ALHAMBRA RESOURCES LTD

Q3

Consolidated Financial Statements (Unaudited)

and

Management's Discussion and Analysis

For the Nine Months Ended

September 30, 2004

alhambra

Alhambra Resources Ltd.
Consolidated Balance Sheets

	September 30, 2004 (unaudited)	December 31, 2003 (audited) (restated – note 2)
Assets		
Current assets		
Cash and cash equivalents	$ 104,782	$ 29,982
Accounts receivable	384,563	87,810
Deposits and prepaid expenses	6,650	103,577
	495,995	221,369
Mineral properties, equipment and deferred exploration and development costs	10,027,275	6,097,388
Other assets	193,175	190,994
Property and equipment	1,063,665	1,177,878
	$11,780,110	$ 7,687,629
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 948,719	$ 567,642
Convertible promissory notes (note 4)	1,188,500	
Due to officers and directors	40,000	40,000
	2,177,219	607,642
Convertible debenture (note 3)	857,888	881,620
Convertible promissory notes (note 4)	-	1,210,313
Asset retirement obligations (note 5)	180,632	89,327
	3,215,739	2,788,902
Shareholders' Equity		
Share capital (note 6)	10,250,500	6,156,523
Contributed surplus	484,034	282,345
Deficit	(2,170,163)	(1,540,141)
	8,564,371	4,898,727
	$11,780,110	$ 7,687,629

Approved by the Board,

("signed")
_____ , Director
Elmer B. Stewart

("signed")
_____ , Director
John J. Komarnicki

Alhambra Resources Ltd.
Consolidated Statements of Loss and Deficit
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2004	**September 30, 2003 (restated – note 2)**	**September 30, 2004**	**September 30, 2003 (restated – note 2)**
Revenues				
Oil and natural gas sales, net of royalties	$ 152,309	$ 136,246	$ 451,032	$ 430,108
Interest and other	3,055	-	5,411	-
	155,364	136,246	456,443	430,108
Expenses				
Operating	27,085	20,594	74,179	57,473
General and administrative	156,783	133,529	538,366	607,188
Interest	51,422	43,601	159,248	99,879
Stock-based compensation costs	70,865	56,860	201,689	88,460
Depletion, depreciation and accretion	41,510	46,474	138,766	164,923
	347,665	301,058	1,112,248	1,017,923
Loss before foreign exchange gain and income taxes	(192,301)	(164,812)	(655,805)	(587,815)
Foreign exchange gain	87,850	13,434	25,782	74,634
Loss before income taxes	(104,451)	(151,378)	(630,023)	(513,181)
Future income tax recovery	-	36,659	-	168,545
Net loss	(104,451)	(114,719)	(630,023)	(344,636)
Deficit, beginning of period	(2,065,712)	(1,178,861)	(1,540,140)	(948,944)
Deficit, end of period	$ (2,170,163)	$ (1,293,580)	$ (2,170,163)	$ (1,293,580)
Net loss per share				
Basic and fully diluted	$ (0.003)	$ (0.005)	$ (0.021)	$ (0.017)
Weighted average number of shares				
Basic and diluted	35,023,612	21,233,427	30,603,910	19,897,972

Alhambra Resources Ltd.
Consolidated Statements of Cash Flows
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2004	**September 30, 2003 (restated – note 2)**	**September 30, 2004**	**September 30, 2003 (restated – note 2)**
Operating Activities				
Net loss	$ (104,451)	$ (114,719)	$ (630,023)	$ (344,636)
Items not involving cash				
Depletion, depreciation and accretion	41,510	46,474	138,766	164,923
Future income taxes (recovery)	-	(36,659)	-	(168,545)
Stock-based compensation costs	70,865	56,860	201,689	88,460
Unrealized foreign exchange losses	(94,223)	-	(45,545)	-
	(86,299)	(48,044)	(335,113)	(259,798)
Change in non-cash working capital items	97,246	57,125	181,251	141,195
	10,947	9,081	(153,862)	(118,603)
Financing activities				
Issuance of share, net of share issue costs	25,000	1,951	4,093,977	1,228,572
Repayment of loans to officers and directors	40,000	-	-	(354,990)
Convertible debenture with officers and directors	-	810,312	-	1,244,000
Repayment of loan payable	-	-	-	(1,000,000)
Convertible debenture	-	1,971	-	918,272
	65,000	814,234	4,093,977	2,035,854
Investing Activities				
Acquisition of mineral properties, equipment and deferred exploration and development costs	(1,739,326)	-	(3,845,281)	-
Loan receivable advances	-	(721,931)	-	(1,677,883)
Deferred acquisition and project evaluation costs	-	(87,861)	-	(298,935)
Saga Creek Gold Company, LLP	-	(21,715)		(21,715)
Increase in other assets	-	-	(2,180)	
Acquisition of property and equipment, net	(6,149)	(3,433)	(17,854)	(8,845)
	(1,745,475)	(834,940)	(3,865,315)	(2,007,378)
Cash inflow (outflow)	(1,669,528)	(11,625)	74,800	(90,127)
Cash and cash equivalents, beginning of period	1,774,310	16,316	29,982	94,818
Cash and cash equivalents, end of period	$ 104,782	$ 4,691	$104,782	$ 4,691
Cash and cash equivalents consists of:				
Deposits with banks	$ 104,782	$ 4,691	$ 104,782	$ 4,691
Supplemental disclosure of cash flows information:				
Interest paid	$ 40,654	$ 24,120	$ 125,560	$ 80,398

1. Nature and continuance of operations

   The businesses of Alhambra Resources Limited ("Alhambra" or the "Company) consist of exploration for and development of oil and gas properties in Canada and the exploration for and development of mineral properties in the Republic of Kazakhstan.

   These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and underlying assumption being that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

   Due to Alhambra's continued net losses and working capital deficiency, its ability to continue with its business plan is dependent upon its ability to raise additional capital to fund these activities and on achieving positive earnings and cash flow. Management believes the equity capital raised (note 6) has increased Alhambra's ability to carry out its business plan and to continue as a going concern.

2. Summary of changes in significant accounting policies

   Full Cost Accounting

   On January 1, 2004, the Company adopted the CICA Accounting Guideline AcG-16 "Oil and 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 any 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.

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 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.

Stock-based Compensation

On January 1, 2004, the Company retroactively adopted amendments to CICA Handbook Section 3870 "Stock-based Compensation and other Stock-based Payments", whereby stock options granted to employees, officers and directors, on or after January 1, 2002 , are accounted for using the fair value method. Under this method, stock-based compensation expense is recognized when an option is granted, based on the fair value of the option on the date of grant.

Prior to the adoption of the new standard, the Company accounted for the granting of stock options to employees, officers and directors using the intrinsic value method. Under this method, no compensation expense is recorded for stock options granted at prevailing market prices.

The effects of the change in policy for asset retirement obligations and stock-based compensation for the year ended December 31, 2003 and the nine months ended September 30, 2003 are as follows:

	December 31, 2003	September 30, 2003
Increase in property and equipment, net	$ 48,195	$ 49,990
Increase in asset retirement obligation	37,567	40,737
Increase in share capital	6,160	6,160
Increase in contributed surplus	84,580	48,720
Increase in closing deficit	80,112	45,627
Increase in stock-based compensation	84,580	48,720
Increase in depreciation, depletion and accretion	7,099	8,473

Basic and fully diluted loss per share for the year ended December 31, 2003 remained unchanged at $0.023 and increased for the nine months ended September 30, 2003 to $0.017 from $0.014. There was no impact on the Company's cash flows for the periods ended December 31, 2003 and September 30, 2003 as a result of adopting these changes.

Except as described above, the accounting policies of the interim consolidated financial statements are the same as those described in the Company's 2003 audited consolidated financial statements. The interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim consolidated financial statements should be read in conjunction with the December 31, 2003 consolidated financial statements.

3. Convertible debenture

The Company has outstanding a 10% secured convertible debenture (the "debenture") due March 31, 2006, with a face value of $680,000 US. 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 $0.60 Cdn based on the exchange rate in effect at the time of the conversion. 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 $1.20 Cdn 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.

4. Convertible promissory notes

The Company has outstanding 10% unsecured convertible subordinated promissory notes, due June 30, 2005, totaling $400,000 Cdn ("Canadian dollar notes") and $625,000 US ("US dollar notes") (jointly the "Notes"). The Canadian dollar notes are convertible at any time, in

whole or in part, at the option of the holder into common shares at $0.60 Cdn. The US dollar notes are convertible at anytime, in whole or in part, at the option of the holder at a rate of 11,459 common shares for each $5,000 US of principal amount converted. The Notes can be converted at the option of the Company if the common shares of the Company trade over a ten-day period consecutive period at a closing price equal to or greater than $0.90 Cdn per common share. Interest on the Notes is payable on a quarterly basis. The holders of the Canadian dollar notes are directors of the Company.

5. Asset retirement obligations

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.

	September 30, 2004	December 31, 2003
Balance, beginning of period	$ 89,327	$ 81,206
Liabilities settled	-	-
Accretion	6,699	8,121
Balance, end of period	$ 96,026	$ 89,327

Total estimated future retirement costs of $189,900 (2003 - $189,900) 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.

Deferred assets

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.

	September 30, 2004
Balance, beginning of period	-
Future site restoration provision	$ 82,553
Liabilities settled	-
Accretion	2,053
Balance, end of period	$ 84,606

Total estimated future retirement costs of $144,918 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.

6. Share capital

(a) Authorized
Unlimited voting common shares
Unlimited nonvoting preferred shares

(b) Issued

	Number	Stated Value
Common shares		
Balance, beginning of period	26,369,472	$6,156,523
Shares issued pursuant to a private placement (note 6 [c])	8,654,140	4,317,070
Exercise of stock options (note 6 [d])	125,000	25,000
	35,148,612	10,498,593
Less: Share issue costs		248,093
Balance, end of period		$10,250,500

(c) During the nine months ended September 30, 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 on 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. 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 warrants 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. 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 or $75,700.

(d) During the nine months ended September 30, 2004, a total of 125,000 stock options were exercised at $0.20 for total proceeds of $25,000.

7. 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 shares to be issued upon the exercise of all options granted under the plan shall not exceed 10% of the issued shares of the Company at the time of granting the options. Options granted under the plan generally have a term between three and 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 of September 30, 2004 and the changes during the period then ended is as follows:

	Number of options	Weighted Average Exercise Price
Issued, beginning of period	2,135,000	$0.42
Granted	1,345,000	$0.42
Cancelled	(225,000)	$0.50
Exercised	(125,000)	$0.20
Outstanding at September 30, 2004	3,130,000	$0.42
Exercisable at September 30, 2004	1,693,750	$0.43

During the nine months ended September 30, 2004, the Company granted 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 stock options had a fair value of $231,486 which is being amortized to compensation expense over the vesting period of the options. During the nine months ended September 30, 2004, these options resulted in an increase in compensation expense of $120,776 with a corresponding increase to contributed surplus. The fair value of the options granted during 2004 was determined using the Black–Scholes option pricing model with a risk free interest rate of 4.01%, an expected life of three years, and an expected volatility of 75% with no dividends expected to be paid during the term. The remaining $80,913 charged to compensation expense for the nine months ended September 30, 2004 relates to options granted prior to 2004.

(b) The following table summarizes information about stock options outstanding and exercisable at September 30, 2004.

Options Outstanding and Exercisable			Options Exercisable	
Exercise Prices	Number	Weighted Average Remaining Contractual Life	Number	Weighted Average Remaining Contractual Life
$ 0.20	75,000	1.93 years	25,000	1.93 years
$ 0.30	290,000	2.41	290,000	2.41
$ 0.35	75,000	3.35	37,500	3.35
$ 0.40	1,220,000	2.75	498,750	2.75
$ 0.45	500,000	2.57	62,500	2.57
$ 0.50	470,000	0.97	280,000	0.97
$ 0.52	500,000	2.63	500,000	2.63
	3,130,000	2.40 years	1,693,750	2.36 years

Management's discussion and analysis should be read in conjunction with the unaudited consolidated interim financial statements for the nine months ended September 30, 2004 and the audited consolidated financial statements for the year ended December 31, 2003.

The financial data presented has been prepared by management and is in accordance with Canadian generally accepted accounting principles.

During the third quarter of 2004, the Company commenced saturation of the initial 174,000 tonnes of the test heap leach on Alhambra's 100% owned Uzboy gold project located in north central Kazakhstan. It is anticipated that any gold recovered from this test heap leach will be sold in the fourth quarter of 2004. In addition, construction of a gold recovery plant with a design capacity of 1.2 million tonnes per year has been completed. The Company's exploration program continues and drilling on the Uzboy west zone has confirmed the presence of significant zones of gold mineralization.

Revenues

Alhambra's oil and natural gas sales are derived from a combination of royalty and working interests. During the three months ended September 30, 2004, oil and natural gas sales revenue, net of royalties, were $152,309, an increase of $16,063 over the three months ended September 30, 2003 figure of $136,246. For the nine months ended September 30, 2004, oil and natural gas sales revenue, net of royalties, equaled $451,032, $20,924 higher than the nine months ended September 30, 2003 figure of $430,108. An increase in oil and natural gas prices accounted for the increase.

Oil and natural gas liquids revenue, net of royalties, remained constant at approximately 44% and natural gas at approximately 56% of total net sales revenue for the three months and nine months ended September 30, 2004, compared to the same periods in 2003.

Oil and natural gas liquids sales volumes decreased 8% to 14.2 barrels of oil per day ("bopd") for the third quarter of 2004 compared to 15.5 for the third quarter of 2003 and decreased 4% to 14.2 bopd for the nine months ended September 30, 2004 compared to 14.8 bopd for the same period in 2003. In contrast, the average oil price received increased 19% to $58.51 CDN per barrel in three months ended September 30, 2004 as compared to $49.03 CDN during the third quarter of 2003. For the nine months ended September 30, 2004, the average oil price increased 9% to 53.67 CDN per barrel compared to $49.24 CDN for the comparable period in 2003. The increase in price reflects the increase in world oil prices, which rose from an average of $31.43 US for the nine months ended September 30, 2003 to an average of $39.16 US for the comparable period in 2004. This increase was partially offset by a decline in the value of the United States dollar from 2003 to 2004.

Natural gas sales volumes decreased 11% to 125.3 thousand cubic feet per day (mcf/d) for the third quarter of 2004 from 140.6 mcf/d for the comparable period in 2003 and decreased 4% to 132.9 mcf/d for the nine months ended September 30, 2004 from 137.7 mcf/day for the comparable period in 2003. Prices averaged $8.35 for the third quarter of 2004 and $8.15 for the nine months ended September 30, 2004, an increase from $6.31 and $7.32 respectively for the comparable periods in 2003.

Operating expenses

Alhambra's operating costs are relatively fixed in nature and as a result they do not increase or decrease materially under normal operating conditions. Operating costs increased $6,491 to $27,085 during the third quarter of 2004 as compared to $20,594 in the comparable period of 2003. Increased manpower costs and additional well maintenance were responsible for the increase. On a year to date basis, operating expenses were $74,179 or $7.44 per barrel in 2004 compared to $57,473 or $5.58 per barrel in 2003.

General and administrative expenses

General and administrative expenditures were $156,783 for the three months ended September 30, 2004, an increase of 17% over the 2003 comparable period's expenses of $133,529. For the nine months ended September 30, 2004 general and administrative expenses were $538,366, a decrease of 11% over the comparable nine month 2003 figure of $607,188. The higher costs in 2003 reflected costs incurred in the second quarter relating to convertible debt financing for the Uzboy gold project.

Interest

Interest for the third quarter of 2004 was $51,422, an increase of $7,821 over the comparable 2003 amount of $43,601. The year to date amount of $159,248 increased $59,369 over the 2003 year to date amount of $99,879. These increases are a result of the convertible debt raised in the latter half of 2003, primarily to fund the Uzboy project. This debt is in the form of secured and unsecured notes with an interest rate of 10% per annum.

Stock-based compensation

Stock-based compensation costs relate to the fair value of stock options granted to directors, 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 option, the expected volatility and the expectation of dividends being paid during the life of the option. Due primarily to the high volatility of the Company's stock price, this calculation gives significant value to the options which must be expensed during their vesting period. The expense for the third quarter of 2004 totaled 70,865 as compared to $56,860 for the

comparable period in 2003. For the nine month period ended September 30, 2004 and 2003, stock-based compensation expenses were $201,689 and $88,460 respectively. This increase is a result of a number of options being granted in mid-year 2003 and 2004.

Depletion, depreciation and accretion

Depletion and depreciation of property and equipment and accretion of the asset retirement obligations for the third quarter of 2004 was $41,510, a decrease of $4,964 over the $46,474 recorded for the comparable period of 2003. For the nine months ended September 30, 2004, depreciation, depletion and accretion expense totaled $138,766, a decrease of $26,157 over the comparable 2003 figure of $164,923. A combination of lower production volumes as noted above and a lower depletion rate were responsible for the decline. The lower production combined with an 8% increase in year over year proven reserves and a lower depletion cost base have resulted in the depletion rate per barrel decreasing to $12.97 for the nine months ended September 30, 2004 as compared to $15.04 for the comparable 2003 period.

Foreign exchange loss

The Company recorded a $87,850 foreign exchange gain for the third quarter of 2004 and a $25,782 gain for the nine-month period ended September 30, 2004. The amounts for the three-month and nine-month periods ended September 30, 2004 include unrealized portions of $94,223 and $45,545, respectively. The unrealized portion arose as a result of the conversion of the US dollar denominated debt carried by the Company. The US dollar strengthened from December 31, 2003 to September 30, 2004 thus requiring Alhambra to record an increase in the Canadian dollar equivalent amount recorded on the balance sheet

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 and, as a result, no future income tax asset was recorded at September 30, 2004.

Cash flow and earnings

Cash flow utilized in operating activities increased $38,255 to $86,299 for the third quarter of 2004 from $48,044 recorded in the same period in 2003. The increase is the result of higher general and administration expenses of $23,254, higher interest expense (net of interest income) of $4,766 and realized foreign exchange loss of $19,807 partially offset by higher net oil and natural gas operating income of $9,572.

For the nine months ended September 30, 2004, cash flow utilized in operating activities increased $75,315 to $335,113 in 2004 from the 2003 comparable amount of $259,798. The increase is the result of higher interest expense (net of interest income) and a realized foreign exchange loss of $53,958 and $94,397, respectively, partially offset by higher net oil and natural gas operating income and lower general and administration expenses of $4,218 and $68,822, respectively.

Net loss for the quarter ended September 30, 2004 decreased by $10,268 to $104,451 from the $114,719 recorded for 2003. The unrealized foreign exchange gain of $94,223 combined with the lower depletion, depreciation and accretion of $4,964 was more than offset by an increase in cash flow utilized in operating activities of $38,255, higher stock based compensation of $14,005, and a 2003 income tax recovery of $36,659. Based on a weighted average number of shares outstanding in 2004 and 2003 respectively of 35,023,612 and 21,233,427, the loss per share was $(0.003) and $(0.005) respectively.

Net loss for the nine months ended September 30 2004 increased $285,387 to $630,023 from the comparable amount of $344,636 in 2003. The unrealized foreign exchange gain of $45,545 combined with the lower depletion, depreciation and accretion of $26,157 was more than offset by an increase in cash flow utilized in operating activities of $75,315, higher stock based compensation of $113,229, and a 2003 income tax recovery of $168,545. Based on a weighted average number of shares outstanding in for the nine months ended September 30, 2004 and 2003 respectively, of 30,603,910 and 19,897,972, the loss per share was $(0.021) and $(0.017) respectively.

Capital expenditures

The Company's capital expenditure program for the nine months ended September 30, 2004 was focused on commencing a pilot heap leach test on the oxide gold mineralization from the Uzboy west zone. Included in the $3,929,887 spent on the project during this period was the construction of a gold recovery plant with a design capacity of 1.2 million tonnes. Alhambra is also carrying out an exploration program to determine the extent of resources that are contained within the licensed area. Results from drilling 16 diamond drill holes confirmed the presence of significant zones of gold mineralization in the Uzboy west zone.

While Alhambra is not carrying out an active exploration and development program on its oil and natural gas assets, it does participate in projects on existing leases should management determine them to be of low risk and offer an economic return. Alhambra participated to a 2.4% working interest in the drilling of a successful natural gas well in the Belly River Formation in the Wood River area of Alberta (100/9-2-43-23W4) that was spudded in 2003 and completed in 2004. Total costs incurred during 2004 were approximately $4,000. Reperforation of the viking at 11-15-49-12W4 has been completed and was successful in bringing the well back on production. The Company's interest in Wildmint A-17-I-94-H-2 decreased from 17.4671% to 4.3668% as a result of a wellbore equalization project.

Preliminary tests have been successful with final testing to be completed when the well is tied in to production facilities.

Liquidity and capital resources

During 2004, Alhambra raised $4,068,977 from the issue of 8,654,140 common shares pursuant to private placement agreements and $25,000 from the issue of 125,000 shares upon the exercise of stock options. This cash has been used for funding the Uzboy prospect as well as general working capital requirements. At September 30, 2004 the Company had $104,782 of cash on hand and a deficiency in other working capital of $1,786,006. Included in this deficiency is $1,188,500 in secured debentures and unsecured promissory notes of which $788,500 are denominated in US$ ($625,000 US), and $40,000 in a non-interest bearing loan to a director of the Company. The earliest maturity date of the obligations is in 2005. Should the Company produce gold from the Uzboy prospect, that US dollar based revenue stream will help to mitigate foreign exchange risk. 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.

Changes in accounting policies

In 2003 the CICA issued Accounting Guideline 16 "Oil and Gas Accounting – Full Cost". The guideline is effective for fiscal years commencing after January 1, 2004. The new guideline limits the carrying value of oil and natural gas properties to their fair value. Fair value is defined as being equal to estimated future cash flows from proved plus probable reserves using future prices and costs discounted at zero percent. This differs from the former cost recovery ceiling test that used undiscounted cash flows and constant prices and costs less general and administrative and financing costs. The Company did not have a write-down of its oil assets under the new standard at September 30, 2004.

In 2003, the CICA issued an amendment to Handbook Section 3870 "Stock-based Compensation and other Stock-based Payments". This requires that for fiscal years beginning in 2004 companies calculate the fair value of stock options at the time of the grant and recognize it as an expense over the vesting period of the options. The Company has restated the loss for the nine months ended September 30, 2003 resulting in an increase in net loss by $48,720.

In 2003, the CICA issued Handbook section 3110, "Asset Retirement Obligations". This standard is effective for fiscal years beginning in 2004. Under the new standard, retirement obligations on assets are initially measured at fair value, which is the future value of the liability. The fair value is capitalized as part of the cost of the related assets and depleted to earnings over the assets useful life. The liability accretes until the retirement obligations are settled. An additional liability of $37,567 was set up on the Company's balance sheet at December 31, 2003.

Outlook

With the completion of the acquisition of Saga Creek Company LLP and Goodwin Golems LLP in 2003, Alhambra is ready to move forward on its objective of becoming a successful gold mining company. Saturation of the first 174,000 tonne portion of the test heap for leaching commenced in the third quarter of 2004 and it is anticipated that any gold recovered from this test heap leach will be sold in the fourth quarter of 2004. As part of this test, the Company completed the construction of a gold recovery plant with a design capacity of 1.2 million tonnes per year. The Company continues its exploration program and has confirmed the depth extension of the oxide gold mineralization in the west zone of Uzboy.

Forward looking statements

Certain information regarding the Company set forth in this document, including management's assessment of the Company's future plans and operations contains 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 the Company's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuation, imprecision of reserve estimates, environmental risks, taxation policies, competition from other producers, the lack of availability of qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal or external sources. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurance 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 that the Company will derive therefrom.

Corporate Information

Officers

John J. Komarnicki
Chairman and Chief Executive Officer

Elmer B. Stewart
President and Chief Operating Officer

Donald D. McKechnie
Vice President and Chief Financial Officer

Directors

John J. Komarnicki
Chairman of the Board
Calgary, Alberta

James S. Bunyan [1,3,4]
London, England

Michael E. Hriskevich [1,2,4]
Calgary, Alberta

Gordon L. Levang [2,3,4]
Calgary, Alberta

Elmer B. Stewart
Calgary, Alberta

Clarence K. Wagenaar [1,2,3]
Calgary, Alberta

[1] Corporate Governance Committee
[2] Audit Committee
[3] Compensation Committee
[4] Reserves Committee

Stock Exchange Listing

TSX Venture Exchange
Trading Symbol: "ALH"

Registrar And Transfer Agent

Olympia Trust Company
Calgary, Alberta

Bankers

Royal Bank of Canada
Main Branch
Calgary, Alberta

Auditors

Collins Barrow LLP
Calgary, Alberta

KPMG Janat, LLC
Almaty, Kazakhstan

Legal Counsel

Borden Ladner Gervais LLP
Calgary, Alberta

Aequitas Law Firm
Almaty, Kazakhstan

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alhambra