ALHAMBRA RESOURCES LTD.

2011 Annual Report to Shareholders

2011 Chairman’s Message to Shareholders

To say the least, 2011 was a year of both challenges and achievements. Your company began the year facing a number of challenges which threatened to materially delay the progress your company had made during 2010 after successfully re-covering ownership of its operating subsidiary in Kazakhstan courts in 2009. Permitting requirements brought about as a result of new export legislation in Kazakhstan were delaying Alhambra’s ability to export drill samples which led to delays in receiving timely assay results. These delays in turn caused delays in the completion of the updated National Instrument (“NI”) 43-101 gold resource estimate and Preliminary Economic Assessment (”Scoping Study”) for Uzboy as well as the initial NI 43-101 gold resource estimates for both of Alhambra’s other two advanced exploration projects at Dombraly and Shirotnaia. As well, an audit by the tax authorities in Kazakhstan was claiming that Saga Creek was liable for the payment of Historical Costs and prior years’ corporate income tax liabilities that could total more than $20 million over a ten year period. Finally, the government of Kazakhstan’s delay in finalizing a decision to act on its pre-emptive right regarding the issue of equity has delayed the company’s ability to go to the market to raise additional capital to help deal with the above problems as well as continue to maintain the positive momentum built up from 2010.

Despite having limited cash resources your Management met these obstacles head on and I am pleased to report that while challenges still remain, Alhambra has accomplished much to clear the path ahead to get back to its main objective of adding value to shareholders through the successful exploration and development of its extremely large and highly prospective exploration license of approximately 9,800 square kilometres.

First of all, Saga Creek’s exploration team worked with government officials to effectively and efficiently stream-line its sample exporting procedures. This has enabled the completion of the NI 43-101 gold resource estimates for Shirotnaia and Dombraly in early 2012 which resulted in a 34% increase in total corporate Indicated resource ounces and a 227% increase in total corporate Inferred resource ounces. The updated NI 43-101 gold resource estimate and Scoping Study for Uzboy is expected shortly. Your company’s total NI 43-101 gold resources have been independently estimated at 1.1 million ounces of Measured and Indicated resources plus 1.4 million ounces of Inferred resources. Hence, we are well on our way in achieving one of our corporate objectives of doubling our resources within two years.

Secondly, believing strongly that Alhambra’s filing position regarding Historical Costs and prior years’ corporate income tax was supported by its contract, Alhambra challenged the tax assessments in the Kazakhstan courts and was successful in eliminating the sizable liability that could have resulted.

Thirdly, despite limitations affecting Alhambra’s ability to raise equity, it completed a successful exploration drilling program of 21,957 metres of which 76% was core drilling aimed directly at defining resources. The remaining 24% was rotary air-blast drilling which provides direction for future resource definition drilling. The assay results from this drilling program have led to the discovery of new zones of gold mineralization and significant expansion of known areas of gold mineralization that will be used to plan future drilling programs.

While your Management believes that 2011 was a successful year considering the circumstances, the share price of Alhambra’s stock, one indicator that we all look to, to measure performance, has been extremely disappointing. While many mining companies have experienced a similar fate, Alhambra believes that it is unique among junior mining companies and as such should show progress contrary to this current trend for a number of reasons which include:

- Three NI 43-101 gold resource estimates indicating significant resources;
- The possession of an extremely large and highly prospective exploration license of approximately 9,800 square kilometres situated on a well-defined gold belt, surrounded by numerous multi-million ounce gold deposits, many of which are already producing gold;
- Possession of three advanced exploration projects and seven early stage exploration areas which will continue to be actively explored;
- Possession of approximately 100 gold mineralized targets which will be systematically assessed for their mineral potential; and,

- High potential in identifying additional gold mineralization based on regional geological trend analyses and the continued utilization of modern geophysical survey techniques over the exploration license area.

In addition to the tremendous exploration and development potential outlined above, Alhambra has approximately 41,224 ounces of gold work in progress. The net realizable value of this gold, which is not included as part of the NI 43-101 gold resource estimate for Uzboy, alone exceeds Alhambra's current market capitalization.

Your Management shares the frustration of all shareholders with respect to its current stock price. The company's existing operations, the gold resources currently identified and the significant exploration upside potential support a significantly higher share price. While it is hard to point to specific reasons, your Management believes there are three main factors contributing to this low share price which are as follows:

One reason would seem to be the lack of share trading liquidity, exasperated by this extremely fragile equity market where cash is being accumulated and not being deployed in the resources equity markets. While Alhambra cannot control the market, it believes that it is giving the investor a reason to look at Alhambra as an investment of choice amongst its peers with its large asset base with significant upside potential. In addition, Alhambra plans to improve its share trading liquidity with the planned listing of its common shares on an Asian exchange which we believe will lead to a more realistic intrinsic share value.

A second reason would seemingly be Alhambra's slower than anticipated progress in the development of its assets. Your Management agrees that progress has been slower than originally planned. However it believes the majority of this is due to the recent introduction of new legislation affecting the mining industry which the Kazakhstan government bureaucracy itself has been trying to absorb resulting in slow responses and excessive procedures for both foreign and domestic companies alike. The government of Kazakhstan has become aware of these administrative problems and is actively addressing them. In addition, officials of foreign governments with representation in Kazakhstan have been actively lobbying the government of Kazakhstan to resolve these issues and the government of Kazakhstan has welcomed that involvement.

A third reason could relate to Alhambra's reduced gold sales. It is important for shareholders to understand that Alhambra is unique amongst its peers. Alhambra is first and foremost a gold exploration company with the unique characteristic of having achieved early gold production. However, this gold production comes from a pilot production facility and was never intended to make Alhambra a large scale production company. It was intended to satisfy three main objectives: minimize shareholder dilution by generating cash flow to help finance exploration programs; generate relevant technical and operating data; and, train and develop an experienced and proficient work force which will form the nucleus for the larger scale operations planned. These three objectives have been successfully met and have also enabled Alhambra to minimize shareholder dilution.

Management is certainly cognizant that its progress has been slower than originally anticipated. This of course is not uncommon in most developing countries as government strategies for resource development are enhanced over time to satisfy the objectives of the government's economic growth strategies. However, for Alhambra the upside potential remains huge. Alhambra is unaware of other licenses in Kazakhstan that are comparable in both size and proximity to proven multi-million ounce gold deposits. Management believes, therefore, that your company continues to be in poised to generate wealth for all shareholders despite the current difficult economic times. We trust that you share your Management's vision and agree that your company is on the right course.

The plans for 2012 include accelerating the exploration and development of our three advanced exploration projects and advancing our numerous early stage exploration areas. As mentioned, the updated NI 43-101 gold resource estimate and Scoping Study for Uzboy should be released by mid-year and initiation of a pre-feasibility study for the development of the Uzboy primary gold production is planned. This will move your company closer to expanding production from Uzboy.

We appreciate your ongoing support given the hardships that we have been enduring.

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

ALHAMBRA RESOURCES LTD.

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

For the Year Ended December 31, 2011

Alhambra Resources Ltd.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the Year Ended December 31, 2011 (US Dollars)

This management's discussion and analysis ("MD&A") focuses on key items from the audited consolidated financial statements of Alhambra Resources Ltd. (also referred to as "Alhambra" or the "Corporation") for the year ended December 31, 2011 and the factors reasonably expected to impact future operations and results as prepared on April 26, 2012. 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 Corporation in the future. This discussion should be read in conjunction with the audited consolidated financial statements of the Corporation for the year ended December 31, 2011 and the related notes. The financial statements have been prepared in accordance with International Financial Reporting Standards and are reported in US$000's except as otherwise stated.

This MD&A was reviewed and approved by the Corporation's audit committee and board of directors on April 26, 2012. Additional information on the Corporation is available under the Corporation's profile on SEDAR at www.sedar.com.

Forward-Looking Information

Except for the statements of historical fact contained herein, certain statements contained in this MD&A constitute "forward-looking statements" as such term is used in applicable Canadian and US laws. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. In particular, any statements concerning the Corporation's ability to continue as a going concern as described, statements concerning the strategy of advancing the Uzboy Gold Deposit ("Uzboy") towards pre-feasibility, the formalization of a development plan, converting Inferred resources to mineral reserves by conducting additional exploration and other factors and events described in this MD&A should be viewed as forward-looking statements to the extent that they involve estimates thereof. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and should be viewed as "forward-looking statements". Such forward-looking statements, involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and other factors include, among others, the Corporation's liquidity and financial capacity, the Corporation's funding sources to meet various obligations, advancing the project towards pre-feasibility, formalizing a development plan, lack of financing in order to convert Inferred resources to mineral reserves through additional exploration, costs and timing of exploration and production development, availability of capital to fund exploration and production development; political, social and other risks inherent in carrying on business in a foreign jurisdiction, the effects of a recessionary economy and such other business risks as discussed herein and other publicly filed disclosure documents. Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could vary or differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements contained in this MD&A.

Forward-looking statements are made based on management's beliefs, estimates and opinions on the date the statements are made and the Corporation undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change, except as required by applicable law.

Measurement Uncertainty

Management makes estimates and assumptions that affect the reported amounts 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 the determination of impairment of property, plant and equipment and exploration and evaluation costs, provisions, and assumptions used in calculating share-based 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.

Business Overview

The Corporation 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.

On July 31, 2007 the Corporation's shareholders approved a reorganization by way of an arrangement under the *Business Corporations Act* (Alberta) (the "Arrangement") involving the Corporation, its shareholders and a newly incorporated corporation, DOT Resources Ltd. ("DOT").

Under the Arrangement, which became effective on August 29, 2007, the Corporation divided its mineral assets between two separate publicly traded corporations. Except for the period from December 26, 2008 through September 15, 2009, the Corporation continued to hold and operate its gold producing assets situated in Kazakhstan. DOT holds and conducts exploration activities on the Corporation's former Canadian DOT property, situated near Kamloops, British Columbia ("DOT Property").

Pursuant to the Arrangement, the DOT Property was transferred to DOT at its carrying amount of $944,666 in exchange for 30,000,000 common shares. Every shareholder of the Corporation received one (1) new common share and 0.21153 of a DOT common share for every one (1) common share of the Corporation held on the effective date of the Arrangement resulting in 15,000,000 DOT common shares held by Alhambra being distributed to Alhambra shareholders on a pro rata basis. As a result of the Arrangement, Alhambra holds 15,000,001 shares of DOT which represents approximately 27% of the 55,734,333 common shares of DOT currently outstanding. At December 31, 2010, the market trading value of the 15,000,001 DOT shares owned by Alhambra was CDN$600.

On September 26, 2008 a statement of claim ("Kazakhstan Lawsuit") was filed in the Specialized Interdistrict Economical Court of the East-Kazakhstan Oblast ("Lower Court") of the Republic of Kazakhstan ("Kazakhstan") by the Vendors seeking to invalidate Alhambra's ownership of its Kazakhstan Subsidiaries. The basis for the claim was that the Corporation's 100% owned subsidiary, Alhambra Overseas Limited, incorporated to hold Alhambra's interest in the Kazakhstan Subsidiaries, was not incorporated at the time the Agreement was initially entered into, despite the fact that such incorporation was subsequently completed soon thereafter. Alhambra applied to the Lower Court to have the litigation dismissed for the lack of jurisdiction, however, such application was denied as was the appeal to the Civil Cases Review Board of the East-Kazakhstan Oblast Court (the "Review Board"). As a result, hearings in the Lower Court on the merits of the case began on November 17, 2008 and were completed on November 24, 2008. On November 25, 2008 the Lower Court rendered its decision in favor of the Vendors. The Corporation appealed the Lower Court's decision to the Review Board, but on December 26, 2008 the Review Board issued its ruling upholding the Lower Court's decision. The Corporation appealed to the next level of the court system in Kazakhstan which was the Supervisory Chamber of the East-Kazakhstan Oblast Court whose decision, rendered on February 27, 2009, again upheld the decisions of the previous courts. On January 27, 2009 the ownership of the Kazakhstan Subsidiaries was re-registered back in the names of the Vendors giving effect to the court decisions. As a result of the decision, the assets and liabilities related to the Kazakhstan mineral operations were written off as of December 26, 2008 as the Corporation ceased to control the Kazakhstan Subsidiaries.

On April 16, 2009 the Corporation filed an appeal with the Supreme Court of Kazakhstan asking the Supreme Court to overturn the decisions of the lower courts. The Supreme Court hearing was held on August 12, 2009 at which time the Supreme Court reversed the decisions of the Lower Courts and dismissed the Vendors' claim. On September 15, 2009 the ownership of the shares of the Kazakhstan Subsidiaries was re-registered in the name of Alhambra and the Corporation commenced operations on that date.

Selected Annual Operating and Financial Information

	2011	2010	2009(3)
Operating (for the years ended December 31):			
Mining:			
Waste mined (Tonnes ("T"))	1,758,873	2,374,398	854,781
Ore stacked (T)	861,025	1,023,853	303,383
Grade of ore mined (Grams/T)	0.80	0.85	0.91
Recoverable gold mined (Troy ounces (oz)) (1)	14,403	18,192	5,799
Gold sales (ozs)	9,187	12,663	5,606
Gold inventory (ozs) (2)	615	–	–
Gold in work in progress (ozs)	41,224	36,623	31,094
Financial:			
Revenue ($)	15,260	15,991	6,160
Average gold price ($/oz)	1,661	1,263	1,099
Operations expenses ($)	6,646	10,118	3,650
Operations expenses ($/oz)	723	799	651
Net (loss) ($)	(3,779)	(5,042)	66,755
Net (loss) per share			
Basic ($/share)	(0.04)	(0.06)	0.87
Diluted ($/share)	(0.04)	(0.06)	0.81
Capital expenditures ($)	3,979	16,093	349
Total assets ($)	112,339	125,801	104,424
Shareholders' equity ($)	71,146	73,158	67,974
Common shares outstanding at year end	104,132,059	103,994,309	81,074,421

Notes:

1. Recoverable gold mined is estimated to be equal to 65% of estimated total gold stacked.
2. Gold inventory represents 615 ounces of gold in transit to the refinery for final processing and sale.
3. Operating results and certain financial results for the year ended December 31, 2009, are based on the Corporation owning its Kazakhstan subsidiaries from the date of re-acquisition of control on September 15, 2009. Effective September 15, 2009 the Corporation recorded the assets and liabilities of the Kazakhstan Subsidiaries at their estimated fair value for consideration of $nil thereby recognizing a gain on the re-acquisition.

Substantially all the ore mined during 2011 came from the East zone of Uzboy. During the year ended December 31, 2011, the Corporation sold a total of 9,187 ounces ("ozs") of gold for total proceeds of $15,260. This compares to sales of 12,663 ozs and $15,991 of sales during the year ended December 31, 2010. At December 31, 2010, an estimated 36,623 ozs of gold had been stacked and was in various stages of processing for sale ("work in progress"). During 2011 an additional estimated 14,403 ozs of gold was stacked which, after selling 9,187 ozs and with 615 ozs of gold inventory in transit, resulted in an estimated balance of 41,224 ozs in work in progress at December 31, 2011.

During 2011, the Corporation mined a total of 1,758,873 T of waste and stacked 861,025 T of ore at an average gold grade of 0.80 grams/T ("g/t"). This compares to 2,374,398 T of waste mined and 1,023,853 T of ore stacked at an average gold grade of 0.85 g/t during the year ended December 31, 2010.

Financial Review

Segmented information

The Corporation and its subsidiaries operate in one reportable segment, the exploration for and development of mineral properties in Kazakhstan and therefore presentation geographically is the most appropriate. Identifiable assets, revenues and net loss in each of its geographic are as disclosed in note 22 (*'Operating segments'*) to the December 31, 2011 audited consolidated financial statements.

Sales revenue

Revenue is recognized from the sale of gold when the price is determinable, the product has been delivered and title has been transferred to the customer and collection of the sales price is reasonably assured. The Corporation ships cathodic sediment to a refinery in Italy where the final refining process takes place and the gold is sold. The Corporation sells all of its gold to one supplier.

During 2011 the Corporation recognized $15,260 in revenue from the sale of 9,187 ozs of at an average price of gold $1,661/oz. During 2010 the Corporation recognized $15,991 in revenue from the sale of 12,663 ozs of gold at an average price of $1,263/oz.

Net smelter royalty

The net smelter royalty ranges from 2.5 to 3.0% (dependent on the price of gold) of the gross revenue. During the year ended December 31, 2011, the Corporation recognized $458 in net smelter royalty expenses as compared to $480 for the year ended December 31, 2010, which is 3% (2010 – 3%) of the revenue recognized in the period.

Cost of sales

Operating expenses consist of all costs associated with the production of gold, (including direct costs incurred in the mining, leaching and resin stripping processes ("process operating costs"), Mineral Extraction Tax ("MET")), transportation and refining of the cathodic sediment. All process operating costs are charged to work in progress and are expensed on the basis of the quantity of gold sold as a percentage of total recoverable gold mined.

Operating costs for the year ended December 31, 2011 were $6,646 or $723/oz sold as compared to $10,118 or $799/oz of gold sold for 2010.

Included in the 2011 operating cost amount is $1,131 or $123/oz related to the amortization of the bump-up to fair value from the estimated cost of work in progress on re-valuation in 2010. Cash operating costs were therefore $600/oz. In 2010, $2,309 or $182/oz of similar costs were included in operating costs resulting in the cash cost of gold sold for this period of $617/oz.

Administrative expenses

Years ended December 31,		2011		2010
Canada				
Share-based compensation	$	2,903	$	908
Non-collectable account receivable		747		–
Cash based corporate overhead costs		2,117		1,407
Total Canada		5,767		2,315
Kazakhstan		1,219		3,707
	$	6,986	$	6,022

Administrative expenses for the year ended December 31, 2011 were $6,986, an increase of $964 over the $6,022 recorded in the year ended December 31, 2010. Of the totals, $1,219 related to the Saga Creek operations for the year ended December 31, 2011 as compared to $3,707 for the year ended December 31, 2010.

Of the $3,707 charged to Kazakhstan administrative expenses during the year ended December 31, 2010, a total of $2,071 related to penalties potentially owing as a result of an assessment by the tax authorities of Kazakhstan for Historical Costs ($1,436), MET ($471) and the disallowance of certain income tax deductions ($164). In the year ended December 31, 2011, as a result of the September 27, 2011 decision of the Cassation Chamber that no Historical Costs were payable, Kazakhstan administrative expenses were credited for the corresponding 2010 amount $1,436. The Cassation Chamber upheld the assessment related to MET and the penalty was therefore paid in the fourth quarter of 2011. As no decision was reached regarding the disallowance of certain income tax deductions, the accrual for that penalty remains recorded as a liability (see note 25 (*'Legal challenge to tax assessment'*) to the December 31, 2011 audited financial statements and the Legal challenge of tax assessment section of the MD&A). This 2011 recovery was partially offset by an accrual of a $369 penalty related to a Commercial Discovery Bonus effective in 2011 but not assessed by the tax authorities until 2012 (see note 27 (*'Commercial discovery bonus'*) to the December 31, 2011 audited financial statements and the Commercial discovery bonus section of the MD&A). If the effects of the penalties are removed from the 2011 and 2010 administrative expenses, Kazakhstan administrative expenses would be $2,286 and $1,636 for the years ended December 31, 2011 and 2010 respectively. The $650 increase in the remaining administrative expenses related to Kazakhstan is primarily the legal expenses associated with challenging the tax assessments and other matters.

The remainder of administrative expenses relates to corporate activities and is comprised of share-based compensation, allowance for non-collectability of an account receivable and cash based corporate overhead. Share-based compensation totaled $2,903 for the year ended December 31, 2011 as compared to $908 for the year ended December 31, 2010. Due primarily to the high volatility of the Corporation's stock price, this calculation results in the value assigned to stock options approaching the actual option grant price. As a result, the higher the option price, the higher the value assigned to the options for purposes of share-based compensation expense. This value must be expensed separately for each vesting portion of each option and during their vesting period. Share-based compensation expense for 2011 relates to the amortization of the value calculated for the 3,050,000 options granted in January of 2011 at a price of $1.05 per share while the share-based compensation expense for 2010 relates primarily to the 3,050,000 options granted in September of 2009 at a price of $0.22 per share.

The allowance for non-collectability of an accounts receivable relates to the $747 owed by DOT to the Corporation. Due to DOT's current financial position, the Corporation believes that there is a high probability that DOT will not be able to pay the obligation and as such has charged administration expenses.

Cash based corporate overhead expenses for the year ended December 31, 2011 totaled $2,117 as compared to $1,407 for the year ended December 31, 2010. Professional costs accounted for the biggest component of the cost increase as expenses associated with the conversion to International Financial Reporting Standards ("IFRS") and the year end audit greatly exceeded the Corporation's estimate and accrual in 2010 with the difference being expensed in 2011. As part of the audit, work was done to remove the audit qualification that Alhambra received on its 2008 annual financial statements because of the loss of the Kazakhstan subsidiaries. With the re-acquisition on September 15, 2009 it was then possible to clear up that qualification which will be required in order for the Corporation to pursue a dual listing on an Asian exchange. As the Corporation maintains a small professional accounting staff, it was necessary to contract professional help to assist with the conversion, particularly considering that a significant amount of time of Alhambra's employees was being devoted to the work necessary to pursue a dual listing on an Asian exchange.

Increased employee costs also contributed to the higher cash corporate overhead costs as a result of salary increases given to employees at the end of 2010. Corporate maintenance costs also contributed to the increase as the Corporation had renewed its investor relations program that had been curtailed greatly as a result of the 2009 lawsuit. In the first half of 2010, the Corporation was just beginning to resume its aggressive investor relations program. Finally, during the year ended December 31, 2010 the Corporation recorded a recovery of $233 in corporate overhead costs through the contract to provide administration services to DOT. There was no similar recovery in 2011 as the Corporation has stopped billing for these services until DOT's financial condition improves.

Depletion and depreciation

Depletion and depreciation expense for the year ended December 31, 2011 was $2,781 as compared to $2,028 in 2010. Substantially all the amounts for both years relate to the Kazakhstan operation.

Depletion and depreciation charged on the fair value assigned to mineral properties as a result of the re-acquisition at September 15, 2009 is charged to work in progress on the basis of the volume of gold produced as a percentage of total estimated gold resources. It is then expensed on the basis of the quantity of gold sold as a percentage of the quantity of gold estimated to be in work in progress. For the year ended December 31, 2011, $6,729 (2010 - $8,141) of depletion and depreciation was charged to work in progress. The major component of this cost is the depletion of the revaluation amount assigned to the carrying cost of mineral assets. The depletion of this cost only started in September, 2009 and as a result its impact on the financial results is only recent. As this cost continues to be charged to work in progress, the amortization of the cost to depletion and depreciation expense will continue to increase which is the reason that the depletion and depreciation expense in the year ended December 31, 2011 is substantially higher than the same expense in the year ended December 31, 2010.

Finance costs

For the years ended December 31,		2011		2010
Interest on overdue taxes	$	351	$	–
Extension of warrants		146		–
Accrued interest on successful tax appeal		(425)		425
Interest on secured debentures		–		85
Unwinding of the discount on provisions		7		5
Interest on trade payables		–		(5)
Interest expense on financial liabilities measured at amortized cost		–		109
Foreign exchange loss		504		268
Total finance costs	$	583	$	887

During the year ended December 31, 2011 the Corporation recorded total finance expenses of $583 as compared to $887 for the year ended December 31, 2010.

Interest accrued on overdue taxes for the year ended December 31, 2011 was $351. Included in this amount is interest on overdue amounts related to the 2009 MET of $132 and corporate income tax of $134, both of which were part of the tax assessment that the Corporation appealed to the Kazakhstan courts. The Cassation Chamber dismissed the Corporation's appeal of the 2009 MET assessment and as such the MET interest was paid in October, 2011. As the corporate income tax issue is still being reviewed by the Kazakhstan courts, the Corporation continues to accrue for the potential of having to pay interest on the outstanding balance should the appeal be unsuccessful (see note 25 *'Legal challenge of tax assessment'* to the December 31, 2011 audited financial statements and the Legal challenge of tax assessment section of this MD&A). The remaining $85 relates to interest on the unpaid commercial bonus assessed by the government of Kazakhstan which the Corporation is currently in the process of appealing (see note 27 (*'Commercial discovery bonus'*) to the audited consolidated financial statements and the Commercial discovery bonus section in this MD&A).

The 2011 credit of $425 for accrued interest on successful tax appeal represents the recovery of the interest recorded in 2010 on the Historical cost assessment. As a result of the favorable ruling by the Cassation Chamber (see notes 16 (*'Provisions'*) and 25 (*'Legal challenge of tax assessment'*) to the December 31, 2011 audited financial statements and the Provisions and Legal challenge of tax assessment sections of this MD&A), the financing expense accrued in 2010 was reversed in 2011.

During the year ended December 31, 2011 the Corporation charged $146 to financing costs representing the value attributed to the extension of the expiry date of 2,500,450 warrants originally scheduled to expire on August 11, 2011 (see note 19(d) (*'Warrants'*) to the audited consolidated financial statements).

During the year ended December 31, 2011, the Corporation recorded a foreign exchange loss of $504 as compared to $268 for the year ended December 30, 2010. Saga Creek's operations accounted for $449 of the total foreign exchange loss in 2011 as the US$ strengthened relative to the Kazakhstan Tenge thus negatively impacting the Saga Creek's net monetary liability position. In the year ended December 31, 2010 Saga Creek recorded a small foreign exchange gain. The Canadian operations recorded a foreign exchange loss of $55 (2010 – $274) for the year ended December 31, 2011. As a result of the US$ financing done in the third quarter of 2010, the Corporation has been holding US$ which has resulted in the foreign exchange loss recorded due to the weakening of the US$ relative to the CDN$.

The $85 interest on secured borrowings in 2010 relates to the 12% convertible secured debentures ("Debentures") that were converted to common shares on August 11, 2010. Similarly, in 2010, the $109 interest expense on financial liabilities measured at amortized costs relates to the amortization of the value assigned to the 2,500,450 warrants that were issued to the Debenture holders together with the value assigned to the conversion feature

Income tax expense

Income tax expense recorded relates entirely to Saga Creek. As Saga Creek is a profitable entity, it is subject to income tax under Kazakhstan law. The Corporation recorded an income tax expense of $1,564 for the year ended December 31, 2011 as compared to $1,443 in 2010. Saga Creek incurred a current tax expense of $560 in 2011 as compared to $901 reported in 2010.

The remaining $1,004 of income tax expense for the 2011 year is deferred income tax which compares to $542 in 2010.

Effective January 1, 2009 the corporate tax rate in Kazakhstan was reduced to 20% from the previous rate of 30%. Also effective January 1, 2009 the Government of Kazakhstan introduced an excess profits tax. This tax is a progressive tax in that as profits increase, the rate of tax on the increment in excess profits, as defined, also increases. The Corporation has not yet been subject to any excess profits tax.

The Corporation has Canadian non-capital losses, for which no benefit has been recognized in the financial statements, of approximately CDN$10.7 million at December 31, 2011, which commence expiring in 2014.

Equity loss

The Corporation accounts for its ownership of the common shares of DOT using the equity method of accounting. On September 23, 2009 DOT issued additional common share equity that reduced Alhambra ownership to 27% from the 36% owned prior to the DOT issue. For the year ended December 31, 2011, the Corporation recorded an equity loss of $21 compared to the $55 recorded for the 2010 year. This is primarily the result of a lower loss reported by DOT in 2011 than in 2010.

Net loss

The Corporation recorded a net loss of $3,779 for the year ended December 31, 2011 compared to a net loss recorded in 2010 of $5,042.

Kazakhstan mining operations for the year ended December 31, 2011 reported net earnings of $2,219 as compared to a net loss totaling $2,191 in 2010. The $4,260 improvement in results from 2010 to 2011 is primarily the result of lower operating expenses due to the decrease in sales volumes and the interest and penalties accrued in 2010 which were reversed in 2011 as a result of the positive decision of the Cassation Chamber to reverse the assessment of Historical costs.

For the year ended December 31, 2011, Canadian corporate losses totaled $5,998, an increase of $3,147 over the $2,851 recorded in 2010. Higher general and administration costs caused principally by substantial increase in share-based payment expense together with increases in employee and professional costs accounted for the larger loss.

Based on a weighted average number of common shares of 104,103,679 and 88,710,746 for 2011 and 2010, respectively, the Corporation's basic and diluted net loss per common share was $0.04 for 2011 and $0.06 for 2010.

For both the 2011 and 2010 years, options and warrants representing all the options and warrants outstanding were excluded from the dilutive earnings per share calculation as they would be considered anti-dilutive.

Summarized Cash Flows

		2011		2010
Net cash provided from (used in) operating activities	$	4,758	$	(2,071)
Net cash provided from financing activities		31		7,431
Net cash (used in) investing activities		(7,288)		(2,443)

Operating cash flow

For the year ended December 31, 2011, net cash used in operating activities was $4,758 which was primarily attributed to a positive cash flow from operating activities before working capital of

$3,680. Changes in various working capital items added a further $1,078 of cash flow which came primarily from an increase in accounts payable.

For the year ended December 31, 2010, net cash used in operating activities was $2,071 which was primarily attributed to a net loss for the year of $5,042 and a change in inventories for $1,580 offset by $2,028 for depletion and depreciation and a $2,895 increase in trade and other payables.

Financing cash flow

For the year ended December 31, 2011, net cash flow provided from financing activities was $31 which was the result of the exercise of 137,750 stock options.

For the year ended December 31, 2010, net cash flow provided from financing activities was $7,431 which was the net cash received from the issue of 18,604,650 units of which each unit consisted of one common share of the Corporation and one-half (1/2) of a common share purchase warrant.

Investing cash flow

For the year ended December 31, 2011, net cash flow used in investing activities was $7,288, primarily as a result of the acquisition of property, plant and equipment of $3,979 plus a decrease in related trade and other payables of $3,309.

For the year ended December 31, 2010, net cash flow used in investing activities was $2,443 of property, plant and equipment.

Selected Balance Sheet Items

Trade and other receivables

Accounts receivable primarily represents refundable Value Added Tax (“VAT”) and amounts owing on the sale of gold. VAT is paid by the Corporation on goods and services purchased in Kazakhstan and utilized in its operations. At December 31, 2011 the balance outstanding on account of VAT was $624 (December 31, 2010 - $1,335). The Corporation applies for a refund of VAT in the first quarter following the end year for which the VAT had been paid. The refund claim is subject to audit by the tax authorities in Kazakhstan with the refund due at the end of the second quarter. Historically, the Corporation has been successful in collecting all amounts due.

Amounts outstanding for the sale of gold were $nil at December 31, 2011 (December 31, 2010 - $984). The Corporation recognizes revenue from the sale of gold when the price is determinable, the product has been delivered and title has been transferred to the customer and the collection of sale is reasonably assured. Accounts receivables typically arise when a gold sale is made near a month end but payment is not made until the following month. Normally, the time between shipment and the receipt of cash is approximately two weeks.

Deposits and prepaid expenses

Prepaid expenses arise in Kazakhstan as the Corporation is often required to place a deposit down upon signing of a contract. The larger than normal balance at December 31, 2010 is due to the Corporation having recorded approximately $2,130 (December 31, 2010 - $618) in connection of costs incurred to December 31, 2010 in its advancement of a potential listing on an Asian stock exchange. Once the Corporation completes the financing associated with the listing, these costs will be charged to share capital. If the listing is abandoned, these costs will be charged to administrative expense.

Inventories

The Corporation’s inventory comprises mostly work in progress in which all costs associated with the production of gold, including direct costs incurred in the mining, leaching and resin stripping processes, as well as a portion of depreciation of equipment used in each process, and depletion on mineral assets, are charged to work in progress inventory and expensed based on the quantity of gold sold as a percentage of gold mined. At December 31, 2011 the Corporation estimated that there was approximately 41,224 ozs of gold in work in progress (December 31, 2010 – 36,623 ozs) at a carrying cost of $30,910 (December 31, 2010 - $24,319). The Corporation reclassifies the portion of this inventory that it does not expect to sell in the next year as non-current. At December

31, 2011, the Corporation classified 31,224 ozs ($17,704) (December 31, 2010 – 21,623 ozs and $13,110) as non-current.

At December 31, 2011, the Corporation also had $1,074 (December 31, 2010 - $1,247) of raw materials and supplies inventory which is used in its operations and $654 (December 31, 2010 - $nil) which represents the cost of 615 ozs of gold that was in transit to the refinery for final processing and sale at December 31, 2011.

Trade and other payables

At December 31, 2011 the Corporation had outstanding $7,670 in trade and other payables (December 31, 2010 - $6,953). The credit terms that govern the Corporation's relationship with its suppliers are such that the majority of all amounts outstanding are due within one month.

Provisions

At December 31, 2011 the Corporation had outstanding provisions for future liabilities of $283 (December 31, 2010 - $14,093). Of the total, $283 (2010 - $265) relates to future site reclamation.

The liability for site reclamation was determined using an inflation rate of 5% (December 31, 2010 – 5%) and an estimated mine life of 10 years (December 31, 2010 – 10 years) for Uzboy. A discount rate of 7.5% (December 31, 2010 – 7%) was used. The undiscounted value of the liability is approximately $352 (2010 - $316).

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

In late 2010, as the result of an audit of Saga Creek by the Kazakhstan tax authorities, the Government of Kazakhstan assessed Saga Creek for the liability rejecting the Corporation's appeal of the assessment. The Corporation filed a claim in the economic court in Kazakhstan seeking to have the decision of the tax authorities reversed together with the obligation and related interest and penalties. On September 27, 2011 courts of Kazakhstan ruled in Saga Creek's favor and the Corporation reversed all amounts accrued relating to the Historical cost provision penalties and interest. (see note 25 *'Legal challenge of tax assessment'* to the audited consolidated financial statements for the year ended December 31, 2011 and the Legal challenge of tax assessment section of this MD&A).

Deferred tax liabilities

At December 31, 2011 the Corporation has $32,390 (December 31, 2010 – $31,597) in deferred tax liabilities that relate primarily to the fair value assigned to Uzboy on the re-acquisition of control of Saga Creek.

2011 Capital Expenditure Activity

During the year ended December 31, 2011 the Corporation recorded capital expenditures of $3,979 of which $3,976 related to activities in Kazakhstan. Of that total approximately $175 relates to buildings, machinery and equipment used in the operations in Kazakhstan. The remaining $3,801 relates to the Corporations 2011 exploration program which is detailed below.

In 2011, Alhambra completed its exploration program that included additional oxide and sulphide resource delineation on the flanks and at depth in Uzboy. Core drilling to delineate additional gold resources at two advanced projects (Shirotnaia and Dombraly) and at four early stage projects (Zhanatobe, Vasilkovskoe East, Zhusaly and Kontaktovy) was completed. In addition, a remote sensing study was conducted over the entire license area and 1,360 square kilometres ("km^2") of gravity and magnetic surveys were completed on the eastern side of the license area. The results of the exploration program have been released in various news releases made by Alhambra during 2011 and to date in 2012, except as noted otherwise.

Alhambra completed 21,957 metres ("m") of exploration drilling of which approximately 76% was core drilling and the remaining 24% was rotary air-blast ("RAB") drilling. Approximately 76% of this total was completed for "resource definition" purposes at Uzboy, Shirotnaia and Dombraly. The remaining 24% was drilled on Alhambra's early stage exploration project area of Zhanatobe.

Assaying of the samples from the 2011 drill program was pushed into 2012 due to a significant amount of drilling which was conducted throughout and late into the fourth quarter of 2011. As of December 31, 2011, more than 10,300 drill core samples were awaiting assaying at the Stewart Labs in Kyrgyzstan.

Due to the large number of drill samples that had yet to be assayed and interpreted as of year-end 2011, the maiden National Instrument ("NI") 43-101 technical reports setting out resource estimations for both Dombraly and Shirotnaia as well as the updated Uzboy NI 43-101 resource report and updated Uzboy Preliminary Economic Assessment (i.e. Scoping Study) were pushed into 2012.

Uzboy Gold Deposit

During 2011, sixteen core holes (4,325 m) were completed.

The objectives of this drilling program were to test the strike extensions of several zones of oxide gold mineralization (mostly at East Uzboy), to upgrade the current sulphide resource estimate and to locate deeper sulphide resources at the West Uzboy gold deposit. All three objectives were successfully achieved. Assay results received from the 2011 Uzboy core holes were positive. For example, hole C 0401 intersected a 12.90 m interval averaging 2.58 grams per tonne gold ("g/t Au") starting at a core depth of 51.2 m, hole P734 intersected 1.53 g/t Au over 41.90 m and hole P792 intersected 0.95 g/t Au over 46.00 m. Drilling successfully extended the strike length of four zones of gold mineralization located on the southwest flank of both the West and East Uzboy gold deposits from 50 to 160 m. Also, the southern zone of West Uzboy gold deposit was expanded by 225 m along the dip and 60 m along strike. The mineralization in all these zones is open along strike and down dip.

Shirotnaia

The 2011 drilling program consisted of 49 core holes (6,834 m).

Of the 49 holes drilled, assay results from 46 holes (6,344 m) were received, interpreted and reported. The remaining 3 holes were not assayed prior to year end 2011. Of the 46 holes assayed and reported, 136 mineralized intervals ranged in width from 0.9 to 52.8 m and had grades higher than 0.2 g/t Au, which included 65 mineralized intervals ranging from 0.9 to 31.5 m having an average grade equal to or higher than 1.0 g/t Au and 22 mineralized intervals had average grades of +1.0 g/t Au and widths ranging from 3.0 to 31.5 m. Five significant mineralized zones carrying oxide, transitional and sulphide gold mineralization were outlined. The most important drill intercepts were returned by hole DDH 03-02 – 28.00 m at 1.19 g/t Au and 13.00 m at 2.33 g/t Au in Zone #1 (Main Zone), DDH 28-07 – 31.50 m at 1.35 g/t Au and 20.40 m at 1.02 g/t Au in Zone #2 (Southern Zone), DDH 96-01 – 18.00 m at 1.10 g/t Au and 8.00 m at 2.01 g/t Au in Zone #4 (Northern Zone) and DDH 80-03 – 9.00 m at 4.83 g/t Au in Zone #5 (Central Zone). The gold mineralization area proven by core drilling was expanded by about 570 m to the NE and by 200 m to the SW to an area of 1,800 by 750 m which is open to the NE, SW along strike as well as to the N.

The drill results demonstrated that higher-grade intercepts were distributed consistently along the main structure indicating that a very large area of mineralization may have been discovered.

Dombraly

The 2011 drilling program consisted of 32 core holes (5,528 m).

The objectives of this program were to trace the possible extension of the known zones of gold mineralization to the north and south, to check for parallel zones of gold mineralization south of the low grade stock pile, to collect data to prepare an updated resource estimate and to verify the historical drill data with respect to the width and grades of the mineralization under and around the open pit.

Numerous zones of hydrothermal alteration, quartz veins and sulphide mineralization, all indicators of gold mineralization were observed in the core suggesting the possible extension of the known mineralization zones to the north and south. The assay results for the 2011 drilling program were released in late April 2012.

Zhanatobe

An RAB drilling program of 922 holes (5,270 m) was completed during the year of which 916 holes (5,160 m) were completed in the fourth quarter.

The objective of the RAB drilling program was to take samples from the bedrock immediately below the overburden, which was achieved. Twenty one lines of RAB holes were drilled at the five most prospective areas delineated by the 2009 rock chip sampling program and 922 samples were taken. Four areas returned data that suggests that these areas could be prospective for epithermal carbonate hosted or orogenic volcano sediment hosted gold mineralization while one area (Western), where the geological features are very similar to those at the Vasilkovskoe deposit, has potential for intrusion related gold mineralization. The samples have been assayed. The results have been interpreted and are now being released.

Positive results were realized in the Northern area. The previously established gold anomaly was extended 200 m to the north, and after a 200 m interruption, the anomaly was also extended about 750 m to the south. The Northern anomalous area, where RAB holes returning +0.10 g/t Au are concentrated (although not forming a continuous anomaly) has been expanded to dimensions of 1,250 m by 480 m. The individual anomalies are of different orientations and have a maximum length of 450 m and a maximum width of 90 m. The peak grade is 0.52 g/t Au. All the anomalies could be interpreted as a leakage along permeable zones from a significant bulk gold mineralization at the contact with an intrusion which is probably situated underneath. The other areas of RAB drilling didn’t return significant results.

Vasilkovskoe East

Vasilkovskoe East is a 500 km^2 project area located on the western section of Alhambra’s license area. The 2011 exploration program for Vasilkovskoe East included soil sampling of two areas (Western and Aleksandrovsky) which have been interpreted and are now being released.

In the Western area, 10 NE orientated lines each 4 kilometres (“kms”) long were sampled. The distance between the lines was 500 m and between samples along the line at 50 m. A total of 807 soil samples were taken. In the Aleksandrovsky area, 4 N-S orientated 6 kms long and 1,000 m apart soil sampling lines were completed. Samples were taken each 100 m along the line. A total of 234 samples were taken. In the Western area, several gold anomalies ranging from 20 to 55 parts per billion (“ppb”) as well as Pb, Zn, Cu and Bi anomalies were established. In the Aleksandrovsky area the gold anomalism ranged from 20-33 ppb but the supporting elements (Sb and Te) suggest a higher level of a hydrothermal system and hence, less eroded mineralization. These anomalies could be very important, marking possible mineralization of significant size, but the anomalies need to be checked in detail by sampling on denser soil grids.

Zhusaly

In 2011, soil sampling along 16 lines was conducted at Zhusaly which is situated about 6 km NE along the main mineralization trend from Shirotnaia. Zhusaly has very similar geological settings to that of Shirotnaia.

The goal of the soil sampling program was to check for possible continuity of the mineralization from Shirotnaia as well as to establish the exact size of the Zhusaly mineralization. A total of 576 samples were taken. The assay results were received in January 2012, have been interpreted and are now being released.

At least two very interesting gold soil anomalies have been established. The first one grading from 20 to 505 ppb gold extended the known Zhusaly vein mineralization by about 500 m to the SE. It is supported by elevated grades of Ba, Hg and Sb which suggest just slightly eroded gold mineralization (or the upper levels of the mineralized system). The second soil anomaly, developed on the contact between the granitoid intrusion and the volcano-sediment sequence is elongated in a NE direction and ranges from 20 to 351 ppb gold over an area of 2.0 by 0.35 kms and remains open to the NE and NW. This anomaly suggests a new zone of gold mineralization of significant size.

Kontaktovy

A 28 line soil sampling program was completed at two areas at Kontaktovy.

The Northern grid and the Southern grid included 14 E-W orientated lines from 900 to 2,200 m long. The distance between the lines was 200 m and between samples along the line, was 50 m. A total of 865 soil samples were taken. The results were received in January 2012, have been interpreted and are now being released. The results are very promising. Fifty eight samples returned gold grades of +20 ppb with the peak grade of 0.291 g/t Au. Two gold anomalies of +20 ppb Au were established in the Northern grid. The first anomaly is interpreted to be the extension of the Balusty gold deposit. The second anomaly is much more interesting. The anomalous contour of +20 ppb Au has dimensions of about 1.3 by 0.6 kms and covers an area of 0.78 km^2. It is elongated in a north-south direction and it is anticipated that this anomaly indicates the presence of new mesothermal intrusion related gold mineralization of orogenic style and significant size.

Remote Sensing

A remote sensing analysis for the entire Alhambra license block (9,800 km^2) was completed in 2011 by David W. Coulter, Ph.D. Advanced Spaceborne Thermal Emission and Reflection Radiometer (ASTER) data was used for this study. The objective of the study was to map zones of surface hydrothermal alteration via a variety of ASTER analysis methods. A total of 83 zones of hydrothermal alteration which are conjecturally associated with gold mineralization as well as potentially mineralization controlling structures were generated. Some anomalies were checked in the field and it was confirmed that almost all areas outlined by the remote sensing methods correspond with zones of hydrothermal (mostly argillic) alteration, quartz veining and gossanous float. The ASTER anomaly maps will be used in 2012 as a basis for the generation of new exploration targets different from those known previously.

Gravity and Magnetic Surveys

A gravity and magnetic survey of the south-eastern part of Alhambra's license was completed in the fourth quarter of 2011. The gravity survey was conducted over an area of 1,360 km^2 along a 1,000 by 1,000 m grid. The grid was established using a differential GPS unit. Measurements were provided in 1,371 stations distributed along 58 lines. The magnetic survey was carried out along a 1,000 by 100 m grid with 10,821 measuring points. Data processing and interpretation continued into 2012.

Capital Expenditure Activity Subsequent to December 31, 2011

Zhanatobe

In January 2012, Alhambra began a core drilling program at Zhanatobe. The objective of this program was to check the gold anomalies established by RAB drilling in 2010. Nine core holes (1,449 m) were drilled. Numerous intervals of intensive hydrothermal alteration, bulk silicification, quartz veinlets and sulfide mineralization were intercepted. Samples have been sent to the Kyrgyzstan Stewart Group laboratory for assaying and the results are pending.

Dombraly

Alhambra received the results of an initial independent NI 43-101 gold resource estimate (the "Dombraly Estimate") for Dombraly in early February 2012. The resources identified in the initial Dombraly Estimate were 301,000 ounces ("ozs") of Inferred current mineral resources contained in 9.3 million tonnes grading 1.01 g/t Au and an additional 22,000 ozs of Indicated current mineral resources contained in 0.60 million tonnes grading 1.22 g/t Au using natural cut-off grades of 0.13 g/t Au, 0.10 g/t Au and 0.20 g/t Au for the low grade stockpile, pit infill and in-situ mineralized zones respectively.

The Dombraly Estimate, included the results of 23 core holes (5,835 m) and 37 reverse circulation ("RC") holes (880 m). Due to the timing of the Estimate, the Dombraly Estimate did not incorporate the analytical results for the 32 core hole (5,528 m) drilling program which was completed at the end of October 2011. These drill samples were assayed in January 2012 and the results have been received, interpreted and released in late April 2012. Two new zones (i.e. lenses) of gold mineralization were discovered and at least five known zones – significantly extended and upgraded. A northern extension of the mineralized lens 1 was identified as being about 120 m long. The intercepts in this part of the lens range from 0.77 g/t Au over 20.8 m to 9.95 g/t Au over 1.5 m.

Drilling of the southern part of the same lens discovered 14.7 m of oxide mineralization grading 3.57 g/t Au. Three of four mineralized zones located on the southern edge of the deposit were extended by at least 60 m and remain open to the south. The best result returned here by one of the zones was 1.52 g/t Au over 3.0 m of oxide mineralization. Several new parts of mineralized lens 2 were discovered which have extended the mineralization by at least 240 m along strike and by 65 to 140 m along the dip. The best intercepts were 4.40 g/t Au over 14.1 m and 2.01 g/t Au over 9.0 m. Two new mineralized lenses have been discovered returning intercepts of 4.0 m at 1.18 g/t Au and 8.2 m at 1.66 g/t Au and remaining open along strike in the northerly direction.

Shirotnaia

Alhambra also received the results of an initial independent NI 43-101 gold resource estimate (the “Shirotnaia Estimate”) for Shirotnaia in late February 2012. The resources identified in the initial Shirotnaia Estimate were 645,000 ozs of Inferred mineral resources contained in 34.6 million tonnes grading 0.58 g/t Au and an additional 71,000 ozs of Indicated mineral resources contained in 2.9 million tonnes grading 0.76 g/t Au were identified using natural cut-off grades of 0.1 g/t Au for oxide material and 0.2 g/t Au for transitional and primary mineralized zones respectively.

The Shirotnaia Estimate included the results of 73 core holes (9,597 m) and 43 RC holes (2,249 m). Due to the timing of the Estimate, it does not incorporate the analytical results for three core holes (489 m) from the 2011 drilling program as these drill samples were still in the process of being assayed. The assay results for the three core holes were received in January 2012, have been interpreted and are now being released. These three holes returned 12 mineralized intervals ranging in width from 1.0 to 29.5 m that had grades higher than 0.2 g/t Au. The best intercepts were 2.44 g/t Au over 3.0 m and 1.11 g/t Au over 2.7 m. The results will be included in the current geological model and in the next Shirotnaia resource estimate.

Uzboy

In 2012, Alhambra’s independent consultants continued to work on updating the Uzboy NI 43-101 resource estimate and Preliminary Economic Assessment. It is anticipated that both of these updates will be completed and reported on prior to mid year 2012.

Remote Sensing and Gravity and Magnetic Survey

In mid April 2012, the interpretation of the 1,360 km^2 (Phase one) ground gravity and magnetic surveys over the Dombraly-Shirotnaia gold trend was completed and resulted in outlining numerous oriented lineaments and areas of low magnetic signature leading to the identification of 18 new primary exploration targets which were juxtaposed with the results of an ASTER satellite imagery analysis.

These 18 new primary targets were prioritized, with five of them deemed as being high priority. It is anticipated that a soil sampling program followed by a reverse circulation drilling program will be implemented in 2012 to further test the gold potential of these five high priority targets.

Corporate Resources

As of March 1, 2012, Alhambra’s total corporate NI 43-101 resources were as noted below:

	Measured (M)			**Indicated (I)**			**M + I**			**Inferred**		
Project		Grade			Grade			Grade			Grade	
	Tonnes	(g/t)	Ounces	Tonnes	(g/t)	Ounces	Tonnes	(g/t)	Ounces	Tonnes	(g/t)	Ounces
Uzboy (1)	14,317,200	1.52	700,000	7,009,500	1.22	275,500	21,326,700	1.42	975,500	11,258,200	1.17	421,700
Dombraly (2)	-		-	559,000	1.22	22,000	559,000	1.22	22,000	9,317,000	1.01	301,000
Shirotnaia (3)	-		-	2,900,000	0.76	71,000	2,900,000	0.76	71,000	34,577,000	0.58	645,000
TOTAL	14,317,200	1.52	700,000	10,468,500	1.09	368,500	24,785,700	1.34	1,068,500	55,152,200	0.77	1,367,700

(1) Effective as of Dec 31/07 as per ACA Howe per news release dated Apr 8/08 at a 0.40 g/t cut-off.

(2) Effective as of Nov 27/11 as per ACA Howe per news release dated Feb 7/12 using natural cut-off grades of 0.13 g/t, 0.1 g/t and 0.2 g/t for the low grade stockpile, pit infill and in-situ mineralized zones respectively.

(3) Effective as of Jan 9/12 as per ACA Howe per news release dated Feb 28/12 using cut-off grades of 0.1 g/t for oxide material and 0.2 g/t for transitional and primary mineralized zones respectively.

Administrative expenditures

For the year ended December 31, 2011, administrative expenses totaled $6,986, an increase of $964 over the comparable 2010 amount of $6,022. Included in these totals are $1,219 and $3,707 of administrative expenses related to Saga Creek operations for 2011 and 2010, respectively. The substantial decrease of $2,488 from 2010 to 2011 is primarily the result of the reversal in 2011 of amounts accrued in 2010 for penalties on unpaid Historical Costs installments partially offset by legal fees related to the Corporation's challenge of the tax authorities' assessment of these taxes.

The remaining $5,767 of administrative expenses for the year ended December 31, 2011 relates to corporate overhead costs which was an increase of $3,452 over the corporate overhead costs for the year ended December 31, 2010 of $2,315. Included in these amounts were share-based compensation expenses of $2,903 and $908 for the years ended December 31, 2011 and 2010, respectively and $747 in allowance for the non-collectability of an account receivable for the year ended December 31, 2011 (2010 - $nil). The remaining $2,117 and $1,407 for the year ended December 31, 2011 and 2010, respectively relate to corporate cash overhead expenses as detailed below.

Employee costs accounted for $1,057 (50%) of the total corporate administrative costs for the year ended December 31, 2011 as compared to $860 (61%) for the 2010 year. The increase was the result of increased salaries for staff effective January 1, 2011 as well as additional consulting costs in connection with the Corporation's early adoption of IFRS required as a result of the Corporation's investigation into a dual listing on an Asian stock exchange.

Corporate professional costs, which include legal, auditing and outside consulting fees, totaled $573 (27%) for the year ended December 31, 2011 as compared to $354 (25%) for the 2010 year. Professional costs were higher in 2011 as the Corporation's costs associated with the conversion to IFRS and the Corporation's audit were significantly higher than originally contemplated and accrued for during the 2010 year. As part of the audit, work was done to remove the audit qualification that Alhambra received on its 2008 annual financial statements because of the loss of the Kazakhstan subsidiaries. With the re-acquisition on September 15, 2009 it was then possible to clear up that qualification which will be required in order for the Corporation to pursue the Asian public listing. As the Corporation maintains a small professional accounting staff, it was necessary to contract professional assistance to help with the conversion, particularly considering that a significant amount of time of Alhambra's employees was devoted to the work necessary to pursue the listing on an Asian stock exchange.

Costs related to the maintenance of Alhambra as a public Corporation including investor relations, stock exchange and corporate trust services and annual and quarterly report costs accounted for $326 (15%) of total corporate administrative expenses for the year ended December 31, 2011 as compared to $249 (18%) for the 2010 year. As a result of the re-acquisition on September 15, 2009, the Corporation began to re-establish its investor relations program which was only in the planning and initiation stages in the first half of 2010.

Office expenses for the year ended December 31, 2011 totaled $161 (8%) as compared to $177 (13%) for the 2010 year.

The Corporation billed DOT $nil (nil %) during the year ended December 31, 2011 under its agreement to provide management services under the Contract. This compares to $233 (17%) billed during the 2010 year.

Liquidity and capital resources

Alhambra operates in a capital intensive industry in which the demands for capital to finance exploration and development of its properties as well as its corporate overheads generally occur far in advance of projects being put on production and generating cash flow. While the Corporation generates cash flow from the operations of the oxide zone of the Uzboy gold deposit, additional funds are required to enable Alhambra to add shareholder value through exploration and development and fund some of its working capital requirements. As a result, the Corporation depends on the capital markets to fund these activities. If the Corporation is unable to raise additional funds through these capital markets, the Corporation's ability to continue as a going concern is extremely doubtful. However, in order for the Corporation to raise funds through the issue of common shares, it must first get approval from the government of Kazakhstan to issue common shares (see note 26 (*'Government of Kazakhstan pre-emptive right'*) to the December 31, 2011 audited consolidated financial statements and the Government of Kazakhstan pre-emptive right section of this MD&A). The Corporation has filed an application with the Kazakhstan Ministry of Industry and New Technology ("MINT") to obtain approval to proceed at its discretion with the issue of common shares.

At December 31, 2011 the Corporation had $873 (2010 – $3,375) in cash and $11,333 (2010 – $7,785) in positive working capital. The $3,548 increase in working capital is principally the result of the reversal of the provision related to Historical costs as a result of the positive decision by the Kazakhstan courts reversing the assessment of the tax authorities (see notes 15 (*'Provisions'*) and 25 (*'Legal challenge of tax assessment')* to the December 31, 2011 audited consolidated financial statements and the Legal challenge of tax assessment section of the MD&A). Included in other working capital is $13,206 (December 31, 2010 - $11,209) in work in progress related to 10,000 ozs (December 31, 2010 - 15,000 ozs) of gold that the Corporation is estimating it will sell during the next twelve months.

Related party transactions

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

(a) Compensation of key management personnel:

The remuneration of directors and other members of key management personnel during the years ended December 31, 2011 and 2010 were as follows:

For the years ended December 31,		2011		2010
Short-term employee benefits	$	862	$	816
Share-based payments		2,122		664
Director fees		–		–
	$	2,984	$	1,480

In addition to their salaries, executive officers also participate in the Group's share option program.

(b) Other transactions:

On August 29, 2007, the Corporation and DOT entered into an Administrative and Corporate Services Contract (the "Contract") whereby DOT agreed to engage the Corporation to provide management, administration and corporate services to DOT. The Contract provides for a monthly remuneration of CDN$20 plus all reasonable out of pocket expenses and is for an indefinite term but may be terminated by either party upon providing 30 days prior written notice. For the year ended December 31, 2011, the Corporation billed DOT CDN$nil (2010 - CDN$240) under the Contract. The amount uncollected as of December 31, 2011 was CDN$359 (2010 - CDN$359). Effective January 1, 2011, the Corporation suspended billing DOT the monthly remuneration. In addition, the Corporation advanced DOT CDN$400 to enable DOT to meet working capital requirements while DOT is investigating options regarding financing. At this time the Corporation is not charging DOT any interest. In 2011, the Corporation determined that there is a high probability that the $747 amount owing from DOT is non-collectable and as such has expensed that amount in administrative expenses as corporate maintenance costs.

Financial instruments

The fair values of cash and cash equivalents, trade and other receivables, loans and borrowings, trade and other payables are approximated by their carrying amounts because of their short-term nature or because they bear interest at market rates.

Commitments

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

The Corporation is anticipating spending approximately $3,000 on exploration activities during 2012, subject to suitable financing.

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

The Corporation has no other off balance sheet financing arrangements

Share data

The Corporation is authorized to issue an unlimited number of common shares of which 104,132,059 were outstanding as of December 31, 2011. The following table shows the detailed number of shares, options and warrants outstanding as of December 31, 2011 and changes that have occurred up to the date of this MD&A.

	As of December 31, 2011	Change in 2012	Issued in 2012	As of April 26, 2012
Common shares issued and outstanding	104,132,059	–	–	104,132,059
Common shares issuable upon exercise of stock options	8,518,500	–	–	8,518,500
Common shares issuable upon exercise of warrants	11,802,775	–	–	11,802,775
Common shares fully diluted	124,453,334	–	–	124,453,334

The 11,802,775 warrants include 2,500,450 warrants, which are exercisable into common shares of the Corporation at a price of CDN$0.45 per common share, were originally scheduled to expire on August 11, 2011 however the Corporation sought and obtained approval from the TSX Venture Exchange Inc. (the "Exchange") to extend the expiry date to December 9, 2011 ("First Extension") and then to February 8, 2012 ("Second Extension"). The Corporation calculated the fair value of the two extensions to be $146. The fair value of the First Extension was calculated to be $0.04 per share based on an expected life of 120 days, a risk free interest rate of 1%, an expected volatility of 53% and an expected dividend yield of 0%. The fair value of the Second Extension was calculated to be $0.02 per share based on an expected life of 61 days, a risk free interest rate of 1%, an expected volatility of 34% and an expected dividend yield of 0%. Subsequent to the year end the Corporation sought and obtained approval from the Exchange to extend the expiry date of these warrants to the earlier of February 11, 2013 and a date which is sixty (60) days after receipt of a waiver of right of first refusal from the Government of Kazakhstan and the receipt of consent of MINT, in respect of the issuance of common shares upon exercise of Warrants.

The remaining 9,302,325 warrants, which are exercisable at a price of $0.72 per share were originally scheduled to expire on or before February 19, 2012 for 5,388,690 warrants and March 28, 2012 for 3,913,635 warrants. Subsequent to the year end, the Corporation sought and obtained approval from the Exchange to extend the expiry date of the warrants to February 19, 2013 for 5,388,690 warrants and March 28, 2013 for 3,913,635 warrants and a date which is 60 days from the sixty days after receipt of a waiver of right of first refusal from the Government of Kazakhstan and the receipt of consent of MINT, in respect of the issuance of common shares upon exercise of Warrants.

Legal challenge of tax assessment

In 2010 Saga Creek was assessed amounts that tax authorities in Kazakhstan believed were owed by Saga Creek for Historical Costs, MET as well as for their disallowance of certain corporate income tax deductions for the 2006 to 2009 taxation years ("CIT"). The total amount of the assessments including penalties and interest was approximately $4.3 million. The Corporation believed that the assessments were not consistent with Kazakhstan legislation as well as the provisions of Saga Creek's foreign investment contract which governs the Saga Creek's licenses. As a result, Saga Creek filed a claim in the District Economical Court ("Economical Court") seeking to have the assessment of the tax authorities, together with the applicable interest and penalties reversed. On May 13, 2011 the judge in charge of the case largely, but not wholly, rejected Saga Creek's claim, upholding the assessments. On June 2, 2011, Saga Creek appealed this decision to the Appellate Chamber of Akmola Oblast Court ("Appellate Chamber"). On August 5, 2011 the Appellate Chamber upheld the Economical Court's decision, again rejecting all Saga Creek's arguments. Saga Creek filed a further appeal to the Cassation Chamber on August 22, 2011 which is the final court of appeal prior to the Supreme Court. On September 27, 2011 the Cassation Chamber ruled on the Corporation's appeal, the summary of which is as follows:

(i) The 2009 assessment for Historical Costs amounting to approximately US$1.6 million was cancelled. While the assessment was only for the 2009 year, the legislation as enacted had provided that the total obligation for Historical Costs of $15.8 million be paid in equal quarterly installments over ten (10) years. As a result the Corporation reversed the full provision of $13.8 million (see note 16 (*'Provisions'*) to the December 31, 2011 audited consolidated financial statements) and an accrual of approximately $2.5 million in interest and penalties to June 30, 2011 ($1.9 million to December 31, 2010), all of which were reversed in the third quarter of 2011.

(ii) The assessment for CIT amounting to approximately US$0.4 million was cancelled and sent back to the lower court for review and re-consideration by a new panel of judges. The court subsequently ordered a review of the issues by a court appointed expert. The expert has yet to issue its decision regarding the validity of the Corporation's claim. Due to the continuing uncertainty regarding the outcome of the Corporation's appeal of the CIT assessment, the Corporation has continued to accrue interest and penalties related to the CIT portion of the assessment. As at December 31, 2011 the Corporation has accrued a total of $0.6 million (December 31, 2010 - $0.5 million) related to the CIT assessment including interest and penalties.

(iii) The assessment for the 2009 MET in the amount of approximately US$1.0 million was upheld. A total of approximately $1.6 million related to the MET, interest and penalty has been paid by the Corporation of which approximately $0.7 million relates to interest and penalties.

Both the Corporation and the tax authorities have one year to appeal all or part of the decision. The Corporation has made application to the Kazakhstan tax authorities to remove a lien filed against some of Saga Creek's assets to secure the government's claim for the indebtedness outstanding however to date the lien has not been removed.

As a result of the decision by the Cassation Chamber that no Historical Costs are payable, the Corporation has, as indicated, reversed the original provision and all related penalties and interest that had previously been recorded. As indicated, the tax authorities and the public prosecutor have until September 27, 2012 to appeal the decision of the Cassation Chamber to the Supreme Court. While Corporation understands that it is standard practice in Kazakhstan for the tax authorities to appeal unfavorable court rulings, there is no guarantee that they will in fact appeal. Even if they do appeal the decision, there is no guarantee that the Supreme Court will in fact choose to hear the appeal and if it agrees to hear the appeal there is no guarantee that it will reverse the decision of the Cassation Chamber. If however the final result is that the Supreme Court hears the appeal and decides in favor of the tax authorities, the effect on the Corporation's Consolidated Statement of Financial Position as at September 30, 2011 would be to increase Intangible Assets by $13.8 million, to increase Trade and Other Payables by $3.3 million, to increase Provisions by $15.3 million, and to decrease profit and loss by $4.8 million. The decrease in profit and loss would result from a charge to administration expenses for penalties of $2.2 million and a charge to finance costs of $2.6 million for interest and unwinding of the discount on the Historical Cost provision year ended December 31, 2011. The Corporation is not aware of any legal arguments that would support overturning the decision of the Cassation Chamber.

Government of Kazakhstan pre-emptive right

The Subsoil and Subsoil Use Act (the "Act") in Kazakhstan grants the Government of Kazakhstan the first right of refusal to purchase any direct or indirect interest in any subsoil license or legal entity holding that license or the legal entity controlling the holder of the subsoil use license at market prices should the license or shares or instruments convertible or giving rights to shares (joint, the "Subsoil Use Assets") come up for sale. As a result, before a company can accept an offer to sell its Subsoil Use Assets, it must first get approval from relevant Kazakhstan authorities. The Act extends this obligation to require a company whose main business is connected with subsoil use in Kazakhstan to get approval should it desire to issue any common shares or issue any derivative instruments that are convertible into common shares. On April 21, 2011, the Corporation completed and filed an application with the relevant Kazakhstan agency to have pre-approved, any shares that may be issued upon conversion of outstanding warrants and options as well as requested that the Government of Kazakhstan pre-approve a private placement that the Corporation would contemplate doing in the near future to finance its exploration and development activities. This application was amended on August 16 and October 25, 2011 which included responses to certain questions received from the Kazakhstan agency. The Corporation is not aware of any such applications that have been rejected by the Government of Kazakhstan.

Commercial discovery bonus

On February 22, 2102 Saga Creek was given notice by Kazakhstan tax authorities that it was required to pay a Commercial Discovery Bonus (the "Bonus") based on the approved commercial reserves for Uzboy. According to the notification, Saga Creek is required by law to pay an amount equal to 0.1% of the commercial value of the 14,455.8 kg of gold and 48,100 kg of silver of reserves approved for Uzboy. In addition, Saga Creek will be required to pay a 50% penalty plus interest at the prescribed rate which is approximately 17.5%. Payment was due on May 24, 2011. Saga Creek has filed a notice of objection with the tax authorities on the basis that Clause 6.2 (b) of the Subsoil use contract explicitly defines that Saga Creek *"pays a commercial discovery bonus at a zero rate"* which in effect means that Saga Creek is not obliged to pay this bonus at all.

The Corporation anticipates that the tax authorities will reject Saga Creek's appeal which will then require Saga Creek to appeal that decision to the Kazakhstan courts. The Corporation also anticipates that the lower courts in Kazakhstan will uphold the tax authorities' assessment which will necessitate Saga Creek filing its appeal to the Supreme Court of Kazakhstan. As the Corporation is uncertain at this time how the Kazakhstan courts will ultimately decide on Saga's obligation regarding the Commercial Discovery Bonus, the Corporation has recorded the Bonus and related interest and penalties as of December 31, 2011. Saga Creek has estimated the amount of the Bonus to be $0.7 million and has charged this amount to intangible assets. In addition Saga Creek has recorded $0.5 million in interest and penalties related to the unpaid amount of the Bonus.

Business Risks

The following describes the types of risks that the Corporation is exposed to in its operations and how it manages those risks.

World Economic Uncertainty

While certain economies and business sectors are recovering from the recent economic slowdown, there still remains stock market uncertainty and an international credit crisis that could adversely impact the Corporation's ability to raise sufficient working capital to sustain operations. The Corporation can neither predict the impact how this uncertainty will have on future results.

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 a company may be subject to risks from operations, mining law, environmental regulations, permits and licenses and financing.

Focusing exploration efforts in areas in which a company has existing knowledge and expertise helps in its efforts to find reserves. Exploration activities rely on the exploration results collected at that time and on the professional judgment of people involved in the exploration business. There is 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 either resources or reserves being established on the property. If reserves are established, it may take a number of years and substantial expenditures until production is achieved, during which time the economic feasibility of the project may change.

The long-term profitability of a company's operation will, in part, be directly related to the success of its exploration programs in finding additional reserves, which may be affected by a number of factors that are beyond the control of the company.

Operations risk

Operational risk relates to the ability to recover metal from an established mineral reserve. Using skilled and experienced professional staff helps to reduce this risk. Using the latest technologies and controlling costs to maximize profitability also assist in minimization of this risk. Other possible risks include changes in metal prices, unstable ground conditions, procurement of reagents, supplies and fuels and qualified operating personnel as well as severe weather conditions. Maintaining insurance can help to mitigate some of the operational risks.

Kazakhstan Country risk

When operating in a country such as Kazakhstan, a company is subject to economic, political and social risks inherent in doing business in that country. These risks include matters arising out of the policies of the government, economic conditions, imposition of, or changes to, taxes and regulations, foreign currency exchange fluctuations and the enforceability of contract rights.

The audited consolidated financial statements and MD&A reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Corporation. The future business environment may differ from management's assessment.

Regulations and mining law

Mining operations and exploration activities are subject to the laws and regulations of a country in which a company does business. There is no assurance that these laws will not change in the future.

Environmental factors

All phases of a company's operations are subject to environmental regulations in the country in which it operates. Environmental legislation may continue to evolve in a manner which requires 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. While a company may take the steps necessary to protect the environment around its operations, there is no assurance that future changes in environmental regulation, if any, will not adversely affect a company's operations or result in substantial costs and liabilities in the future.

Permits and licenses

The operation of a company requires permits from the government of the country in which the company operates. There can be no assurance that a company will be able to obtain all necessary permits that may be required to carry out its operations in the future.

Income and other taxes

As in many emerging markets, the taxation system in Kazakhstan is relatively new and is characterized by numerous taxes and frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However the interpretations of relevant authorities could differ and the effect the on financial results, if the authorities are successful in enforcing their interpretations, could be significant.

Going Concern Risk

The re-gaining of control of the Kazakhstan Subsidiaries effective September 15, 2009 combined with the financing done in 2010 and the conversion to share capital of the secured debentures significantly reduced Alhambra's going concern risk. These funds however, are not sufficient to enable the Corporation to meet all its obligations and carry out significant exploration and development programs. During the year ended December 31, 2011, the Corporation incurred a net loss of $3,929 and the Corporation is not generating a sufficient amount of cash flow from operations to cover its commitments. To continue as a going concern, as well as implement exploration and development plans to sustain the Corporation and promote growth, significant additional capital will be required. The Corporation is currently attempting to raise additional funds, however, there is no assurance that it will be able to do so. However, in order for the Corporation to raise funds through the issue of common shares, it must first get approval from the government of Kazakhstan to issue common shares (see note 26 *'Government of Kazakhstan pre-emptive right'* to the audited consolidated financial statements and the Government of Kazakhstan pre-emptive right in this MD&A).

Significant Accounting Policies

The significant accounting policies used by the Corporation are disclosed in the notes to the Corporation's audited consolidated financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The following discussion outlines such accounting policies and is included in this MD&A to aid the reader in assessing the significant accounting policies and practices of the Corporation and likelihood of materially different results being reported. The Corporation's management reviews its estimates regularly.

The following significant accounting policies outline the major policies involving critical estimates.

Work in progress

Work in progress is determined by estimating the quantity of recoverable gold at the various stages of the production process. While the Corporation performs tests to estimate the recoverability of gold as well as uses various sampling techniques to measure the daily quantity of gold either stacked on or recovered from the heaps in each process, the actual quantity of recoverable gold can only be determined with certainty after the reserves have been completely mined and the project abandoned. Work in progress was written off at December 26, 2008 as a result of the loss of control of the Kazakhstan Subsidiaries. Upon re-gaining control the Corporation was required to record the work in progress at fair market value.

Mineral resources and reserves

A mineral resource is defined by the Canadian Institute of Mining, Metallurgy and Petroleum as a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospect for economic extraction. Mineral reserves are those parts of mineral resources which, after the application of all mining factors, estimated gold recovery and operating costs, are the estimated tonnage and grade which is the basis of an economically viable project. Proven and Probable mineral reserves differ by the degree of certainty of such reserves. By their nature, reserves are at best estimates and can only be determined once the reserves have been completely mined and the project abandoned. Changes in Proven and Probable mineral reserves impact the calculation of depletion and the evaluation for impairment as discussed in note 2 of the consolidated financial statements.

Upon re-acquisition, the Corporation was required to record mineral properties at fair market value. In determining the fair market value of the Kazakhstan Subsidiaries' assets, the Corporation made assumptions about reserves, recovery rates, prices, operating, general and administration costs and capital costs and deferred income tax rates as well as made assumptions in determining the Corporation's weighted average cost of capital used to discount the estimated annualized cash flows that were derived from the modeling work done.

Provisions

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

Provisions are determined by discounting the expected future cash flows and therefore require an estimate to be made of the future liability plus the discount rate applicable.

Share-based payments

Compensation costs attributable to stock options granted by the Corporation are charged to earnings over the vesting periods of the options. The fair value calculation method adopted by the Corporation is the Black-Scholes model, which requires management to estimate interest rates, the expected life of the options and the expected volatility of the Corporation's share price over the life of the options. These estimates may be different than the actual interest rates, life and volatility.

Income tax accounting

The determination of the Corporation's income tax assets and liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax assets and liabilities may differ significantly from that estimated and recorded by management. This is further complicated by the fact that the taxation system in Kazakhstan is relatively new and characterized by frequent changes in legislation, official pronouncements and court decisions.

Accounting standards issued but not yet effective

The Corporation has not early-adopted these revised standards and it currently assessing the impact that these standards will have on the financial statements.

(i) New accounting standards impacting on or after January 1, 2012:

IFRS 7 Financial Instruments: Disclosures (Amendment)

The amendment, effective for annual periods beginning on or after July 1, 2011, with early application permitted, requires additional quantitative and qualitative disclosures relating to transfers of financial assets where: financial assets are derecognized in their entirety, but where the entity has a continuing involvement in them; financial assets that are not derecognized in their entirety.

International Accounting Standards ("IAS") 12 Income Taxes (Amendment)

IAS 12 amendments regarding Deferred Tax: Recovery of Underlying Assets introduces an exception to the existing principle for the measurement of deferred tax assets and liabilities arising on investment property measured at fair value, and the requirement that deferred tax on non-depreciable assets measured at fair value measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after January 1, 2012.

(ii) New accounting standards impacting on or after July 1, 2012

IAS 1 Presentation of Financial Statements (Amendment)

The amendments to IAS 1 require companies preparing financial statements in accordance with IFRS to group together items within other comprehensive income ("OCI") that may be reclassified to the profit or loss section of the income statement. The amendments retain the "one or two statement" approach at the option of the entity and only revise the way OCI is presented: requiring separate subtotals for those elements that may be recycled (e.g., cash flow hedging, foreign currency translation), and those elements that will not (e.g., fair value through OCI items under IFRS 9). In addition, the tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax). The amendment is effective for annual periods beginning on or after July 1, 2012.

(iii) New accounting standards impacting on or after January 1, 2013

IFRS 7 Financial Instruments: Disclosures in Respect of Offsetting (Amendment)

At its meeting December 13 to 15, 2011, the International Accounting Standards Board ("IASB") approved amendments to IFRS 7 *Financial Instruments: Disclosures* with respect to offsetting financial assets and financial liabilities. The common disclosure requirements issued by the IASB and the Financial Accounting Standards Board in December 2011 are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. Companies and other entities are required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The required disclosures should be provided retrospectively.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and SIC 12 *Consolidation – Special Purpose Entities.* IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. This standard (i) requires a parent entity (an entity that controls on or more other entities) to present consolidated financial statements; (ii) defines the principle of control and establishes control as a basis for consolidation; (iii) sets out how to apply the principle of control whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements.

IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 10 may be adopted to an earlier accounting period, but in doing so, and entity must disclose that fact that it has early-adopted the standard and apply IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosure of Interests in Other Entities,* IAS 27 *Separate Financial Statements (*as amended in 2011) and IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2011).

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 combines the disclosure requirements for an entity's interest in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure standard. This standard requires the disclosure of information that enable users of financial statements to evaluate the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, and entities are permitted to incorporate any of the new disclosures into their financial statements before that date.

IFRS 13 Fair Value Measurement

IFRS 13 provides guidance on how to measure fair value, but does not change when fair value is required or permitted under IFRS. IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), expect for: share-based payment transactions within the scope of IFRS 2 *Share-based Payment:* leasing transactions with the scope of IAS 17 *Leases;* measurements that have some similarities to fair value that are not fair value, such as net realizable value in IAS 2 *Inventories;* or value in use IAS 36 *Impairment of Assets*. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IAS 27 Separate Financial Statements

IAS 27 has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly controlled entities and associates when and entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. This standard will not have an impact on the consolidated financial statements.

IAS 28 Investments in Associates and Joint Ventures

IAS 28 prescribes the accounting for investments in associates and to set the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

(iv) New accounting standards impacting on or after January 1, 2014

IAS 32 Financial Instruments – Presentation in Respect of Offsetting (Amendment)

As its meeting December 13 to 15, 2011, the IASB approved amendments to IFRS 7 *Financial Instruments: Disclosures* with respect to offsetting financial assets and financial liabilities. As part of this project, the IASB also clarified aspects of IAS 32 *Financial Instruments: Presentation.* The amendments to IAS 32 address inconsistencies in current practice when applying the requirements. The amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively.

(v) New accounting standards impacting on or after January 1, 2015

IFRS 9 Financial Instruments (2009)

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a "business model" test and a "cash flow characteristics" test are measured at amortized cost (the use of fair value is optional in some limited circumstances).
- Investments in equity instruments can be designated as "fair value through other comprehensive income" with only dividends being recognized in profit or loss.
- All other instruments (including all derivatives) are measured at fair value with changes recognized in the profit or loss.
- The concept of "embedded derivatives" does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

This standard is only applicable if it is optionally adopted for annual periods beginning before January 1, 2015. For annual periods beginning on or after January 1, 2015, the Company must adopt IFRS 9 (2010).

IFRS 9 Financial Instruments (2010)

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirement from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

This standard applies to annual periods to annual periods beginning on or after January 1, 2015 and supersedes IFRS 9 (2009). However, for annual reporting periods beginning before January 1, 2015, the Company may early adopt IFRS 9 (2009) instead of applying this standard.

Selected Quarterly Data

	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Gold sales (ozs)	1,526	3,858	2,033	1,770
Average gold price ($/oz)	$ 1,773	$ 1,817	$ 1,514	$ 1,392
Revenue ($000's)	$ 2,705	$ 7,012	$ 3,077	$ 2,466
Net profit (loss) ($000's)	$ (2,578)	$ 2,550	$ (2,065)	$ (1,686)
Basic earnings (loss) per share	$ (0.03)	$ 0.02	$ (0.02)	$ (0.01)
Diluted earnings (loss) per share	$ (0.03)	$ 0.02	$ (0.02)	$ (0.01)

	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Gold sales (ozs)	2,870	4,378	3,523	1,892
Average gold price ($/oz)	$ 1,404	$ 1,277	$ 1,206	$ 1,122
Revenue ($000's)	$ 4,030	$ 5,590	$ 4,247	$ 2,124
Net profit (loss) ($000's)	$ (4,005)	$ (289)	$ 19	$ (767)
Basic earnings (loss) per share	$ (0.05)	$ (0.00)	$ 0.00	$ (0.01)
Diluted earnings (loss) per share	$ (0.05)	$ (0.00)	$ 0.00	$ (0.01)

The net profit recorded in the third quarter of 2011 is primarily the result of the reversal of interest and penalties accrued in the fourth quarter of 2010 related to the assessment by the Kazakhstan tax authorities for Historical Costs. The loss recorded in the fourth quarter of 2010 is due to lower gold sales revenue plus penalties and interest accrued as a result of the assessment by the tax authorities in Kazakhstan (see notes 16 (*'Provisions'*) and 25 (*"Legal challenge of tax assessment"*) to the December 31, 2011 audited consolidated financial statements and the Legal challenge of tax assessment of this MD&A.

Operations at Saga Creek are seasonal such that given no other major operational issues, it is expected that the gold sales during the cold weather months will be less than other months. As a result, monthly sales of gold during the months of December through May will be less than during other months of the year. The Corporation does heat the leaching solution to help offset some of the effects of the cold winters.

2012 Objectives

During 2012, Alhambra is planning to accelerate the development of its advanced "resource definition" exploration projects of Uzboy, Shirotnaia and Dombraly. The Corporation also anticipates advancing numerous early stage exploration projects and assessing a number of other gold targets of anticipated high potential over its vast mineral license area. These projects include Vasilkovskoe East, Zhanatobe, and targets along the 60 km Dombraly-Shirotnaia trend, located on the eastern flank of the Uzboy Project exploration license.

Alhambra is anticipating spending approximately $3.0 million on exploration activities in 2012, subject to sufficient cash flow and suitable financing. The main focus will continue to be on Uzboy, Dombraly and Shirotnaia with continuing resource development drilling and production development assessments, including metallurgical and gold recovery tests. In the second half of 2012 the Pre-Feasibility Study for the Uzboy primary gold (sulphide gold) production development project will be initiated. Utilizing the existing oxide heap leach production infrastructure should enhance the overall primary gold production economics while potentially reducing project start up time.

Alhambra will continue to position itself for ongoing growth and to create growing wealth for its shareholders through the ongoing exploitation of its vast exploration and development license. In addition, the Corporation will continue developing and upgrading its staff to meet its future challenges and objectives.

Alhambra will continue to work towards a dual listing of its common shares on an Asian stock exchange. The expected benefits of the dual listing are increased market liquidity and access to capital markets, which should support Alhambra's share price moving to reflect intrinsic asset value, and greater access to capital in the rapidly developing and buoyant Asian capital market. The pursuit of the dual listing was halted in 2011 due to the delays incurred in generating and analyzing drill results, and in generating the new and updated NI 43-101 resource reports and Preliminary Economic Assessment (Scoping Study).

The Corporation has filed an application with MINT to obtain approval to proceed at its discretion with equity financing to raise capital through the issue of common share equity in 2012 to the extent it is deemed necessary to help finance the 2012 exploration program and other corporate objectives. While Alhambra anticipates spending approximately $3 million on exploration activities during 2012, given early approval from MINT and additional financing, Alhambra could expand this program up to $7.5 million.

ALHAMBRA RESOURCES LTD.

Audited Consolidated Financial Statements

Years ended December 31, 2011 and 2010

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management.

The financial statements have been prepared by management in accordance with International Financial Reporting Standards. Other financial information appearing throughout the report is presented on a basis consistent with the financial statements.

Alhambra Resources Ltd. has established procedures and systems of internal control designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced in a timely manner.

The Audit Committee of the Board of Directors has reviewed these financial statements with management and the independent auditors and reports its findings to the Board of Directors before such statements are approved by the Board of Directors.

The financial statements have been audited by KPMG LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. KPMG LLP have full and free access to the Audit Committee. The Audit Committee is responsible for determining their reappointment and the setting of their fees.

April 26, 2012

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

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Alhambra Resources Ltd.

We have audited the accompanying consolidated financial statements of Alhambra Resources Ltd., which comprise the consolidated statements of financial position as at December 31, 2011 and December 31, 2010, the consolidated statements of income and expense and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that Alhambra Resources Ltd. incurred a net loss of $3.8 million during the year ended December 31, 2011 and does not have sufficient cash flow to meet its obligations. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about Alhambra Resources Ltd.'s ability to continue as a going concern.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Alhambra Resources Ltd. as at December 31, 2011 and December 31, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

(Signed) *"KPMG LLP"*

Chartered Accountants
Calgary, Canada
April 26, 2012

ALHAMBRA RESOURCES LTD.

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

As at	Note	December 31, 2011	December 31, 2010
Assets			
Current assets:			
Cash and cash equivalents	8	$ 873	$ 3,375
Trade and other receivables	9	725	2,335
Deposits and prepaid expenses	10	2,471	1,019
Inventories	11	14,934	12,456
Total current assets		19,003	19,185
Non-current assets:			
Property, plant and equipment	12	66,483	72,023
Intangible assets	13	8,648	20,185
Investment in equity accounted investee	14	501	534
Inventories	11	17,704	13,110
Trade and other receivables	9	–	764
Total non-current assets		93,336	106,616
Total assets		$ 112,339	$ 125,801
Liabilities and Equity			
Current liabilities:			
Trade and other payables	15	$ 7,520	$ 6,953
Provisions	16	–	4,447
Total current liabilities		7,520	11,400
Non-current liabilities:			
Provisions	16	283	9,646
Deferred tax liabilities	17	32,390	31,597
Total non-current liabilities		32,673	41,243
Total liabilities		40,193	52,643
Equity:			
Share capital	19	42,132	42,075
Warrants	19	2,393	2,247
Contributed surplus	19	9,017	6,140
Foreign currency translation reserve		728	1,041
Retained earnings		17,876	21,655
Total equity		72,146	73,158
Total liabilities and equity		$ 112,339	$ 125,801

See accompanying notes to consolidated financial statements.

APPROVED ON BEHALF OF THE BOARD:

(Signed) John J. Komarnicki, Director

(Signed) Clarence K. Wagenaar, Director

ALHAMBRA RESOURCES LTD.

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

For the years ended	Note	December 31, 2011	December 31, 2010
Revenue:			
Sales		$ 15,260	$ 15,991
Less net smelter royalty		(458)	(480)
		14,802	15,511
Cost of sales		6,646	10,118
Gross profit		8,156	5,393
Expenses:			
Administrative expenses	7	6,986	6,022
Depletion and depreciation	12, 13	2,781	2,028
		(1,611)	(2,657)
Finance costs	6	583	887
Share of loss of equity accounted investee	14	21	55
Loss before income taxes		(2,215)	(3,599)
Income tax expense	17	1,564	1,443
Net loss for the year attributable to the equity holders of the Corporation		$ (3,779)	$ (5,042)
Loss per share:			
Basic	20	$ (0.04)	$ (0.06)
Diluted	20	$ (0.04)	$ (0.06)

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

For the years ended	December 31, 2011	December 31, 2010
Net loss for the year	$ (3,779)	$ (5,042)
Other comprehensive (loss) income:		
Foreign currency translation difference for foreign operations	(313)	726
Total comprehensive loss for the year	$ (4,092)	$ (4,316)

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

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

	Share Capital	Contributed surplus	Warrants	Foreign currency translation reserve	Equity portion of convertible debenture	Retained earnings	Total
Balance, December 31, 2009	$ 35,495	$ 5,250	$ 51	$ 315	$ 116	$ 26,697	$ 67,924
Pursuant to private placement	8,000	–	–	–	–	–	8,000
Share issuance costs	(589)	–	–	–	–	–	(589)
Transfer to warrants	(2,196)	–	2,196	–	–	–	–
Conversion of secured debentures	1,211	–	–	–	–	–	1,211
Transfer on conversion of secured debentures	116	–	–	–	(116)	–	–
Share options exercised	20	–	–	–	–	–	20
Transfer on exercise of options	18	(18)	–	–	–	–	–
Share based payments expense	–	908	–	–	–	–	908
Loss for the year	–	–	–	–	–	(5,042)	(5,042)
Other comprehensive income	–	–	–	726	–	–	726
Balance, December 31, 2010	42,075	6,140	2,247	1,041	–	21,655	73,158
Share options exercised	31	–	–	–	–	–	31
Transfer on exercise of options	26	(26)	–	–	–	–	–
Share based payments expense	–	2,903	–	–	–	–	2,903
Extension of expiry date of warrants	–	–	146	–	–	–	146
Loss for the year	–	–	–	–	–	(3,779)	(3,779)
Other comprehensive income	–	–	–	(313)	–	–	(313)
Balance, December 31, 2011	$ 42,132	$ 9,017	$ 2,393	$ 728	$ –	$ 17,876	$ 72,146

For details on movement in shares please see Note 19.

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

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

For the years ended	December 31, 2011	December 31, 2010
Cash provided by (used in):		
Cash flows from operating activities:		
Loss for the year	$ (3,779)	$ (5,042)
Adjustments for:		
Depletion and depreciation	2,781	2,028
Finance costs	153	41
Share of loss of equity accounted investee	21	55
Allowance for non-collectability of accounts receivable	747	–
Equity-settled share-based payment transactions	2,903	908
Deferred income tax expense	1,004	542
	3,830	(1,468)
Change in inventories	(3,318)	(1,580)
Change in trade and other receivables	1,613	(792)
Change in deposits and prepaid expenses	(1,511)	(537)
Change in trade and other payables	5,404	2,895
Interest paid	(304)	–
Income taxes paid	(956)	(589)
Net cash flows from operating activities	4,758	(2,071)
Cash flows from financing activities:		
Issuance of common shares and warrants	31	7,431
Net cash flows from financing activities	31	7,431
Cash flows from investing activities:		
Additions of property, plant and equipment and intangible assets	(3,979)	(16,093)
Change in non-cash working capital	(3,309)	13,650
Net cash flows from investing activities	(7,288)	(2,443)
Effect of exchange rate changes on cash and cash equivalents	(3)	114
Change in cash and cash equivalents	(2,502)	3,031
Cash and cash equivalents, beginning of year	3,375	344
Cash and cash equivalents, end of year	$ 873	$ 3,375

See accompanying notes to consolidated financial statements.

1. Reporting entity and nature of operations:

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

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

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

2. Going concern and Kazakhstan business risks:

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

On December 26, 2008, the Corporation lost ownership of assets that generated cash flow as a result of the unfavorable decision reached in the Kazakhstan Lawsuit, (the "Lawsuit"). With the ruling by the Supreme Court of the Republic of Kazakhstan ("Kazakhstan"), the Corporation re-acquired ownership of its Kazakhstan operating subsidiary, Saga Creek Gold Group LLP ("Saga Creek") and Goodwin Golems LLP, ("Goodwin") effective September 15, 2009. The re-acquisition of Saga Creek returned to the Corporation ownership of revenue producing assets, which has once again provided the Group access to cash flow to meet its obligations. This cash flow, however, is not sufficient to enable the Group to meet all its obligations and carry out significant exploration and development programs. Effective September 28, 2010, the Group completed an equity private placement, the net proceeds from which are being used to fund the Group's exploration and development programs and general working capital purposes. During the year ended December 31, 2011, the Group incurred a net loss of $3,929, and the Group is not generating a sufficient amount of cash flow from operations to cover its commitments. As a result there is significant doubt about the ability of the Group to continue as a going concern.

Alhambra recognizes the need to obtain debt or equity financing to meet its obligations and fund its exploration and development programs. The Corporation is in discussion with potential investors, however, at this time no commitments have been made by potential investors. However, in order for the Corporation to raise funds through the issue of common shares, it must first get approval from the government of Kazakhstan to issue common shares (note 26).

When operating in a country such as Kazakhstan, a company is subject to economic, political and social risks inherent in doing business in that country. These risks include matters arising out of the policies of the government, economic conditions, imposition of, or changes to, taxes and regulations, foreign currency exchange fluctuations and the enforceability of contract rights.

These audited consolidated financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Corporation. The future business environment may differ from management's assessment.

As in many emerging markets, the taxation system in Kazakhstan is relatively new and is characterized by numerous taxes and frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However the interpretations of relevant authorities could differ and the effect the on financial results, if the authorities are successful in enforcing their interpretations, could be significant.

3. Basis of preparation:

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

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were approved by the Board of Directors on April 26, 2012.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

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

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

Note 12 – valuation of property, plant and equipment;

Note 13 – valuation of intangible assets;

Note 16 – provisions;

Note 17 – valuation and utilization of tax losses; and

Note 19 – measurement of share-based payments.

4. Summary of significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by Group entities.

(a) Principles of consolidation and accounting for investments:

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

(i) Business combinations:

Acquisitions on or after January 1, 2008

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

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

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

Acquisitions prior to January 1, 2008

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

(ii) Acquisitions of non-controlling interests:

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

(iii) Subsidiaries:

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

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

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

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

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

(v) Transactions eliminated on consolidation:

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

(b) Foreign currency:

(i) Foreign currency transactions:

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

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

(ii) Foreign operations:

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

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

(c) Financial instruments:

(i) Non-derivative financial assets:

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

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

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

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

Financial assets at fair value through profit or loss:

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

Held-to-maturity financial assets:

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

Cash and cash equivalents:

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

Loans and receivables:

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

Available-for-sale financial assets:

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

(ii) Non-derivative financial liabilities:

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

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

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

The Group has the following non-derivative financial liabilities: trade and other payables and provisions.

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

(iii) Share capital:

Common shares

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

Preferred shares

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

(iv) Compound financial instruments:

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

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

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

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

(v) Warrants:

Warrants are classified as equity. The fair value of warrants issued is measured indirectly by reference to the equity instruments granted.

(d) Revenue recognition:

Revenue is recognized from the sale of gold when the price is determinable, the product has been delivered, and title has been transferred to the customer and collection of the sale is reasonably assured.

(e) Share-based payments:

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

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

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

(f) Borrowing costs:

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

(g) Income taxes:

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

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

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

(h) Earnings (loss) per share:

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

(i) Property, plant and equipment:

(i) Recognition and measurement:

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

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

Exploration and evaluation expenditures:

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

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

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

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

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

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

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

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and probable reserves are determined to exist. The Group reviews and evaluates its mining properties for impairment at least annually or when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. A decision to abandon, reduce or expand activity on a specific project is based upon many factors including general and specific assessments of exploration results, anticipated future mineral prices, anticipated costs of developing and operating a producing mine and the general likelihood that the Group will continue exploration on the project. The Group does not set a pre-determined holding period for properties. However, properties which have not demonstrated positive exploration results at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and that carrying amounts are appropriate.

Depreciation on equipment utilized in the exploration and evaluation of mineral properties is capitalized to exploration and evaluation costs until such time as these properties commence commercial production. All other costs, including administrative overhead, are expensed as incurred. Revenues from the sale of minerals are credited to exploration and development costs until such time as these properties are considered to have commenced commercial production.

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

(ii) Subsequent costs:

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

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

(iii) Depreciation:

Once a mineral property reaches commercial production, the accumulated costs of exploration and development costs related to that mineral property are amortized to the statement of income and expense on a unit-of-production basis over the measured and indicated mineral resources determined by the Group's independent geological and engineering consultant.

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

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

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

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

(iv) Software:

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

(j) Inventories:

(i) Work in progress:

All costs associated with the production of gold, including direct costs incurred in the mining, leaching and resin stripping processes and mineral extraction tax, as well as a portion of depreciation of equipment used in each process, and depletion of mineral assets, are charged to work in progress inventories and expensed based on the quantity of gold sold as a percentage of total gold mined. The quantity of gold mined is based on the estimate of gold that can be recovered from ore that is placed on leach pads. The portion of work in progress inventories that is not expected to be recovered within the next year is classified as non-current. The group does not charge any overheads to inventories.

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

(ii) Raw materials and supplies:

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

(iii) Impairment:

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

(k) Impairment:

(i) Financial assets:

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

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

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

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

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

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

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

(ii) Non-financial assets:

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

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

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

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

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

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

(l) Operating leases:

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

(m) Finance income and finance costs:

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

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

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

(n) Provisions:

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

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

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

The Group recognizes the fair value of site reclamation provisions in the period in which it is incurred, when a reasonable estimate of the fair value can be made. The fair value of the estimated reclamation provision is recorded as a liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on the unit-of-production method over proved and probable reserves.

The liability amount is increased each reporting period due to the passage of time and the unwinding of the discount is expensed to income in the period. Actual costs incurred upon the settlement of the reclamation provision are charged against the provision to the extent recorded. Any difference between the actual costs incurred and the reclamation provision recorded is recognized as a gain or loss in earnings in the period the costs are incurred.

(o) Segment reporting:

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related losses, loans and borrowings and related expenses, corporate assets (primarily the Corporation’s headquarters) and head office expenses and liabilities. Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment and intangible assets.

(p) Accounting standards issued but not yet effective:

The Corporation has not early-adopted these revised standards and it currently assessing the impact that these standards will have on the financial statements.

(i) New accounting standards impacting on or after January 1, 2012:

IFRS 7 Financial Instruments: Disclosures (Amendment)

The amendment, effective for annual periods beginning on or after July 1, 2011, with early application permitted, requires additional quantitative and qualitative disclosures relating to transfers of financial assets where: financial assets are derecognized in their entirety, but where the entity has a continuing involvement in them; financial assets that are not derecognized in their entirety.

International Accounting Standards ("IAS") 12 Income Taxes (Amendment)

IAS 12 amendments regarding Deferred Tax: Recovery of Underlying Assets introduces an exception to the existing principle for the measurement of deferred tax assets and liabilities arising on investment property measured at fair value, and the requirement that deferred tax on non-depreciable assets measured at fair value measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after January 1, 2012.

(ii) New accounting standards impacting on or after July 1, 2012

IAS 1 Presentation of Financial Statements (Amendment)

The amendments to IAS 1 require companies preparing financial statements in accordance with IFRS to group together items within other comprehensive income ("OCI") that may be reclassified to the profit or loss section of the income statement. The amendments retain the "one or two statement" approach at the option of the entity and only revise the way OCI is presented: requiring separate subtotals for those elements that may be recycled (e.g., cash flow hedging, foreign currency translation), and those elements that will not (e.g., fair value through OCI items under IFRS 9). In addition, the tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax). The amendment is effective for annual periods beginning on or after July 1, 2012.

(iii) New accounting standards impacting on or after January 1, 2013

IFRS 7 Financial Instruments: Disclosures in Respect of Offsetting (Amendment)

At its meeting December 13 to 15, 2011, the International Accounting Standards Board ("IASB") approved amendments to IFRS 7 *Financial Instruments: Disclosures* with respect to offsetting financial assets and financial liabilities. The common disclosure requirements issued by the IASB and the Financial Accounting Standards Board in December 2011 are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. Companies and other entities are required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The required disclosures should be provided retrospectively.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and SIC 12 *Consolidation – Special Purpose Entities.* IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. This standard (i) requires a parent entity (an entity that controls on or more other entities) to present consolidated financial statements; (ii) defines the principle of control and establishes control as a basis for consolidation; (iii) sets out how to apply the principle of control whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements.

IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 10 may be adopted to an earlier accounting period, but in doing so, and entity must disclose that fact that it has early-adopted the standard and apply IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosure of Interests in Other Entities,* IAS 27 *Separate Financial Statements (*as amended in 2011) and IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2011).

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 combines the disclosure requirements for an entity's interest in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure standard. This standard requires the disclosure of information that enable users of financial statements to evaluate the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, and entities are permitted to incorporate any of the new disclosures into their financial statements before that date.

IFRS 13 Fair Value Measurement

IFRS 13 provides guidance on how to measure fair value, but does not change when fair value is required or permitted under IFRS. IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), expect for: share-based payment transactions within the scope of IFRS 2 *Share-based Payment:* leasing transactions with the scope of IAS 17 *Leases;* measurements that have some similarities to fair value that are not fair value, such as net realizable value in IAS 2 *Inventories;* or value in use IAS 36 *Impairment of Assets*. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IAS 27 Separate Financial Statements

IAS 27 has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly controlled entities and associates when and entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. This standard is effective for annual periods beginning on or after January

1, 2013, with early adoption permitted. This standard will not have an impact on the consolidated financial statements.

IAS 28 Investments in Associates and Joint Ventures

IAS 28 prescribes the accounting for investments in associates and to set the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

(iv) New accounting standards impacting on or after January 1, 2014

IAS 32 Financial Instruments – Presentation in Respect of Offsetting (Amendment)

As its meeting December 13 to 15, 2011, the IASB approved amendments to IFRS 7 *Financial Instruments: Disclosures* with respect to offsetting financial assets and financial liabilities. As part of this project, the IASB also clarified aspects of IAS 32 *Financial Instruments: Presentation.* The amendments to IAS 32 address inconsistencies in current practice when applying the requirements. The amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively.

(v) New accounting standards impacting on or after January 1, 2015

IFRS 9 Financial Instruments (2009)

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a “business model” test and a “cash flow characteristics” test are measured at amortized cost (the use of fair value is optional in some limited circumstances).
- Investments in equity instruments can be designated as “fair value through other comprehensive income” with only dividends being recognized in profit or loss.
- All other instruments (including all derivatives) are measured at fair value with changes recognized in the profit or loss.
- The concept of “embedded derivatives” does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

This standard is only applicable if it is optionally adopted for annual periods beginning before January 1, 2015. For annual periods beginning on or after January 1, 2015, the Company must adopt IFRS 9 (2010).

(Expressed in thousands of U.S. dollars, unless otherwise stated)

IFRS 9 Financial Instruments (2010)

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirement from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

This standard applies to annual periods to annual periods beginning on or after January 1, 2015 and supersedes IFRS 9 (2009). However, for annual reporting periods beginning before January 1, 2015, the Company may early adopt IFRS 9 (2009) instead of applying this standard.

5. Particulars of subsidiaries:

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, Alhambra Overseas Limited, Alhambra Cooperatief U.A., 1450165 Alberta Limited, Saga Creek and Goodwin.

			Proportion of ownership interest and voting power held directly or indirectly	
			December 31	
	Principal activity	Place of incorporation and operation	2011	2010
Saga Creek Gold Company LLP	Mining	Kazakhstan	100%	100%
Goodwin Golems LLP	Holding Company	Kazakhstan	100%	100%
Alhambra Overseas Ltd.	Holding Company	Cyprus	100%	100%
Alhambra Cooperatief U.A.	Holding Company	Netherlands	100%	100%
1450165 Alberta ltd.	Holding Company	Canada	100%	100%

6. Finance costs:

For the years ended December 31,	2011	2010
Interest on overdue taxes (notes 25 and 27)	$ 351	$ –
Extension of warrants	146	–
Reversal of accrued interest on successful tax appeal (note 25)	(425)	425
Interest on secured debentures	–	85
Unwinding of the discount on provisions	7	5
Interest on trade payables	–	(5)
Interest expense on financial liabilities measured at amortized cost	–	109
Foreign exchange loss	504	268
Total finance costs	$ 583	$ 887

(Expressed in thousands of U.S. dollars, unless otherwise stated)

7. Administrative Expenses:

For the years ended December 31,		2011		2010
Employee costs	$	4,577	$	2,482
Professional fees		1,499		757
Corporate maintenance costs		311		2,582
Office costs		599		434
Less: recovery		–		(233)
Total administration costs	$	6,986	$	6,022

Administrative expenses include share-based payments expenses (a non-cash item) of $2,903 and $908 which have been included in employee costs for the years ended December 31, 2011 and 2010, respectively.

In 2011, the Corporation determined that there is a high probability that the $747 amount owing from its 27% affiliate DOT Resources Ltd is non-collectable and as such has expensed that amount in administrative expenses as corporate maintenance costs.

During the year ended December 31, 2010 the Group charged a total of $2,071 to corporate maintenance costs penalties potentially owing as a result of an assessment by the tax authorities of Kazakhstan for Historical Costs ($1,436), Mineral Extraction Tax ("MET") ($471) and the disallowance of certain income tax deductions ($164). As a result of the September 27, 2011 decision of the Cassation Chamber that no Historical Costs were payable, the Group recorded a reduction of corporate maintenance costs in the year ended December 31, 2011 in the corresponding 2010 amount of $1,436. The Cassation Chamber upheld the assessment related to MET and the penalty was therefore paid in the fourth quarter of 2011. As no decision was reached regarding the disallowance of certain income tax deductions, the accrual for that penalty remains recorded as a liability (note 25). This 2011 recovery was partially offset by an accrual of a $369 penalty related to a Commercial Discovery Bonus effective in 2011 but not assessed by the tax authorities until 2012 (note 27).

8. Cash and cash equivalents:

As at December 31,		2011		2010
Bank balances	$	873	$	3,375
Total cash and cash equivalents	$	873	$	3,375

(Expressed in thousands of U.S. dollars, unless otherwise stated)

9. Trade and other receivables:

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

As at December 31,		2011		2010
Trade receivables	$	–	$	984
VAT and GST receivables		641		1,335
Other receivables		84		16
Total current trade and other receivables		725		2,335
Non-current trade and other receivables:				
Due from DOT Resources Ltd. (Associate)		–		764
Total trade and other receivables	$	725	$	3,099

As at December 31,		2011		2010
Less than 1 month	$	83	$	1,018
1 to 3 months		18		69
Over 3 months		624		1,248
Total trade and other receivables	$	725	$	2,335

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

10. Deposits and prepaid expenses:

As at December 31,		2011		2010
Amounts advanced as deposits on future delivery of goods and services	$	341	$	401
Future listing costs		2,130		618
Total deposits and prepaid expenses	$	2,471	$	1,019

Amounts advanced as deposits on future delivery of goods and services are primarily related to the Group's activities in Kazakhstan where it is often necessary to pay a deposit in advance of receipt of goods and services. Future listing costs were incurred as part of Alhambra's proposed listing on an Asian stock exchange (note 26).

(Expressed in thousands of U.S. dollars, unless otherwise stated)

11. Inventories:

As at December 31,	2011	2010
Ore	$ 18,510	$ 14,860
Gold in circuit	9,892	8,341
Concentrate	2,508	1,118
Total work in progress	30,910	24,319
Gold available for sale	654	–
Raw material and supplies	1,074	1,247
Total inventories	32,638	25,566
Less:		
Non-current inventories	17,704	13,110
Total current inventories	$ 14,934	$ 12,456

Virtually 100% of cost of goods sold reported for the years ended December 31, 2011 and 2010 are the result of the amortization of inventories based on the quantity of gold sold as a percentage of total gold mined.

Gold available for sale represents the cost of production of 615 ounces of gold that was in transit to the third party refinery for final processing and sale.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

12. Property, plant and equipment:

	Machinery and equipment	Mining assets being depleted	Buildings and construction	Total
Cost:				
Balance as at December 31, 2009	$ 2,838	$ 74,427	$ 4,274	$ 81,539
Additions	118	580	136	834
Effect of foreign exchange	25	537	31	593
Balance as at December 31, 2010	2,981	75,544	4,441	82,966
Additions	79	1,431	66	1,576
Effect of foreign exchange	(20)	(435)	(25)	(480)
Balance as at December 31, 2011	$ 3,040	$ 76,540	$ 4,482	$ 84,062
Accumulated depletion and depreciation:				
Balance as at December 31, 2009	$ 321	$ 2,262	$ 110	$ 2,693
Depletion and depreciation for the year	778	7,062	384	8,224
Effect of foreign exchange	5	20	1	26
Balance as at December 31, 2010	1,104	9,344	495	10,943
Depletion and depreciation for the year	708	5,599	391	6,698
Effect of foreign exchange	(9)	(51)	(2)	(62)
Balance as at December 31, 2011	$ 1,803	$ 14,892	$ 884	$ 17,579
Carrying amounts:				
At December 31, 2009	$ 2,517	$ 72,165	$ 4,164	$ 78,846
At December 31, 2010	1,877	66,200	3,946	72,023
At December 31, 2011	1,237	61,648	3,598	66,483

An impairment test was not triggered during the years presented.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

13. Intangible assets:

		Exploration and evaluation expenditures		Computer software		Total
Cost:						
Balance as at December 31, 2009	$	4,822	$	35	$	4,857
Additions		15,272		13		15,285
Effect of foreign exchange		49		–		49
Balance as at December 31, 2010		20,143		48		20,191
Additions		2,370		33		2,403
Elimination of historical cost provision as a result of court decision (note 25)		(13,780)		–		(13,780)
Effect of foreign exchange		(153)		–		(153)
Balance as at December 31, 2011	$	8,580	$	81	$	8,661
Accumulated depreciation:						
Balance as at December 31, 2009	$	–	$	1	$	1
Depreciation for the year		–		5		5
Balance as at December 31, 2010		–		6		6
Depreciation for the year		–		7		7
Balance as at December 31, 2011	$	–	$	13	$	13
Carrying amounts:						
At December 31, 2009	$	4,822	$	35	$	4,857
At December 31, 2010		20,143		42		20,185
At December 31, 2011		8,580		68		8,648

The carrying amounts of exploration and evaluation assets represent non-producing exploration projects and undeveloped land in Kazakhstan. An impairment test was not triggered during the years presented.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

14. Investment in equity accounted investee:

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

For the years ended December 31,		2011		2010
DOT Resources Ltd.				
Ownership		27%		27%
Current assets	$	7	$	51
Non-current assets		3,462		3,535
Total assets		3,469		3,586
Current liabilities		815		809
Total liabilities		815		809
Revenues	$	–	$	–
Expenses		71		203
Loss	$	(71)	$	(203)

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

Balance as at December 31, 2009	$	562
Share of loss		(55)
Effect of foreign exchange		27
Balance as at December 31, 2010		534
Share of loss		(21)
Effect of foreign exchange		(12)
Balance as at December 31, 2011	$	501

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

As a result of the Arrangement, Alhambra holds 15,000,001 common shares of DOT which represents approximately 27% of the outstanding common shares of DOT. At December 31, 2011, the market trading value of the 15,000,001 DOT shares owned by Alhambra was CDN$600.

The Corporation has an amount outstanding from DOT of $747 which represents amounts outstanding under an Administrative and Corporate Services Contract (note 21(b)) plus an advance made by Alhambra to DOT to help DOT meet certain obligations. The Corporation has determined that DOT's current financial condition makes it doubtful that DOT will be able to repay the obligation therefore Alhambra has provided an allowance for this non-collectability. The $747 expense has been charged to administration expenses. At December 31, 2010 the Corporation had classified these amounts as non-current trade and other receivables.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

15. Trade and other payables:

As at December 31,	2011	2010
Current:		
Trade payables	$ 4,738	$ 1,552
Accrued liabilities	251	322
Taxes payable	913	2,741
Other	1,618	2,338
Total trade and other payables	$ 7,520	$ 6,953

As at December 31,	2011	2010
Less than 1 month	$ 4,701	$ 6,712
1 to 3 months	2,283	181
Over 3 months	536	60
Total trade and other payables	$ 7,520	$ 6,953

16. Provisions:

Changes to the provisions are as follows:

	Historical Costs	Site restoration	Total
Balance, December 31, 2009	$ –	$ 225	$ 225
Liabilities incurred	13,828	–	13,828
Unwinding of the discount	–	5	5
Revision	–	35	35
Balance, December 31, 2010	13,828	265	14,093
Liabilities incurred	–	2	2
Unwinding of the discount	–	18	18
Revision	(13,828)	(2)	(13,830)
Balance, December 31, 2011	$ –	$ 283	$ 283
Current	$ –	$ –	$ –
Non-current	–	283	283

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

(Expressed in thousands of U.S. dollars, unless otherwise stated)

The liability for the site reclamation provision at December 31, 2011 is approximately $283. The liability was determined using an inflation rate of 5% (December 31, 2010 - 5%) and an estimated life of mine of 10 years for Uzboy (December 31, 2010 - 10 years). A discount rate of 7.5% was used (December 31, 2010 – 7%). The undiscounted value of this liability is approximately $352 (December 31, 2010 - $316).

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

In late 2010, as the result of an audit of Saga Creek by the Kazakhstan tax authorities, the Government of Kazakhstan assessed Saga Creek for the liability plus interest and penalties for nonpayment of that portion of the Historical Cost liability related to the 2009 year. As a result the Corporation recorded the obligation plus interest and penalties for nonpayment up to June 30, 2011. The accrual also included amounts related to the 2010 year and 2011 up to June 30, 2011 that would have been payable should the Corporation ultimately be unsuccessful in its appeal of the 2009 assessment. On September 27, 2011, the Cassation Chamber of the Akmola Oblast Court in Kazakhstan (“Cassation Chamber”) overturned the decision of previous courts that had upheld assessment. As a result, the Corporation reversed the provision recorded on the balance sheet of $13,828 with the offset to intangible assets (note 13) and interest and penalties accrued against earnings totaling $2,467. The tax department has one year to appeal the ruling of the Cassation Chamber to the Supreme Court of Kazakhstan (note 25).

17. Income taxes:

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

For the years ended December 31,		2011		2010
Current	$	560	$	901
Deferred		1,004		542
Total income tax expense	$	1,564	$	1,443

(Expressed in thousands of U.S. dollars, unless otherwise stated)

The Canadian federal statutory corporate income tax rate has decreased from 18% in 2010 to 16.5% in 2011. The combined federal and provincial income tax rate in 2011 is 26.5% (2010 – 28%). The tax provision differs from that which would be expected from applying the combined Canadian federal and provincial income rates to net (loss) income as follows:

For the year ended December 31,		2011		2010
Net income (loss) before taxes		(2,215)		(3,599)
Statutory tax rate		26.5%		28.0%
Expected tax recovery (expense) on profit	$	(587)	$	(1,008)
Non-deductible items		673		1,375
Share-based payments		766		254
Tax assets not recognized		864		864
Tax rate reduction		(406)		(42)
Other		254		–
Income tax expense	$	1,564	$	1,443

Deferred liabilities are attributable to the following:

As at December 31,		2011		2010
Mineral assets	$	32,390	$	31,597
Net deferred tax liabilities	$	32,390	$	31,597

The components of the Group's deferred tax assets, after applying substantively enacted corporate income tax rates are as follows:

As at December 31,		2011		2010
Tangible and intangible assets	$	1,307	$	1,356
Tax loss carry forwards		2,646		2,021
Investment in subsidiaries		491		281
Share issue costs		90		130
Unrecognized deferred tax assets	$	4,534	$	3,788

In Kazakhstan, the Group has unredeemed capital expenditures available for utilization against future mining taxable income of approximately $16.1 million. The Group's current tax expense is generated from the Group's operations in Kazakhstan where the current tax rate is 20%.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

At December 31, 2011, the Group has non-capital losses of approximately CDN$10.7 million available to apply against future Canadian income for tax purposes. The non-capital losses expire as follows:

Expiry year	Amount (CDN$)
2014	$ 182
2026	1,984
2027	24
2028	2,264
2029	1,739
2030	1,946
2031	2,624
Unrecognized deferred tax assets	$ 10,763

18. Commitments:

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

The Group anticipates spending approximately $3 million on exploration activities during 2012 subject to sufficient cash flow and suitable financing.

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

(Expressed in thousands of U.S. dollars, unless otherwise stated)

19. Share capital:

(a) Authorized:

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

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

(b) Issued:

	Year ended December 31, 2011		Year ended December 31, 2010	
	Number	Amount	Number	Amount
Common shares				
Balance, beginning of period	103,994,309	$ 42,075	81,074,421	$ 35,495
Pursuant to private placement	–	–	18,604,650	8,000
Share issuance cost	–	–	–	(589)
Allocation of warrants	–	–	–	(2,196)
Conversion of secured debentures	–	–	4,221,488	1,211
Transfer on conversion of secured debentures	–	–	–	116
Share option exercised	137,750	31	93,750	20
Transfer on exercise of option	–	26	–	18
Balance, end of period	104,132,059	$ 42,132	103,994,309	$ 42,075

Pursuant to a private placement competed in 2010, the Corporation issued 18,604,650 units at a purchase price of $0.43 per unit for total gross proceeds of $8,000. Each unit was comprised of one (1) common share and one-half (1/2) of a common share purchase warrant (the “Warrant”) resulting in the issue of 18,604,650 common shares and 9,302,325 Warrants. Each whole Warrant entitles the holder thereof to purchase one common share of the Corporation at a purchase price of $0.72 per common share on or before February 19, 2012 for 5,388,690 Warrants and March 28, 2012 for 3,913,635 Warrants. Subsequent to December 31, 2010, the Corporation sought and obtained approval from the TSX Venture Exchange Inc. to extend the expiry date of the Warrants to the earlier of February 19, 2013 for 5,388,690 Warrants and March 28, 2013 for 3,913,635 Warrants and a date which is sixty (60) days after receipt of a waiver of right of first refusal from the Government of Kazakhstan and the receipt of consent of the Kazakhstan Ministry of Industry and New Technology (“MINT”) in respect of the issuance of common shares upon exercise of Warrants.

The Corporation is required and has applied to obtain a waiver from the government of Kazakhstan from its pre-emptive right in connection with the Warrants (note 26).

(Expressed in thousands of U.S. dollars, unless otherwise stated)

(c) Share options (equity settled):

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

Share-based compensation has been recorded within Administrative Expenses (note 7).

A summary of the status of the Corporation's share option plan as at December 31, 2011 and December 31, 2010 and changes during the periods then ended are as follows:

	Year ended December 31, 2011		Year ended December 31, 2010	
	Number of options	Weighted average exercise price CDN$	Number of options	Weighted average exercise price CDN$
Outstanding, beginning of period	7,731,250	$ 0.59	6,525,000	$ 0.59
Granted	3,050,000	1.05	2,100,000	0.54
Exercised	(137,750)	0.22	(93,750)	0.22
Expired unexercised	(2,125,000)	1.15	(800,000)	0.55
Outstanding, end of period	8,518,500	$ 0.62	7,731,250	$ 0.59

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

(Weighted average)	2011	2010
Exercise price (CDN$/option)	$ 1.05	$ 0.54
Grant date share price (CDN$/option)	1.01	0.54
Risk-free interest rate (%)	2.53	1.91
Expected life (years)	5.00	5.00
Expected volatility (%)	150	150
Dividend rate (%)	–	–
Grant date fair value ($/option)	0.92	0.43

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

(Expressed in thousands of U.S. dollars, unless otherwise stated)

(ii) Share options exercised during the year ended December 31, 2011

Number of options	Date of issue	Exercised	Exercise price	Closing share price at exercise date
26,500	September 1, 2009	February 24, 2011	CDN $0.22	CDN $0.86
30,000	September 1, 2009	February 28, 2011	CDN $0.22	CDN $0.93
31,250	September 1, 2009	March 14, 2011	CDN $0.22	CDN $0.99
50,000	September 1, 2009	April 11, 2011	CDN $0.22	CDN $0.88

Share options exercised during the year ended December 31, 2010

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

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

The following table summarizes information concerning outstanding and exercisable options at December 31, 2011:

Exercise Price ($/option)	Options outstanding	Options exercisable	Remaining Contractual life (years)	Grant date fair value ($/per option)
$ 0.22	2,818,500	2,818,500	2.67	$ 0.18
$ 0.315	350,000	350,000	2.88	0.27
$ 0.53	2,200,000	1,600,000	2.56	0.44
$ 0.65	100,000	75,000	1.85	0.53
$ 1.05	3,050,000	1,525,000	4.07	0.92
	8,518,500	6,368,500	3.14	$ 0.53

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

Exercise Price ($/option)	Options outstanding	Options exercisable	Remaining Contractual life (years)	Grant date fair value ($/per option)
$ 0.22	2,956,250	2,193,750	3.67	$ 0.18
$ 0.315	350,000	262,500	3.88	0.27
$ 0.53	2,200,000	950,000	3.56	0.44
$ 0.65	100,000	–	2.85	0.53
$ 1.15	2,125,000	2,125,000	0.09	0.60
	7,731,250	5,531,250	2.65	$ 0.38

(Expressed in thousands of U.S. dollars, unless otherwise stated)

A reconciliation of contributed surplus is provided below:

	December 31, 2011	December 31, 2010
Balance, beginning of period	$ 6,140	$ 5,250
Share-based compensation expense	2,903	908
Transferred on exercise of options	(26)	(18)
Balance, end of period	$ 9,017	$ 6,140

(d) Warrants:

The changes in warrants during the years ended December 31, 2011 and 2010 were as follows:

	Number of Warrants	Amount	Weighted average exercise price
Balance, December 31, 2009	2,500,450	$ 51	$ 0.44
Issued pursuant to private placement	9,302,325	2,196	0.72
Balance, December 31, 2010	11,802,775	2,247	0.66
Re-valuation due to extension of expiry date	–	146	–
Balance, December 31, 2011	11,802,775	$ 2,393	$ 0.66

The fair value of the Warrants issued in 2010 pursuant to the private placement was estimated on the dates of the issue of the Warrants using the Black-Scholes option pricing model. The fair value of the Warrants was calculated to be $2,196 using the following weighted-average assumptions:

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

The warrants were originally set to expire on August 11, 2011 as to 2,500,450 warrants, February 19, 1012 as to 5,388,690 warrants and March 28, 2012 as to 3,913,635 warrants.

The 2,500,450 warrants, which are exercisable into common shares of the Corporation at a price of CDN$0.45 per common share, were originally scheduled to expire on August 11, 2011 however the Corporation sought and obtained approval from the TSX Venture Exchange Inc. to extend the expiry date to December 9, 2011 (“First Extension”) and then to

(Expressed in thousands of U.S. dollars, unless otherwise stated)

February 8, 2012 (“Second Extension”). The Corporation calculated the fair value of the two extensions to be $146. The fair value of the First Extension was calculated to be $0.04 per warrant based on an expected life of 120 days, a risk free interest rate of 1%, an expected volatility of 53% and an expected dividend yield of 0%. The fair value of the Second Extension was calculated to be $0.02 per warrant based on an expected life of 61 days, a risk free interest rate of 1%, an expected volatility of 34% and an expected dividend yield of 0%. Subsequent to the year end the Corporation sought and obtained approval from the TSX Venture Exchange Inc. to extend the expiry date of these warrants to the earlier of February 11, 2013 and a date which is sixty (60) days after receipt of a waiver of right of first refusal from the Government of Kazakhstan and the receipt of consent of the MINT in respect of the issuance of common shares upon exercise of Warrants.

The Corporation is required and has applied to obtain a waiver from the government of Kazakhstan from its pre-emptive right in connection with the exercise of these warrants (note 26).

20. Earnings (loss) per share:

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

For the years ended December 31,	2011	2010
Weighted average number of common shares (basic)	104,103,679	88,710,746
Effect of conversion of convertible debentures	–	–
Effect of warrants outstanding	–	–
Effect of share options outstanding	–	–
Weighted average number of common shares (diluted) at December 31,	104,103,679	88,710,746

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

For the years ended December 31,	2011	2010
Options	8,518,500	7,731,250
Warrants	11,802,775	11,802,775
	20,321,275	19,534,025

(Expressed in thousands of U.S. dollars, unless otherwise stated)

21. Related party transactions:

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

(a) Compensation of key management personnel:

The remuneration of directors and other members of key management personnel during the years ended December 31, 2011 and 2010 were as follows:

For the years ended December 31,	2011	2010
Short-term employee benefits	$ 862	$ 816
Share-based payments	2,122	664
Director fees	–	–
	$ 2,984	$ 1,480

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

(b) Other transaction:

On August 29, 2007, the Corporation and DOT entered into an Administrative and Corporate Services Contract (the "Contract") whereby DOT agreed to engage the Corporation to provide management, administration and corporate services to DOT. The Contract provides for a monthly remuneration of CDN$20 plus all reasonable out of pocket expenses and is for an indefinite term but may be terminated by either party upon providing 30 days prior written notice. During the year ended December 31, 2011, the Corporation billed DOT CDN$nil (2010 - CDN$240) under the Contract. The amount uncollected as of December 31, 2011 was CDN$359 (2010 - CDN$359). Effective January 1, 2011, the Corporation suspended billing DOT the monthly remuneration. In addition, the Corporation advanced DOT CDN$400,000 to enable DOT to meet working capital requirements while DOT is investigating options regarding financing. At this time the Corporation is not charging DOT any interest. In 2011, the Corporation determined that there is a high probability that the $747 amount owing from DOT is non-collectable and as such has expensed that amount in administrative expenses as corporate maintenance costs. At December 31, 2010 the Corporation had classified the amount owing from DOT as non-current trade and other receivables.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

22. Operating Segments:

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

For the years ended December 31, 2011 and 2010 substantially all of the Group's gold production was sold to one customer.

2011	Kazakhstan	Canada	Total
Segment assets	$ 108,897	$ 3,442	$ 112,339
Segment liabilities	38,162	2,031	40,193
Sales	$ 15,260	$ –	$ 15,260
Net smelter royalty	(458)	–	(458)
Cost of sales	(6,646)	–	(6,646)
Administrative expenses	(1,219)	(5,767)	(6,986)
Depletion and depreciation	(2,774)	(7)	(2,781)
Finance costs	(380)	(203)	(583)
Share of loss of equity accounted investee	–	(21)	(21)
Income (loss) before income taxes	3,783	(5,998)	(2,215)
Income tax expense	(1,564)	–	(1,564)
Segment income (loss)	$ 2,219	$ (5,998)	$ (3,779)
Capital expenditures	$ 3,976	$ 3	$ 3,979

2010	Kazakhstan	Canada	Total
Segment assets	$ 120,664	$ 5,137	$ 125,801
Segment liabilities	52,059	584	52,643
Sales	$ 15,991	$ –	$ 15,991
Net smelter royalty	(480)	–	(480)
Cost of sales	(10,118)	–	(10,118)
Administrative expenses	(3,699)	(2,323)	(6,022)
Depletion and depreciation	(2,020)	(8)	(2,028)
Finance income	–	–	–
Finance costs	(422)	(465)	(887)
Share of loss of equity accounted investee	–	(55)	(55)
Loss before income taxes	(748)	(2,851)	(3,599)
Income tax expense	(1,443)	–	(1,443)
Segment loss	$ (2,191)	$ (2,851)	$ (5,042)
Capital expenditures	$ 16,090	$ 3	$ 16,093

23. Management of capital:

The Group defines capital that it manages as its equity. The Group's objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to maintain investor confidence and to not expose the Group to excess risk. The Group manages its capital structure and makes adjustments to it based on the level of funds available to support the exploration and development of its mineral properties. While the re-acquisition of Saga Creek effective September 15, 2009 has resulted in the Group once again owning assets that generate cash flow, it is still necessary for the Group to raise funds to carry out its capital expenditure programs.

To date, the Group has raised some funds through the issue of secured indebtedness (note 19(b)) however these funds were raised to fund a portion of its obligations incurred during the period in which the Group had lost its ownership of Saga Creek. Additional financing must be obtained in order to continue as a going concern. The Group is currently attempting to raise additional funds, however, there is no assurance it will be able to do so. The Group is not subject to externally imposed capital requirement except to the extent that any issue of common shares must first be approved by the government of Kazakhstan (note 26).

24. Financial instruments:

Overview:

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

(a) Credit risk

(b) Liquidity risk

(c) Market risk

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

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

(a) Credit risk:

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

As at December 31, 2011 approximately 86% (December 31, 2010 - 42%) of the recorded value of accounts receivable relates to VAT.

Saga Creek sells its gold to a single customer who also completes the final refining process necessary to make the gold readily saleable. Typically it takes approximately two weeks from the time the customer takes control of the gold for the refining to be completed. At December 31, 2011 approximately nil% (December 31, 2010 - 31%) of the recorded value of accounts receivable relates to the sale of gold to one customer.

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

The carrying amount of cash and cash equivalents and trade and other receivables represents the maximum credit exposure. As at December 31, 2011 the Group has provided $747 for the non-collectability of an account receivable from DOT (notes 14 and 21(b). The Group has no other allowances for doubtful accounts as at December 31, 2011.

(b) Liquidity risk:

Liquidity risk is the risk that the Group will not be able to meet its obligations as they come due. With the re-registration of the shares of the Kazakhstan Subsidiaries, Alhambra now has ownership of revenue producing assets. However, in defending the lawsuit, the Group incurred substantial liabilities and the cash generated from its properties will not be enough to meet all its obligations in addition to resuming an aggressive exploration and development program. Therefore, additional financing must still be obtained in order to continue as a going concern. The Group is currently attempting to raise additional funds; however, there is no assurance that it will be able to do so.

(c) Market risk:

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

(i) Foreign currency risk

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

(Expressed in thousands of U.S. dollars, unless otherwise stated)

CDN monetary assets and liabilities As at December 31,		2011		2010
Cash and cash equivalents	$	702	$	3,137
Trade and other receivables		90		791
Deposits and prepaid expenses		2,170		616
Trade and other payables		(2,539)		(581)
Total net monetary assets in foreign currency	$	423	$	3,963

For the year ended December 31, 2011, based on the net foreign exchange exposure at the end of the period, if the CDN$ had strengthened or weakened by 10% compared to the US$ and all other variables were held constant, the after tax net loss would have decreased or increased by approximately $42 in 2011 (2010 - $398).

Kazakhstan Tenge ("T") monetary assets and liabilities As at December 31,		2011		2010
Cash and cash equivalents	T	27,182	T	32,526
Trade and other receivables		94,420		339,515
Deposits and prepaid expenses		50,151		58,883
Trade and other payables		(767,698)		(1,594,236)
Provisions		–		(1,382,814)
Total net monetary (liabilities) in foreign currency	T	(595,945)	T	(2,546,126)

For the year ended December 31, 2011, based on the net foreign exchange exposure at the end of the period, if the Kazakhstan Tenge had strengthened or weakened by 10% compared to the US$ and all other variables were held constant, the after tax net loss would have increased or decreased by approximately $321 (2010 - $1,727).

(ii) Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. The price of gold is impacted by economic events that dictate the levels of supply and demand for the commodity. To date the Group has not attempted to mitigate this commodity price risk.

(iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Group's debt is all at fixed interest rates; therefore, there is no exposure to variations in interest rates except on cash balances which for the years 2011 and 2010 would have been insignificant.

(d) Fair value of financial assets and liabilities:

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

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

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

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

25. Legal challenge of tax assessment:

In 2010 Saga Creek was assessed amounts that tax authorities in Kazakhstan believed were owed by Saga Creek for Historical Costs, Mineral Extraction Tax (“MET”) as well as for their disallowance of certain corporate income tax deductions for the 2006 to 2009 taxation years (“CIT”). The total amount of the assessments including penalties and interest was approximately $4.3 million. The Corporation believed that the assessments were not consistent with Kazakhstan legislation as well as the provisions of Saga Creek’s foreign investment contract which governs the Saga Creek’s licenses. As a result, Saga Creek filed a claim in the District Economical Court (“Economical Court”) seeking to have the assessment of the tax authorities, together with the applicable interest and penalties reversed. On May 13, 2011 the judge in charge of the case largely, but not wholly, rejected Saga Creek’s claim, upholding the assessments. On June 2, 2011, Saga Creek appealed this decision to the Appellate Chamber of Akmola Oblast Court (“Appellate Chamber”). On August 5, 2011 the Appellate Chamber upheld the Economical Court’s decision, again rejecting all Saga Creek’s arguments. Saga Creek filed a further appeal to the Cassation Chamber on August 22, 2011 which is the final court of appeal prior to the Supreme Court. On September 27, 2011 the Cassation Chamber ruled on the Corporation’s appeal, the summary of which is as follows:

(i) The 2009 assessment for Historical Costs amounting to approximately $1.6 million was cancelled. While the assessment was only for the 2009 year, the legislation as enacted had provided that the total obligation for Historical Costs of $15.8 million be paid in equal quarterly installments over ten (10) years. As a result the Corporation reversed the full provision of $13.8 million (note 16) and an accrual of approximately $2.5 million in interest and penalties to June 30, 2011 ($1.9 million to December 31, 2010), all of which were reversed in the third quarter of 2011.

(ii) The assessment for CIT amounting to approximately $0.4 million was cancelled and sent back to the lower court for review and re-consideration by a new panel of judges. The court subsequently ordered a review of the issues by a court appointed expert. The expert has yet to issue its decision regarding the validity of the Corporation's claim. Due to the continuing uncertainty regarding the outcome of the Corporation's appeal of the CIT assessment, the Corporation has continued to accrue interest and penalties related to the CIT portion of the assessment. As at December 31, 2011 the Corporation has accrued a total of $0.6 million (December 31, 2010 - $0.5 million) related to the CIT assessment including interest and penalties.

(iii) The assessment for the 2009 MET in the amount of approximately US$1.0 million was upheld. A total of approximately $1.6 related to the MET, interest and penalty has been paid by the Corporation of which approximately $0.7 million relates to interest and penalties.

Both the Corporation and the tax authorities have one year to appeal all or part of the decision. The Corporation has made application to the Kazakhstan tax authorities to remove a lien filed against some of Saga Creek's assets to secure the government's claim for the indebtedness outstanding however to date the lien has not been removed.

As a result of the decision by the Cassation Chamber that no Historical Costs are payable, the Corporation has, as indicated, reversed the original provision and all related penalties and interest that had previously been recorded. As indicated, the tax authorities and the public prosecutor have until September 27, 2012 to appeal the decision of the Cassation Chamber to the Supreme Court. While Corporation understands that it is standard practice in Kazakhstan for the tax authorities to appeal unfavorable court rulings, there is no guarantee that they will in fact appeal. Even if they do appeal the decision, there is no guarantee that the Supreme Court will in fact choose to hear the appeal and if it agrees to hear the appeal there is no guarantee that it will reverse the decision of the Cassation Chamber. If however the final result is that the Supreme Court hears the appeal and decides in favor of the tax authorities, the effect on the Corporation's Consolidated Statement of Financial Position as at September 30, 2011 would be to increase Intangible Assets by $13.8 million, to increase Trade and Other Payables by $3.4 million, to increase Provisions by $15.3 million, and to decrease profit and loss by $4.9 million. The decrease in profit and loss would result from a charge to administration expenses for penalties of $2.2 million and a charge to finance costs of $2.6 million for interest and unwinding of the discount on the Historical Cost provision year ended December 31, 2011. The Corporation is not aware of any legal arguments that would support overturning the decision of the Cassation Chamber.

26. Government of Kazakhstan pre-emptive right:

The Subsoil and Subsoil Use Act (the "Act") in Kazakhstan grants the Government of Kazakhstan the first right of refusal to purchase any direct or indirect interest in any subsoil license or legal entity holding that license or the legal entity controlling the holder of the subsoil use license at market prices should the license or shares or instruments convertible or giving rights to shares (joint, the "Subsoil Use Assets") come up for sale. As a result, before a company can accept an offer to sell its Subsoil Use Assets, it must first get approval from relevant Kazakhstan authorities. The Act extends this obligation to require a company whose main business is connected with subsoil use in Kazakhstan to get approval should it desire to issue any common shares or issue any derivative instruments that are convertible into common shares. On April 21, 2011, the Corporation completed and filed an application with the relevant Kazakhstan agency to have pre-approved, any shares that may be issued upon conversion of outstanding warrants and options as well as requested that the Government of Kazakhstan pre-approve a private placement that the Corporation would contemplate doing in the near future to finance its exploration and development activities. This application was amended on August 16 and October 25, 2011 which included responses to certain questions received from the Kazakhstan agency. The Corporation has not yet received any decision from the Government of Kazakhstan with regards to its amended application. The Corporation is not aware of any such applications that have been rejected by the Government of Kazakhstan.

27. Commercial discovery bonus:

On February 22, 2012 Saga Creek was given notice by Kazakhstan tax authorities that it was required to pay a Commercial Discovery Bonus (the “Bonus”) based on the approved commercial reserves for Uzboy. According to the notification, Saga Creek is required by law to pay an amount equal to 0.1% of the commercial value of the 14,455.8 kg of gold and 48,100 kg of silver of reserves approved for Uzboy. In addition, Saga Creek will be required to pay a 50% penalty plus interest at the prescribed rate which is approximately 17.5%. Payment was due on May 24, 2011. Saga Creek has filed a notice of objection with the tax authorities on the basis that Clause 6.2 (b) of the Subsoil use contract explicitly defines that Saga Creek *"pays a commercial discovery bonus at a zero rate"* which in effect means that Saga Creek is not obliged to pay this bonus at all.

The Corporation anticipates that the tax authorities will reject Saga Creek’s appeal which will then require Saga Creek to appeal that decision to the Kazakhstan courts. The Corporation also anticipates that the lower courts in Kazakhstan will uphold the tax authorities’ assessment which will necessitate Saga Creek filing its appeal to the Supreme Court of Kazakhstan. As the Corporation is uncertain at this time how the Kazakhstan courts will ultimately decide on Saga’s obligation regarding the Commercial Discovery Bonus, the Corporation has recorded the Bonus and related interest and penalties as of December 31, 2011. Saga Creek has estimated the amount of the Bonus to be $0.7 million and has charged this amount to intangible assets. In addition Saga Creek has recorded $0.5 million in interest and penalties related to the unpaid amount of the Bonus.

2011 Corporate Information

DIRECTORS

John J. Komarnicki
Chairman and Chief Executive Officer
Alhambra Resources Ltd.
Calgary, Alberta, Canada

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

Richard K. Gorton (2) (4)
Technical Consultant
Tanja, New South Wales, Australia

Michael E. Hriskevich (1) (4)
Businessman
Calgary, Alberta, Canada

Graham A. Karklin (3) (4)
Consulting Metallurgist
Vancouver, B.C., Canada

Gordon Levang (1) (3)
Businessman
Calgary, Alberta, Canada

Clarence Wagenaar (1) (2)
Businessman
Calgary, Alberta, Canada

(1) Audit Committee
(2) Corporate Governance
(3) Compensation Committee
(4) Technical Committee

OFFICERS

John J. Komarnicki
Chairman and Chief Executive Officer

Donald D. McKechnie
Vice President Finance and Chief Financial Officer

Ihor P. Wasylkiw
Vice President and Chief Information Officer

Pavlo (Paul) Marchenko
Vice President
Business Development

REGISTRAR AND TRANSFER AGENT

Olympia Trust Company
Calgary, Alberta, Canada

AUDITORS

KPMG LLP
Calgary, Alberta, Canada

BANKERS

Royal Bank of Canada
Calgary, Alberta, Canada

LEGAL COUNSEL

Borden Ladner Gervais LLP
Calgary, Alberta, Canada

Norton Rose Group
Almaty, Kazakhstan

INDEPENDENT GEOLOGICAL CONSULTANTS

ACA Howe International Limited
Toronto, Ontario, Canada

OFFICE ADDRESS

Corporate Office

Alhambra Resources Ltd.
Suite 3
4015 – 1st Street S.E.
Calgary, Alberta
Canada T2G 4X7
Tel: (403) 228-2855
Fax: (403) 228-2865
Website:
www.alhambraresources.com

INVESTOR RELATIONS

Email: ir@alhambraresources.com

Contacts:

Ihor P. Wasylkiw
Vice President and CIO
Tel: (403) 508-4953
Fax: (403) 228-2865

SHARE LISTINGS

The TSX Venture Exchange
Trading Symbol - ALH

Frankfurt Stock Exchange,
Open Market
Trading Symbol – A4Y

Unites States, Over-The-Counter
Pink Sheets
Trading Symbol – AHBRF

RR DONNELLEY
Printed in Canada