totaling 13,510,818 units. These units consist of one common share plus one-half common share purchase warrant that will allow the holder to purchase an additional share at an exercise price of \$0.75 per common share. In addition, pursuant to an agreement effective January 1, 2005 the Company received gross proceeds of \$2,200,000 from the sale of its oil and natural gas assets.

RELATED PARTY TRANSACTIONS

During the year, the Company paid \$76,517 (2003 - \$53,382) in rent and other expenses to a public company with common officers and directors. Of this amount, \$6,617 (2003 - \$29,736) remains in accounts payable and accrued liabilities at December 31, 2004.

During the year, the Company paid \$98,000 (2003 - \$72,000) in consulting fees to a company controlled by the President and Chief Operating Officer of Alhambra. Of this amount, \$71,500 (2003 - \$46,800) 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.

FOURTH QUARTER 2004

During the fourth quarter ended December 31, 2004, the Company incurred a loss from continuing operations of \$159,259 or \$0.005 per share (2003 - \$0.013).

Mineral properties, equipment and deferred exploration and development costs for the fourth quarter of 2004 were \$1,384,014. These costs included mining and stacking of material on the heap leach pad, completing the construction of the gold recovery plant and other costs associated with the preparation of the test heap leach.

During the quarter, a total of 210,000 stock options were exercised for total proceeds of \$52,750.

SUBSEQUENT EVENTS

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 174,500 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 Uzboy west gold deposit, together with four other zones of gold mineralization inside the licenses and for working capital.

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.

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. Proceeds of \$2,200,000 will be used to fund the continued development of the Company's Uzboy property, pay down debt, and for working capital. With the commencement of precipitation of gold on resin at the Uzboy test leach in December 2004 and the sale of this gold in January 2005, together with high oil and natural gas market prices, the Company felt it was an opportune time to sell the oil and natural gas assets thereby allowing management to focus its attention on the Uzboy gold project.

Subsequent to year end, the Company repaid a US\$500,000 10% unsecured convertible subordinated promissory note in addition to the retirement of \$550,250 in unsecured Can\$ and US\$ notes noted above.

CHANGES IN ACCOUNTING POLICIES

Asset retirement obligations

On January 1, 2004 the Company retroactively adopted the new CICA Handbook section 3110, "Asset Retirement Obligations". The change in accounting policy has been applied retroactively with restatement of prior periods. The new standard requires recognition in the financial statements of the liability associated with retiring tangible long-lived assets such as oil and natural gas wells and related equipment and mineral properties. The asset retirement obligation is recognized in the period the original expenditure is made and when a reasonable estimate of the fair value can be made. The asset retirement cost, equal to the fair value of the retirement obligation, is capitalized as part of the cost of the related long-lived asset and allocated to expense on a basis consistent with depreciation and depletion. The liability is increased each reporting period with the accretion being charged to income until the property is abandoned or sold.

Prior to the new standard, the Company accumulated a provision for future site restoration costs on the balance sheet and an amount was charged to earnings using a unit of production method based on proved reserves. The accumulated liability was reduced for actual expenditures incurred.

FINANCIAL INSTRUMENTS

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.

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. The Company has not allocated its convertible debenture or convertible promissory notes 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.

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

DISCLOSURE OF OUTSTANDING SHARE DATA

	As of December 31, 2004	Changes in 2005	Issued in 2005	As of April 13, 2005
Common shares issued and outstanding	35,233,612	-	13,510,818	48,744,430
Common shares issuable upon exercise of vested stock options	2,020,000	-	-	2,020,000
Common shares issuable upon exercise of vested broker stock options	162,216	-	-	162,216
Common shares issuable upon exercise of warrants	11,867,567	-	6,725,409	18,592,976
Common shares issuable upon exercise of agent's warrants	-	-	1,296,500	1,296,500
Convertible debentures	2,363,933	(1,032,083)	-	1,331,850
Convertible promissory notes	953,142	(869,809)	-	83,333
Common shares fully diluted	52,600,470	(1,901,892)	21,532,727	72,231,305

At December 31, 2004, there were 52,600,470 fully diluted common shares outstanding in the Company. During 2005, a convertible debenture in the amount of \$620,400 (US \$500,000) was paid in cash and \$500,250 of the convertible promissory notes was paid out of the proceeds of the private placement (refer to "subsequent events") completed in February and March of 2005.

DISCLOSURE OF MATERIAL COMPONENTS OF EXPENDITURES

Capitalized and deferred costs for the year ended December 31, 2004 were \$5,235,963. Included in these costs were \$861,625 for excavation and transportation of material to the test heap costs and \$1,342,493 for the construction of a gold recovery plant, a heap leach pad and infrastructure required to conduct the test leaching. For the year ended December 31, 2003, the Company incurred \$2,451,053 in capitalized and deferred costs, none of the individual components of which exceed 20% of the total costs.

During 2004, general and administrative expenses from continuing operations were \$616,658 (2003 - \$863,105) of which \$186,491 was spent on consulting fees (2003 - \$327,283 on consulting fees and \$222,620 on financing fees). As the Company is in the initial start-up stages relative to its Uzboy gold project, the Company employs consultants as required to meet its needs.

REVIEW OF OUTLOOK 2004

During 2004, the Company completed its diversification into the gold business implemented in 2002 with the decision to sell

all of its oil and natural gas properties which occurred in the first quarter of 2005. Since 2002, the Company has focused its efforts and capital on the development of the Uzboy gold project. With the high market prices being paid for oil and natural gas production, the Company believed that it was an opportune time to sell its oil and natural gas properties thereby focusing all of management's attention on the Uzboy gold project.

The Company was successful in initiating a heap leach test at the Uzboy gold project. In order to commence the test, construction of a gold recovery plant, a heap leach pad and other site infrastructure was completed by the end of the third quarter. Leaching of the first 140,000 tonne portion of the test heap began in the fourth quarter of 2004. By year end, an estimated 31,931 grams of gold was precipitated on resin. An estimated additional 142,000 tonnes was stacked on a second leach pad and leaching of this portion is expected to commence in May, 2005.

The Company had also implemented an exploration program of the Uzboy gold project summarized as follows:

Column leach tests on samples from the upper levels of the Uzboy west oxide gold deposit showed a consistently higher gold recovery on resin and substantially lower cyanide and alkali consumption than a similar test performed in 2000. Bottle roll tests on representative core samples of gold mineralization from the transition and primary mineralization from the Uzboy west zone indicate positive results with gold recoveries averaging 80% and 73% respectively.

Diamond drilling was performed on the Uzboy east zone to test the oxide zone, the transition zone and the upper 30 metres of the primary mineralization. Results are expected in 2005.

Trenching and reverse air blast circulation located a significant zone of oxide gold mineralization at the Kirtoge showing over a minimum horizontal distance of 250 metres and is open to the northeast and the southwest.

Reverse air blast circulation drilling located a new zone of oxide gold mineralization in the Uzboy area approximately 800 metres northwest of the Uzboy west zone.

The Company had also expected to commence a pre-feasibility study during 2004. The decision was made to delay the study until such time as more data became available from the heap leach test and the exploration of the Uzboy gold project. The Company expects the study to commence in the second half of 2005.

OUTLOOK FOR 2005

The 2005 year will be an important year for Alhambra in terms of exploration and the completion of the heap leach test.

Exploration

The Company's proposed US\$3.5 million exploration program for the Uzboy gold project located in north central Kazakhstan commenced in April 2005, following the successful completion of various financings. Exploration is proposed for the Uzboy, Drombraly, Kerby-Shirtonaia and Stepniak areas located within the Uzboy Gold Project. These areas are considered to have the best potential for making a significant gold discovery.

The Uzboy area is considered the primary area for exploration within the Uzboy property. The main objective is to diamond drill the primary gold mineralization that occurs below the oxide gold mineralization in the Uzboy west and Uzboy east zones. A minimum of 10,000 metres of diamond drilling are planned for these two zones.

The Drombraly area is located within the north-south striking Aksu-Bailusti mineral trend that hosts the Aksu gold deposits located approximately 3 kilometers south of the Uzboy Gold Project. Diamond drilling and column leach tests on the oxide gold mineralization exposed in the existing open pit are planned for 2005. Exploration is also planned within a 10 kilometer radius of the pit.

The Kerby-Shirtonaia is also located within the north-south striking Aksu-Bailusti mineral trend. Trenching and reverse air blast circulation drilling are planned in these areas to define potential targets for diamond drilling.

Plans for the Stepniak area consist of trenching and reverse air blast circulation drilling on 22 gold showings located in the area around the former Stepniak gold mine to outline potential targets for diamond drilling.

Operations

Activities in 2005 at the Uzboy site calls for the mining on a test basis of an additional 720,000 tonnes of oxide material and the stacking of 535,000 tonnes of material for leaching.

Pursuant to the laws of Kazakhstan, the Uzboy project is considered to be in the semi-industrial test phase of exploration. Results of the current test heap leach and resource estimations are required to be submitted to the GGK (state committee for reserves) for approval no later than the fourth quarter of 2005. GGK approval is required before Uzboy can be considered to be in commercial production under the laws of Kazakhstan.

By April 13, 2005 Alhambra had also completed the sale of 32,320 grams of gold produced from the test heap.

BUSINESS RISKS

Exploration and development

The mining industry in general is inherently risky in nature. Mineral properties are often non-productive for reasons that cannot be anticipated in advance and the Company may be subject to risks from operations, mining law, environmental regulations, permits and licenses and financing.

The Company focuses exploration efforts in areas in which it has existing knowledge and expertise. Exploration activities rely on professional judgment and there can be no assurance that exploration programs will result in a discovery being made. In the event that a discovery is made, no assurance can be given that the discovery will result in reserves being established on the property. If reserves are developed, it may take a number of years and substantial expenditures until production is possible, during which the feasibility of the project may change.

The long-term profitability of the Company's operations will in part be directly related to the cost and success of its exploration programs, which may be affected by a number of factors that are beyond the control of the Company.

Operations risk

Operations risk relates to the ability to develop recoverable mineral reserves. Using skilled and experienced professional staff reduces this risk. Using the latest technologies and controlling costs to maximize profitability also assists in minimization of this risk. Other possible risks include unstable ground conditions and severe weather. Currently the Company maintains insurance as mandated under Kazakhstan law. Management is currently reviewing this insurance to ensure it is adequate for business purposes.

Regulations and mining law

Alhambra's mining operations and exploration activities are subject to the laws and regulations of Kazakhstan. There is no assurance that these laws will not change in the future.

Environmental factors

All phases of the Company's operations are subject to environmental regulation in Kazakhstan. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Alhambra's operations or result in substantial costs and liabilities in the future.

Permits and licenses

The operations of the Company require permits from the government of Kazakhstan. The Company has secured the necessary permits for its current exploration and test heap leaching programs. There can be no assurance that the Company will be able to obtain all necessary permits that may be required to carry out its operations in the future.

Financing risks

Alhambra has limited financial resources and effective January 1, 2005 has no source of operating cash flow as a result of the sale of its oil and natural gas assets. Further exploration will have to be funded through equity financing and existing working capital. Although the Company has been successful in attracting equity financing in the past, there can be no assurance that additional funding will be available in the future. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration plans.

SUMMARY OF QUARTERLY RESULTS (\$)

	2004			
	March	June	September	December
Loss for the year - continuing operations	(289,408)	(365,797)	(184,644)	(159,260)
Basic and diluted loss per share – continuing operations	(0.010)	(0.012)	(0.005)	(0.004)
Loss for the year	(227,165)	(298,406)	(104,451)	50,762
Basic and diluted loss per share	(0.008)	(0.009)	(0.003)	0.002

	2003			
	March	June	September	December
Loss for the year - continuing operations	(190,255)	(361,753)	(236,386)	(323,914)
Basic and diluted loss per share – continuing operations	(0.010)	(0.017)	(0.011)	(0.013)
Loss for the year	(97,685)	(132,232)	(114,719)	(246,560)
Basic and diluted loss per share	(0.006)	(0.006)	(0.006)	(0.010)

Management's Report

To the Shareholders Alhambra Resources Ltd.

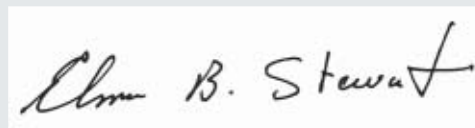
The accompanying consolidated financial statements and all information in this annual report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Other financial information appearing throughout the report is presented on a basis consistent with the financial statements.

Management 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 financial statements have been examined by external auditors who were appointed by the Corporation's shareholders and whose report is set forth below. The Audit Committee of the Board of Directors has reviewed these financial statements with management and the external auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.



John J. Komarnicki
Chairman of the Board and Chief Executive Officer



Elmer B. Stewart
President and Chief Operating Officer

Auditors' Report

**To the Shareholders
Alhambra Resources Ltd.**

We have audited the consolidated balance sheets of Alhambra Resources Ltd. as at December 31, 2004 and 2003 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



CHARTERED ACCOUNTANTS

Calgary, Alberta
April 13, 2005
(except for note 10,
which is as of April 29, 2005)

Consolidated Balance Sheets

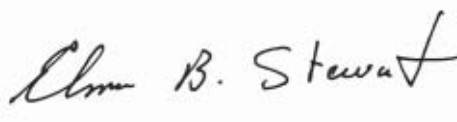
December 31, 2004 and 2003

	2004	2003
Assets		
Current assets		
Cash	\$ 82,488	\$ 29,982
Accounts receivable	490,902	19,688
Deposits and prepaid expenses	69,589	103,577
Assets of discontinued operations (notes 5 and 12)	1,308,833	68,122
	1,951,812	221,369
Mineral properties, equipment and deferred exploration and development costs (note 6)	11,411,289	6,097,388
Assets of discontinued operations (notes 5 and 12)	-	1,148,506
Other assets	-	190,994
Property and equipment (note 7)	29,674	29,372
	\$ 13,392,775	\$ 7,687,629
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,842,675	\$ 425,878
Due to officers and directors (note 8)	540,000	40,000
Convertible promissory notes (note 10)	550,250	-
Liabilities of discontinued operations (note 5)	281,893	231,091
	3,214,818	696,969
Convertible debenture (note 9)	1,418,360	881,620
Convertible promissory notes (note 10)	-	1,210,313
Asset retirement obligation on mineral properties (note 11)	77,938	-
	4,711,116	2,788,902
Shareholders' Equity		
Share capital (note 13)	10,273,768	6,156,523
Contributed surplus (note 14[c])	527,292	282,345
Deficit	(2,119,401)	(1,540,141)
	8,681,659	4,898,727
	\$ 13,392,775	\$ 7,687,629

Approved by the Board,



John J. Komarnicki, Director



Elmer B. Stewart, Director

Consolidated Statements of Loss and Deficit

Years Ended December 31, 2004 and 2003

	2004	2003
Expenses		
General and administrative	\$ 616,658	\$ 863,105
Interest	224,481	153,710
Stock-based compensation costs (note 14[c])	257,678	125,100
Depreciation	9,670	7,600
	1,108,487	1,149,515
Loss before the following	(1,108,487)	(1,149,515)
Foreign exchange gain	109,378	145,269
Loss before income taxes	(999,109)	(1,004,246)
Future income taxes (note 12[b])	-	(108,062)
Net loss before discontinued operations	(999,109)	(1,112,308)
Discontinued operations (note 5)	419,849	521,112
Net loss	(579,260)	(591,196)
Deficit, beginning of year	(1,540,141)	(948,945)
Deficit, end of year	\$ (2,119,401)	\$ (1,540,141)
Net loss per share before discontinued operations		
(note 17) – basic and diluted	\$ (0.031)	\$ (0.052)
Net loss per share (note 17) - basic and diluted	\$ (0.018)	\$ (0.028)

Consolidated Statements of Cash Flows

Years Ended December 31, 2004 and 2003

	2004	2003
Operating activities		
Net loss for the year from continuing operations	\$ (999,109)	\$ (1,112,308)
Items not involving cash		
Financing fees pursuant to convertible debenture	-	82,506
Stock-based compensation costs	257,678	125,100
Depreciation	9,670	7,600
Unrealized foreign exchange gain	(123,322)	(136,345)
Future income taxes	-	108,062
	(855,083)	(925,385)
Change in continuing non-cash working capital items	(24,016)	248,255
Operating activities from continuing operations	(879,099)	(677,130)
Operating activities from discontinued operations	616,312	513,715
	(262,787)	(163,415)
Financing activities		
Advances from (repayments to) officers and directors, net	500,000	(314,990)
Loan payable repayments	-	(1,000,000)
Proceeds on issuance of convertible debenture	-	967,164
Proceeds on issuance of convertible promissory notes	-	1,261,113
Issuance of shares	4,369,820	1,516,571
Share issuance costs	(265,306)	(48,000)
	4,604,514	2,381,858
Investing activities		
Acquisition of mineral properties, equipment and deferred exploration and development costs	(5,235,963)	(2,451,053)
Other assets recovered (paid)	190,994	(8,751)
Net cash acquired on business combination	-	89,578
Acquisition of property and equipment, net	(9,972)	(9,572)
Change in continuing non-cash working capital items	1,003,585	104,384
Discontinued operations	(237,865)	(7,865)
	(4,289,221)	(2,283,279)
Cash inflow (outflow)	52,506	(64,836)
Cash, beginning of year	29,982	94,818
Cash, end of year	\$ 82,488	\$ 29,982
Supplemental disclosure of cash flows information:		
Interest paid	\$ 170,901	\$ 123,119
Supplemental cash flow information (note 16)		

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

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 consists of the exploration for and development of oil and natural gas properties and of 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 this these properties generated cash flow to offset corporate overhead. Subject to closing adjustments, the sale proceeds of \$2,200,000 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

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 (notes 13 and 21) 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 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 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.

2. Significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Alhambra Overseas Limited, Saga Creek Gold Company LLP (“Saga LLP”) and Goodwin Golems LLP (“Goodwin”).

(b) Use of estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

amount of assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those reported. Significant areas requiring the use of management estimates include estimates related to the determination of impairment of mineral properties, equipment and deferred exploration and development costs, asset retirement obligations and determination of the assumptions used in calculating stock option compensation expense. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

(c) Oil and natural gas properties

The Company follows the full cost method of accounting whereby all costs relating to the exploration for and the development of oil and natural gas reserves is initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities, and lease and well equipment. Gains or losses are not normally recognized upon disposition of oil and natural gas properties unless such a disposition would significantly alter the rate of depletion and depreciation.

Costs capitalized are depleted and depreciated using the unit-of-production method based on estimated proven oil and natural gas reserves as determined by independent engineers. For purposes of the calculation, production and reserves of natural gas are converted to equivalent barrels of oil based on their relative energy content where one barrel of oil or liquids equals six thousand cubic feet of natural gas.

The cost of undeveloped land is excluded from the depletion and depreciation base until it is determined whether proved reserves are attributable to the properties, or impairment has occurred.

Estimated future site restoration costs, net of expected recoveries, are provided over the life of the proven reserves on a unit-of-production basis. Costs include the cost of production equipment removal and environmental cleanup based on regulations and economic circumstances at year end. The annual provision for future site restoration costs is included in depletion and depreciation expense and the actual abandonment and site restoration expenditures are charged to the accumulated provision account as incurred.

In applying the full cost method, the Company performs a ceiling test which restricts the capitalized costs less accumulated depletion and depreciation and costs of unproven properties from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and natural gas reserves, based on current prices and costs, and after deducting estimated future general and administrative expenses, estimated future site restoration costs, financing costs and income taxes.

The amounts recorded for depletion and depreciation of oil and natural gas properties, the provision for future site restoration costs and the ceiling test are based on estimated proven reserves, production rates, future oil and natural gas prices and future costs. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements from changes in such estimates in future periods could be significant.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

- (d) Deferred acquisition and project evaluation costs, mineral properties, equipment and deferred exploration and development costs

The amount shown for deferred acquisition and project evaluation costs, mineral properties, equipment and deferred exploration and development costs includes the direct costs of acquiring, maintaining, exploring and developing properties, the costs of acquiring directly related equipment, an allocation of management fees and salaries based on time spent and other costs directly related to specific properties. Depreciation on equipment utilized in the development of mineral properties is capitalized to mineral properties until such time these properties commence commercial production. All other costs, including administrative overhead, are expensed as incurred. Revenues from the sale of minerals are credited to mineral properties, equipment and deferred exploration and development costs until such time these properties are considered to have commenced commercial production. Mineral properties acquired for share consideration are recorded at the fair value of the shares at the date of acquisition.

Management periodically reviews the carrying values of mineral properties, equipment and deferred exploration and development costs with internal and external mining professionals. 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 Company will continue exploration on the project. The Company 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 values are appropriate.

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

The accumulated costs of mineral properties that are developed to the stage of commercial production will be amortized to operations on a unit-of-production basis over economically recoverable reserves. Mining and processing equipment is depreciated on a straight-line basis over the useful life of the related equipment.

- (e) Inventory

Inventory of gold on resin (note 6) is valued at the lower of cost and net realizable value where net realizable value is the estimated selling price in the normal course of operations, less the estimated costs of completion and selling expenses.

- (f) Depreciation

Office equipment is depreciated using the declining balance method at an annual rate of 20%.

Leasehold improvements are amortized on a straight-line basis over five years.

- (g) Revenue recognition

Revenue from the sale of oil and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation, and production-based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

(h) Income taxes

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of realization.

(i) Joint venture accounting

Substantially all of the Company's exploration and development oil and natural gas activities are conducted jointly with others and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

(j) Translation of foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Non-monetary assets and liabilities are translated into Canadian dollars at the historical rates in effect when the assets were acquired or liabilities incurred. Revenues and expenses, except depletion, depreciation and amortization, are translated into Canadian dollars at the average exchange rate for the period. Depletion, depreciation and amortization is translated into Canadian dollars at the same rates as the related assets. Exchange gains and losses arising on translation are included in determining current earnings. The foreign subsidiary is integrated and translated using the temporal method as described above. Any exchange gains or loss recognized on translation of the foreign subsidiary are currently capitalized to mineral properties, equipment and deferred exploration and development costs until commercial production commences at which time exchange gains or losses will be included in determining earnings.

(k) Stock-based compensation

The Company has a stock option plan as described in note 14[a].

Stock options granted to directors, employees and non-employees are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the options at the grant date.

The amounts disclosed relating to the fair value of stock options issued, and the resulting income effect (note 14[c]) are based on estimates of the future volatility of the Company's share price, expected lives of the options, expected dividends and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates on the financial statements of future periods could be significant. During the year ended December 31, 2003, the Company did not record compensation expense for stock options granted to employees. During the year ended December 31, 2004, this change has been applied retroactively (note 3[b]).

(l) Loss per share

Diluted loss per share is calculated using the treasury stock method, whereby it is assumed that proceeds from the exercise of stock options and warrants are used by the Company to repurchase Company shares at the weighted-average market price during the year.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

3. Changes in accounting policies

(a) Full cost accounting

On January 1, 2004, the Company prospectively adopted the CICA Accounting Guideline AcG-16 “Oil and natural gas Accounting – Full Cost”. The new guideline modifies the ceiling test calculation and outlines additional disclosure requirements. Under the full cost method of accounting, a limit is placed on the carrying amount of oil and natural gas properties. A “ceiling test” is performed to recognize and measure impairment, if any.

Impairment is recognized if the carrying amount of oil and natural gas properties, less the cost of unproved properties not subject to depletion (the “adjusted carrying amount”) exceeds the estimated undiscounted future cash flows from the Company’s proved reserves. The future cash flows are based on a forecast of prices and costs, as provided by an independent third party. If recognized, the magnitude of the impairment is then measured by comparing the adjusted carrying amount to the estimated discounted future cash flows of the Company’s proved plus probable reserves, discounted at the Company’s risk-free interest rate using forecasted prices and costs. For purposes of the ceiling test, future cash flows are calculated exclusive of indirect costs such as financing charges, general and administrative expenses and income taxes.

Any impairment recognized is recorded as additional depletion and depreciation expense.

There is no impact on the Company’s reported financial results as a result of applying the new policy.

(b) Asset retirement obligations

On January 1, 2004 the Company retroactively adopted the new CICA Handbook section 3110, “Asset Retirement Obligations”. The change in accounting policy has been applied retroactively with restatement of prior periods. The new standard requires recognition in the financial statements of the liability associated with retiring tangible long-lived assets such as oil and natural gas wells and related equipment and mineral properties. The asset retirement obligation is recognized in the period the original expenditure is made and when a reasonable estimate of the fair value can be made. The asset retirement cost, equal to the fair value of the retirement obligation, is capitalized as part of the cost of the related long-lived asset and allocated to expense on a basis consistent with depreciation and depletion. The liability is increased each reporting period with the accretion being charged to income until the property is abandoned or sold.

Prior to the new standard, the Company accumulated a provision for future site restoration costs on the balance sheet and an amount was charged to earnings using a unit of production method based on proved reserves. The accumulated liability was reduced for actual expenditures incurred.

The effects of the change in policy for asset retirement obligations and stock-based compensation (note 2[k]) for the year ended December 31, 2003:

	December 31, 2003
Increase in property and equipment, net	\$ 48,195
Increase in asset retirement obligation – oil and natural gas properties	37,567
Increase in share capital	6,160
Increase in contributed surplus	84,580
Increase in closing deficit	80,112
Increase in stock-based compensation	84,580
Increase in depreciation, depletion and accretion	7,099

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

Basic and fully diluted loss per share for the year ended December 31, 2003 increased to \$0.028 from \$0.021 as previously reported. There was no impact on the Company's cash flows for the periods ended December 31, 2003 as a result of adopting these changes. Adoption of the change in accounting policy does not result in any material impact on asset retirement obligations on mineral properties at December 31, 2003.

4. Business combinations

Pursuant to a Partnership Unit Purchase and Exchange Agreement (the "Agreement") dated March 21, 2002, as amended by an agreement dated January 16, 2003, Alhambra acquired all of the issued and outstanding units of Saga LLP and Goodwin in exchange for the issuance of 4,000,000 common shares of Alhambra at a deemed price of Can\$0.25 per share for total consideration of \$1,000,000 and the granting to the vendors of a Net Smelter Return with respect to the production of minerals from the properties owned by Saga LLP. The Net Smelter Return is equal to (i) 2.5% of gross revenue as defined in the Agreement in the event that the weighted-average price of gold is less than US\$300 per ounce; (ii) 2.75% of gross revenue in the event that the weighted-average price of gold is equal to or greater than US\$300 per ounce; and (iii) 3% of gross revenue in the event that the weighted-average price of gold is equal to or greater than US\$350 per ounce.

The acquisition received conditional approval from the TSX Venture Exchange Inc. (the "Exchange") on July 8, 2003 and was accepted on August 8, 2003. As the Company satisfied the conditions required to be completed by the Exchange on September 29, 2003, this date is used as the effective date of the acquisition.

The combination has been accounted for using the purchase method with the results of Saga LLP's and Goodwin's operations being included in the financial statements from September 29, 2003:

Consideration for the purchase consisted of:

4,000,000 common shares at a deemed value of Can \$0.25 per share	\$ 1,000,000
Acquisition costs	57,499
Total purchase price	\$ 1,057,499

The purchase price has been allocated as follows:

Cash	\$ 89,578
Accounts receivable	46,095
Prepaid expenses	71,430
Accounts payable and accrued liabilities	(60,547)
Mineral properties, equipment and deferred exploration and development costs	728,700
Other assets	182,243
Total purchase price	\$ 1,057,499

5. 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 assets held for sale at December 31, 2004, and are reflected as discontinued operations. Certain financial information has been reclassified in the prior period as discontinued operations.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

Subsequent to year-end, 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 \$2.2 million 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:

Year ended December 31	2004	2003
Oil and natural gas sales, net of royalties	\$ 592,683	\$ 556,545
Net income from discontinued operations before income taxes	\$ 237,039	\$ 234,499
Future income taxes (note 12)	182,810	286,613
Net income from discontinued operations	\$ 419,849	\$ 521,112

Included in discontinued operations is \$174,300 of depletion and depreciation on property and equipment.

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

	2004	2003
Accounts receivable	\$ 87,830	\$ 68,122
Property and equipment	1,038,193	1,148,506
Future income tax asset	182,810	-
	1,308,833	1,216,628
Accounts payable	183,634	141,764
Asset retirement obligation on oil and natural gas assets	98,259	89,327
	281,893	231,091
Net assets of discontinued operations	\$ 1,026,940	\$ 985,537

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

6. Mineral properties, equipment and deferred exploration and development costs

Mineral properties, equipment and deferred exploration and development costs consist of the following:

	2004	2003
Deferred exploration and development costs	\$ 8,523,490	\$ 4,788,433
Equipment, net of accumulated depreciation of \$131,770 (2003 - \$13,831)	2,378,376	648,869
Construction in progress	98,941	619,601
Inventory	410,482	40,485
	\$ 11,411,289	\$ 6,097,388

During the years ended December 31, 2004 and 2003, 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.

7. Property and equipment

	2004			2003		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Leasehold improvements	\$ 27,177	\$ 13,698	\$ 13,479	\$ 27,177	\$ 8,218	\$ 18,959
Office equipment	28,654	12,459	16,195	18,682	8,269	10,413
	\$ 55,831	\$ 26,157	\$ 29,674	\$ 45,859	\$ 16,487	\$ 29,372

General and administrative expenses have not been capitalized.

8. Due to officers and directors

At December 31, 2004, the amount due to officers and directors represents advances to the Company bearing interest at 10% and had no set terms of repayment. The advances were repaid subsequent to December 31, 2004.

At December 31, 2003, the amount due to officers and directors represented a demand promissory note issued by the Company and was unsecured, non-interest bearing and had no set terms of repayment. The demand promissory note was repaid during 2004.

9. 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 10) was transferred to the debenture holder thus increasing the principal amount from US\$680,000 to US\$1,180,000.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

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\$0.82 at December 31, 2004). 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. Subsequent to year end, the US\$500,000 10% unsecured convertible subordinated promissory note was repaid.

The Company has not allocated its convertible debenture or convertible promissory notes (note 10) 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.

10. 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 9). 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 (note 13[b]). On April 29, 2005, Can\$350,000 of the Can\$ notes and US\$125,000 (Can\$150,250) of US\$ notes were repaid.

11. Asset retirement obligations

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 advanced gold project in Kazakhstan.

	December 31, 2004	
Balance, beginning of year	\$	-
Future site restoration provision		70,853
Liabilities settled		-
Accretion		7,085
Balance, end of year	\$	77,938

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.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

Property and equipment

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the asset retirement obligations associated with the retirement of oil and natural gas properties.

	December 31, 2004	December 31, 2003
Balance, beginning of year	\$ 89,327	\$ 81,206
Liabilities settled	-	-
Accretion	8,932	8,121
Balance, end of year	\$ 98,259	\$ 89,327

Total estimated future retirement costs of \$198,900 (2003 - \$198,900) 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.

12. Income taxes

- (a) Significant components of the future income tax liability (asset) at December 31, 2004 and 2003 are as follows:

	2004	2003
Mineral properties, equipment and deferred exploration and development costs	\$ (73,131)	\$ (74,750)
Property and equipment	267,640	303,045
US\$ denominated convertible debenture and convertible promissory notes	20,885	23,601
Asset retirement obligations	(33,281)	(17,919)
Eligible capital expenditures	(13,189)	(13,481)
Attributed royalty income deductible against future Alberta taxable income	(10,229)	(7,096)
Capital and non-capital loss carryforwards	(349,643)	(174,445)
Share issuance costs and financing fees	(156,371)	(119,563)
Valuation allowance	164,509	80,608
Future income tax asset – discontinued operations	\$ (182,810)	\$ -

Due to the history of operating losses, the Company did not consider it more likely than not that it would be able to realize a future tax benefit on continuing operations and, as a result, no future income tax asset was recorded at December 31, 2004 and 2003. A future income tax asset of \$182,810 from discontinued operations was recorded at December 31, 2004 as it will be realized in 2005 upon completion of the sale of the oil and natural gas assets.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

- (b) Future income taxes recovery differs from that which would be expected from applying the combined effective Canadian federal and provincial income tax rates of 33.87% (2003 – 40.62%) to loss before income taxes as follows:

	2004	2003
Expected income tax recovery	\$ (258,113)	\$ (312,671)
Difference resulting from:		
Royalties, net of tax credits	8,490	6,887
Resource loss	10,114	12,647
Stock-based compensation costs	87,276	96,571
Unrealized foreign exchange gain	(20,885)	(27,691)
Share issuance costs	(89,859)	-
Provincial tax deduction	(3,133)	(2,119)
Tax rate reductions	(402)	(2,841)
Other	4,493	4,907
Future income tax benefit not recognized	79,209	45,759
	\$ (182,810)	\$ (178,551)

Comprised of:

Continuing operations	\$ -	\$ 108,062
Discontinued operations	(182,810)	(286,613)
	\$ (182,810)	\$ (178,551)

- (c) The Company has available the following estimated non-capital loss carryforwards for which no benefit has been recognized in the consolidated financial statements:

Year of Expiry	Amount
2009	\$ 82,845
2010	399,575
2014	528,424
	\$ 1,010,844

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

13. Share capital

(a) Authorized

Unlimited voting common shares
 Unlimited non-voting preferred shares

(b) Issued

	2004		2003	
	Number	Stated Value	Number	Stated Value
				(restated - note 3)
Common shares				
Balance, beginning of year	26,369,472	\$ 6,156,523	17,878,535	\$ 3,565,613
Pursuant to private placements (notes 13[c] and 13[f])	8,654,140	4,317,070	3,113,427	1,245,371
Exercise of stock options (note 14[a])	210,000	65,481	240,000	31,200
To effect business combination	-	-	4,000,000	1,000,000
Exercise of warrants (note 14[d])	-	-	900,000	180,000
Pursuant to convertible debenture agreement (note 10)	-	-	137,510	82,506
To be issued pursuant to a private placement (note 13[d])	-	-	100,000	60,000
Stock-based compensation costs (note 14[c])	-	-	-	17,055
Prior period adjustment for stock-based compensation (notes 2[k] and 3)	-	-	-	6,160
Share issuance costs	-	(265,306)	-	(31,382)
Balance, end of year	35,233,612	\$ 10,273,768	26,369,472	\$ 6,156,523

- (c) During the year ended December 31, 2004, Alhambra received subscription agreements along with payment pursuant to a private placement of 8,654,140 units at \$0.50 per unit for total cash proceeds of \$4,317,070. Each unit consisted of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one additional common share at an exercise price of \$0.70 per share expiring on June 14, 2006. On 1,622,160 Units sold for a cash consideration of \$811,080, the Company paid broker fees equal to 10% of the gross proceeds raised from the issue and further issued broker options to purchase 10% of the units sold under the private placement at an exercise price of \$0.50 per unit, exercisable on or before September 8, 2005 (note 14[b]). On 1,514,000 units sold for a cash consideration of \$757,000, the Company paid cash brokerage fees of 10% of the gross proceeds.
- (d) On June 14, 2004 pursuant to a private placement, 100,000 units were issued at \$0.60 per unit for cash proceeds of \$60,000 which was received during the year ended December 31, 2003. Each unit consisted of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one additional common share at an exercise price of \$0.70 per share on or before two years from the date of closing of the private placement.
- (e) During the year ended December 31, 2004, a total of 210,000 stock options were exercised for total proceeds of \$52,750. In addition, a total of \$12,731 was transferred from contributed surplus to reflect the value of the options calculated on the grant date and charged as stock-based compensation expense.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

- (f) Pursuant to a private placement completed April 23, 2003, 3,113,427 units were issued at \$0.40 per unit for cash proceeds of \$1,245,371 and share issuance costs of \$48,000 were incurred that related to the private placement. Each unit consisted of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one additional common share up to April 23, 2004 at an exercise price of \$0.60 per share. The Company received regulatory approval to extend the expiry date of the warrants to April 23, 2005. At December 31, 2004, all 3,113,427 common share purchase warrants are outstanding.
- (g) On July 31, 2004, 1,200,000 common share purchase warrants relating to units issued in 2002 expired.
- (h) Warrants outstanding

	2004		2003	
	Number of Warrants	Weighted-Average Exercise Price	Number of Warrants	Weighted-Average Exercise Price
Outstanding, beginning of year	4,313,427	\$ 0.64	1,200,000	\$ 0.75
Granted (note 13[c][d][f])	8,754,140	0.70	3,113,427	0.60
Expired (note 13[g])	(1,200,000)	0.75	-	-
Outstanding, end of year	11,867,567	\$ 0.67	4,313,427	\$ 0.64
Exercisable, end of year	11,867,567	\$ 0.67	4,313,427	\$ 0.64

14. 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 December 31, 2004 and 2003 and changes during the years then ended are as follows:

	2004		2003	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding, beginning of year	2,135,000	\$ 0.43	1,430,000	\$ 0.35
Granted	1,345,000	0.42	1,345,000	0.45
Cancelled	(225,000)	0.50	(400,000)	0.40
Exercised	(210,000)	0.25	(240,000)	0.13
Outstanding, end of year	3,045,000	\$ 0.43	2,135,000	\$ 0.43
Exercisable, end of year	2,020,000	\$ 0.43	1,367,000	\$ 0.42

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

In addition to the above, there are 162,216 broker options outstanding to purchase units at \$0.50 per unit until September 8, 2005 (note 13 (c)). 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, 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 when the Company will reach the required level of production.

- (b) The following table summarizes information about stock options outstanding and exercisable at December 31, 2004.

Exercise Prices	Outstanding		Exercisable	
	Number	Weighted-Average Remaining Contractual Life	Number	Weighted-Average Remaining Contractual Life
\$ 0.20	50,000	1.68 years	-	1.68 years
\$ 0.30	290,000	2.16	290,000	2.16
\$ 0.35	50,000	3.10	37,500	3.10
\$ 0.40	1,185,000	2.50	762,500	2.50
\$ 0.45	500,000	2.32	125,000	2.32
\$ 0.50	470,000	0.72	305,000	0.72
\$ 0.52	500,000	2.38	500,000	2.38
	3,045,000	2.14 years	2,020,000	2.15 years

- (c) The fair value of the options granted is estimated on the date of grant using the Black-Scholes option-pricing model. The fair value of the options was calculated to be \$231,486 (2003 - \$422,807) using the following weighted-average assumptions:

	2004	2003
Expected dividend yield (%)	-	-
Expected life (years)	3.00	2.66
Risk-free interest rate (%)	3.91	3.42
Expected volatility (%)	75	75
Fair value of options granted (\$/share)	0.21	0.20

During the twelve months ended December 31, 2004, the Company granted 1,345,000 (2003 - 1,345,000) stock options to directors, officers and employees to purchase common shares of the Company at exercise prices ranging from \$0.40 to \$0.45 per common share. The fair value of the stock options is being amortized to compensation expense over the vesting period of the options. During the twelve months ended December 31, 2004, these options resulted in an increase in compensation expense of \$168,663 (2003 - \$125,100) with a corresponding increase to contributed surplus. In addition, a total of \$12,731 (2003 - \$23,655) 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 \$89,015 (2003 - \$nil) charged to compensation expense and contributed surplus for the twelve months ended December 31, 2004 relates to options granted prior to 2004.

- (d) During the year ended December 31, 2003, 900,000 warrants were exercised at \$0.20 per share.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

15. Related party transactions

- (a) During the year, the Company paid \$76,517 (2003 - \$53,382) in rent and other expenses to a public company with common officers and directors. Of this amount, \$6,617 (2003 - \$29,736) remains in accounts payable and accrued liabilities at December 31, 2004.
- (b) During the year, the Company paid \$98,000 (2003 - \$72,000) in consulting fees to a company controlled by the President and Chief Operating Officer of Alhambra. Of this amount, \$71,500 (2003 - \$46,800) 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.

16. Statements of cash flows

The following non-cash transactions have been excluded from the consolidated statements of cash flows:

	2004	2003
Acquisition of units of Saga LLP and Goodwin in exchange for 4,000,000 common shares	\$ -	\$ 1,000,000
Unrealized foreign exchange gain on conversion of U.S. dollar denominated convertible debenture and convertible promissory notes at December 31, 2003 and 2004	\$ 123,323	\$ 136,344
Payment of financing fees in exchange for common shares	\$ -	\$ 82,506

17. 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.

	2004	2003
Loss before discontinued operations	\$ (0.031)	\$ (0.052)
Discontinued operations	0.013	0.024
Net loss per share	\$ (0.018)	\$ (0.028)
Basic and diluted weighted average shares (note 13[h])	31,750,980	21,407,639

18. 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.

Notes to Consolidated Financial Statements

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(c) Foreign currency risk

The convertible debenture, a portion of the convertible promissory notes and the Pre-Payment Gold Sales Facility Agreement (note 20) 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.

19. Comparative figures

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

20. 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 December 31, 2004, advances received from PLADIS AG totaled US\$628,548 (CDN\$755,515) and is included in accounts payable and accrued liabilities.

21. Subsequent events

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.

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.

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⁾⁽⁴⁾
London, England

Michael E. Hriskevich⁽¹⁾⁽²⁾⁽⁴⁾
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Gordon L. Levang⁽¹⁾⁽³⁾⁽⁴⁾
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Elmer B. Stewart
Calgary, Alberta

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

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

- (1) Audit Committee
- (2) Corporate Governance
- (3) Compensation Committee
- (4) Reserves Committee



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