

Alhambra Resources Ltd.
Management's Discussion and Analysis of Financial Condition
and Results of Operations
For the Three Months Ended March 31, 2006

This Management's Discussion and Analysis ("MD&A") focuses on key items from the unaudited interim consolidated financial statements for Alhambra Resources Ltd. (also referred to as "Alhambra" or the "Company") for the three months ended March 31, 2006 and the factors reasonably expected to impact future operations and results as prepared on May 26, 2006. 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 of the Company for the year ended December 31, 2005 and the related notes.

This MD&A was reviewed and approved by the Company's audit committee and board of directors on May 26, 2006. Additional information on the Company is available under the Company's profile on SEDAR at www.sedar.com.

All dollar amounts are Canadian unless otherwise stated.

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

Cash flow from operations is defined as loss from continuing operations adjusted for stock-based compensation, depreciation and unrealized foreign exchange gain.

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 the exploration for and development of mineral properties in the Republic of Kazakhstan ("Kazakhstan"). The Company holds a 100% interest in two exploration licenses totaling approximately 2.7 million acres located in north central Kazakhstan (the "Uzboy Project").

Highlights

The Company's capital expenditure program for the three months ended March 31, 2006 totaled \$292,314. The main components of the 2006 capital expenditure program in the first quarter continued to be the heap leach test conducted on the oxide gold mineralization from the West and East zones of the Uzboy gold deposit and continued construction of the resin stripping plant. Abnormally cold weather in the month of January temporarily halted mining activities, resuming again in February as the weather improved. Leaching activities worked reasonably well despite this cold weather. Approximately 73,000 tonnes of material were stacked on the pad during the first quarter bringing the total material stacked to nearly 850,000 tonnes as of March 31, 2006. This represents 70% of the design capacity of the gold recovery plant. During the first quarter of 2006, the Company sold 3,808 troy ounces ("ozs") of gold with approximately 1,794 ozs on resin as of March 31, 2006. Proceeds from the sale of gold and silver for the first quarter of 2006 were \$2.4 million bringing total gross sales proceeds from startup to March 31, 2006 to \$8.5 million. As the Company is still in the preproduction stage, revenues from gold and silver sales are credited to deferred exploration and development costs until such time that the oxide portion of the Uzboy gold deposit is considered to have commenced commercial production. The Company plans to begin commercial operations for accounting purposes effective May 1, 2006.

The construction of a resin stripping plant and operations base continued during the first quarter of 2006 with expenditures on the project totaling nearly \$650,000. To date, the Company has utilized the services of a third party to strip the gold from the resin to produce cathodic sediment. The cathodic sediment is shipped to Europe for refining and sale. Management believes that this critical component of the gold production process must be controlled by the Company and therefore made a decision early in 2005 to build its own plant. The construction of the plant remains on schedule to be commissioned in the last half of 2006.

Results received during the first quarter of 2006 from the 2005 exploration program completed in 2005 on the Shirotnaia zone, the Mamay zone and the area that covers a 20 kilometer strike length centred on the Uzboy gold deposit, identified large zones of gold mineralization. In addition, significant gold mineralization was discovered in the Kerbay area located 11 kilometers north of the Shirotnaia discovery.

The 2006 exploration program consisting of trenching at the Manay zone and reverse air blast circulation drilling of the area between the West and East zone for the Uzboy gold deposit commenced in mid-May as did diamond drilling on the West Zone of the Uzoy gold deposit.

The increase in the price of the Company's common shares has resulted in the exercise of warrants issued during 2005 and 2004 pursuant to a number of private placements completed in those years. A total of 3,332,560 warrants were exercised for proceeds of \$2,296,995. An additional \$138,500 was received upon the exercise of 377,500 share options. On March 30, 2006, the convertible debenture of \$792,812 was settled through the issuance of 1,321,353 common shares of the Company.

Financial Review

Results of continuing operations

Revenue

In December 2004, the Company commenced a test heap leach operation on the oxide portion of the West zone of the Uzboy gold deposit to test the equipment and processes constructed and implemented to produce gold. Management believed that it was necessary to test the operation for at least one year to determine the operating parameters through an entire operating cycle and to ensure that a viable operation existed before going into commercial operation. As a result, the Company had no operating revenues from continuing operations in the first quarter of 2006 as well as 2005 and 2004, as it had not commenced commercial mining operations. Commercial operations for accounting purposes will begin May 1, 2006.

General and administrative expenses

General and administrative expenses for the first quarter of 2006 related to continuing operations increased to \$349,996 from the \$146,585 recorded in the comparable period in 2005. In 2006 the Company decided to increase its profile in the investment community and to improve its communications with shareholders and potential investors. Mr. Ihor P. Wasyliw was hired as Vice President and Chief Information Officer to manage that process. During 2005, the cost of this activity was significantly lower as the Company had terminated contracts with consultants engaged in investor relations activities.

Interest expense

Interest for the first quarter of 2006 was \$15,829, a decrease of \$29,713 over the 2005 amount of \$45,542. This decrease resulted from a lower average outstanding debt balance during the first quarter 2006 as in 2005 the Company paid down indebtedness from proceeds received from the issuance of common shares and thus reducing the interest obligations.

Stock-based compensation

Due primarily to the high volatility of the Company's stock price, this calculation gives a significant value to stock options which must be expensed during their vesting period. The amount of this expense for the first quarters of 2006 and 2005 was \$319,598 and \$30,039, respectively. This increase is a result of a larger number of stock options granted later in 2005 and in the first quarter of 2006 than in the first quarter of 2005 and in the 2004 year.

Cash flow

Cash utilized in continuing operations was \$353,674 in the first quarter of 2006 compared to \$214,788 in the first quarter of 2005. This increase is the result of higher general and administrative expenses offset partially by lower interest expense discussed earlier, as

well as an increase in foreign exchange gains caused by the decreasing US dollar in which a significant portion of the Company's debt is denominated.

Net Loss

The Company incurred a net loss of \$675,744 for the first quarter of 2006, compared to a net loss from continuing operations of \$253,415 for the first quarter of 2005. The higher cash flow utilized in operating activities combined with the increase in stock based compensation resulted in the increase.

Based on a weighted average number of common shares of 52,135,059 and 40,129,857 the Company's net loss per common share from continuing operations for the first quarters of both 2006 and 2005 was \$0.01.

Liquidity and capital resources

During the first quarter of 2006, Alhambra received \$2,296,995 from the issue of 3,332,560 common shares upon the exercise of warrants issued pursuant to private placements completed in 2005 and 2004. An additional \$138,500 was received on the issue of 377,500 common shares upon the exercise of stock options. This cash has been used to fund capital expenditures with the excess to be used in the Company's Uzboy project as required. A further 1,321,353 common shares were issued upon the settlement of the \$792,812 convertible debenture.

At December 31, 2005 the Company had \$2,572,338 of cash on hand and a deficiency in other working capital of \$574,458. Included in the other working capital deficiency as of March 31, 2006, was \$875,403 outstanding pursuant to a Pre-Payment Gold Sales Facility Agreement whereby the Company has a right to receive up to US\$750,000 as a pre-payment for gold to be sold to the purchaser.

As a result of the private placements completed in 2005 and 2004, Alhambra had warrants outstanding at December 31, 2005 that are exercisable into 12,041,837 common shares. Subsequent to the year end, 586,681 common shares were issued on the exercise of outstanding warrants, for gross proceeds of \$432,911. Based on the current trading price of the Company's common shares, it is anticipated that all remaining warrants will be exercised in 2006. With the proceeds expected to be received from the conversion of the warrants as well as the proceeds from the sale of gold, it is not anticipated at this time that the Company will require any additional financing in 2006. The decision on future financings is, of course, dependent upon the results of the 2006 exploration program as well as any other opportunities that may be identified during the year.

Related party transactions

During the first quarter of 2006, the Company paid \$36,000 (2005 - \$30,000) in consulting fees to a company controlled by the President and Chief Operating Officer of Alhambra. Of this amount, \$27,000 (2005 - \$22,500) was capitalized to deferred exploration and development costs.

During the three months ended March 31, 2006, the Company incurred \$10,633 in costs from a law firm in which an officer of the Company is a partner and expensed as legal

expenses. The officer was appointed in the first quarter of 2006.

Subsequent Events

In April, 2006 the Company entered into a Mineral Acquisition and Conveyance Agreement whereby the Company purchased 105 mineral claims in south-central British Columbia, Canada. The purchase included the remaining 49% working interest in 55 mineral claims not already owned by the Company (known as the Dot Property) and 100% working interest in 50 mineral claims surrounding the Dot Property. Consideration for the purchase was 225,000 common shares of the Company, each with a deemed value of \$2.28 per share, plus \$200,000 in cash

Subsequent to the March 31, 2006, 586,681 common shares of the Company were issued upon the conversion of warrants for a total proceeds of \$432,911 and 207,500 common shares were issued upon exercise of stock options for a total proceeds of \$84,125.

The Company has determined that for accounting purposes, commercial operation of the Uzboy Gold Project ("Uzboy") in Kazakhstan will commence effective May 1, 2006 and as such all revenue and expenses related to the operations of Uzboy will be reported on the income statement.

The Company has no other proposed transactions other than what is disclosed as part of subsequent events.

Financial instruments

The fair values of accounts receivable, accounts payable and accrued liabilities and the convertible debenture 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 is at a fixed rate of interest.

The convertible debenture 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 Cdn\$ and US\$.

Off Balance Sheet Arrangements

The Company has no off balance sheet arrangements except the lease agreement on premises as disclosed in note 12(c) to the interim consolidated financial statements.

Disclosure of outstanding share data

	As of March 31, 2006	Changes in 2006	Issued in 2006	As of May 26, 2006
Common shares issued and outstanding	55,509,643	-	1,019,181	56,528,824
Common shares issuable upon exercise of vested stock options	3,742,500	(207,500)	-	3,535,000
Common shares issuable upon exercise of warrants	12,041,837	(586,681)	-	11,455,156
Common shares fully diluted	71,293,980	(794,181)	1,019,181	71,518,980

At March 31, 2006, there were 55,509,643 common shares issued and outstanding and 71,293,980 fully diluted common shares after giving effect to all outstanding warrants and vested stock options. Subsequently, up to May 26, 2006, an additional 586,681 common shares were issued pursuant to the exercise of warrants and 207,500 common shares were issued upon the exercise of stock options. Also subsequent to March 31, 2006, 225,000 common shares were issued pursuant to a Mineral Acquisition and Conveyance Agreement. (Refer to "Subsequent Events").

Disclosure of material components of expenditures

Capitalized and deferred costs for the quarter ended March 31, 2006 were \$292,314 (2004 - \$891,247). Deducted from the costs was \$2,403,497 in proceeds from the sale of 3,808 oz of gold and 1,056 oz of silver related to the test heap leach program. This compares to \$535,094 from the sale of 1,039 oz of gold and 118 oz of silver for the first quarter of 2005. Approximately \$900,000 was spent in the first quarter of 2006 on buildings, machinery and equipment with the majority of that dedicated to the construction of the resin stripping plant which is anticipated to be completed later 2006. The remaining \$1.8 million related to development costs associated the test heap leach program. In 2005, substantially all costs were development costs associated with the test heap leach program.

During the first quarter of 2006, general and administrative expenses from continuing operations were \$349,996 as compared to \$146,585 for the corresponding quarter in 2005. Costs related to the maintenance of Alhambra as a public company including investor relations, stock exchange and corporate trust services costs accounted for 48% (\$169,200) of total general and administrative expenses for the first quarter of 2006 as compared to 56% (\$82,650) over the same period in 2005. The increase in public company costs was the result of the Company's decision to increase its profile in the investment community. In 2005 this cost was significantly lower as the Company had terminated contracts with consultants engaged in investor relations activities. Office expenses in 2005 of \$119,320 (2004 - \$55,590) accounted for a further 34% (2004 - 38%) of general and administrative expenses. Prior to September 2005, the Alhambra shared office space with another company.

Business risks

The risks and uncertainties affecting the Company are unchanged from that described in the Company's management and discussion and analysis of the fiscal year ended December 31, 2005

Summary of quarterly results (\$)

		2005		2006
	June	September	December	March
Loss from continuing operations	(521,384)	(209,900)	(271,312)	(675,744)
Basic and diluted loss per share – continuing operations	(0.01)	(0.00)	(0.01)	(0.01)
Net income (loss) for the period	453,521	(209,900)	(425,146)	(675,744)
Basic and diluted income (loss) per share	0.01	(0.00)	(0.02)	(0.01)
Diluted loss per share	0.01	N/A	N/A	N/A

		2004		2005
	June	September	December	March
Loss from continuing operations	(365,797)	(184,644)	(159,260)	(253,415)
Basic and diluted loss per share – continuing operations	(0.01)	(0.01)	(0.00)	(0.01)
Net loss for the period	(298,406)	(104,451)	50,762	(133,995)
Basic and diluted loss per share	(0.01)	(0.00)	0.00	(0.00)