Alhambra Resources Ltd.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the Six Months Ended June 30, 2009

This management's discussion and analysis ("MD&A") focuses on key items from the unaudited consolidated financial statements of Alhambra Resources Ltd. (also referred to as "Alhambra" or the "Corporation") for the six months ended June 30, 2009 and the factors reasonably expected to impact future operations and results as prepared on August 25, 2009. 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, 2008 and the related notes. The financial statements have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") in Canada.

This MD&A was reviewed and approved by the Corporation's audit committee and board of directors on August 25, 2009. Additional information on the Corporation is available under the Corporation's profile on SEDAR at www.sedar.com

All dollar amounts are therefore in the currency of the United States dollar unless otherwise stated.

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 obtain future funding or to continue as a going concern and the re-registration of the shares of the Kazakhstan Subsidiaries in the name of the Corporation 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, including but not limited to, the Corporation's liquidity and financial capacity, the Corporation's future funding sources to meet various obligations and the re-registration of the shares of the Kazakhstan Subsidiaries in the name of the Corporation and other factors and events described in this document, 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. 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.

Legal Dispute Validating Alhambra's Ownership of Kazakhstan Subsidiaries

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") seeking to invalidate Alhambra's ownership of its former Kazakhstan subsidiaries, Saga Creek Gold Company LLP ("Saga Creek") and Goodwin Golems LLP ("Goodwin") (together the "Kazakhstan Subsidiaries"). Alhambra had acquired 100% interest in the Kazakhstan Subsidiaries from Marsa Aktiengesellschaft ("Marsa"), a Liechtenstein company and Teragol Investments Limited ("Teragol"), a Cyprus company (jointly the "Plaintiffs") by virtue of a Partnership Unit Purchase and Exchange Agreement dated March 21, 2002 (the "Agreement"), as amended. 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 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 Plaintiffs. 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 Supervisory Chamber of the East-Kazakhstan Oblast Court ("Supervisory Chamber") 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 name of the Plaintiffs giving effect to the court decision.

On April 16, 2009 the Corporation filed an appeal with the Supreme Court of Kazakhstan ("Supreme Court") 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 Plaintiffs' claim. The Corporation has initiated action to have the ownership of the shares of the Kazakhstan Subsidiaries re-registered in the name of Alhambra.**

Legal Dispute with Victoria Oil and Gas PLC ("Victoria")

The legal proceedings initiated by Victoria on September 26, 2008 against Alhambra and others to prevent Saga Creek from disposing of the Kemerkol License were discontinued effective June 8, 2009, without costs, as a result of an agreement reached between the parties.

Management Cease Trade Order

The Management Cease Trade Order ("MCTO") issued on May 1, 2009 by the Alberta Securities Commission as a result of the Corporation not being able to file its annual audited consolidated financial statements by April 29, 2009 as prescribed by securities regulations, expired on July 2, 2009 as a result of the Corporation completing the requirements of the MCTO.

Non-GAAP Measures

This MD&A contains the term "funds flow from operations" which is not recognized under GAAP. Funds flow from operations is defined as cash flow from operating activities before changes in non-cash working capital. Management believes that funds flow from operations is a useful measurement that provides an indication of results generated by the Corporation's business activities. It demonstrates the Corporation's ability to generate the cash necessary to fund future growth through capital investment, and allows the Corporation to evaluate operating performance, leverage and liquidity. The following table provides a reconciliation of cash flow provided by (used in) operating activities as defined under GAAP with funds flow from operations as used in this MD&A.

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Cash flow provided by (used in) operating activities	$ (99,837)	$ 20,782	$ (430,717)	$ (303,665)
Change in non-cash working capital	(105,680)	132,735	(388,259)	354,540
Funds flow provided by (used in) operating activities	$ (205,517)	$ 153,517	$ (818,976)	$ 50,875

Critical Accounting Estimates

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the interim 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 mining assets, equipment and exploration and development costs, asset retirement obligations, and assumptions used in calculating stock-based compensation expense and the valuation of warrants. 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. Up until December 26, 2008 the Corporation continued to hold and operate its gold producing assets situated in Kazakhstan, while DOT holds and conducts exploration activities on the Corporation's former Canadian DOT property, situated near Kamloops, British Columbia ("DOT Property").

Upon re-registration of the shares of the Kazakhstan Subsidiaries (note 14 to the interim consolidated financial statements), the Corporation will resume ownership of and operating responsibility for producing mining assets in Kazakhstan.

Financial Review

Segmented information

The unfavorable legal decision in the Kazakhstan Lawsuit resulted in the Corporation's ownership of the Kazakhstan Subsidiaries being transferred back to the Plaintiffs. The effective date of the transfer for accounting purposes was December 26, 2008. As a result, the analysis of financial results presented in this MD&A for the six months and three ended June 30, 2009 and 2008 does not include any reference to the operations of the Kazakhstan Subsidiaries. The impact of the Kazakhstan Subsidiaries on the consolidated loss and consolidated cash flows for the six months and three months ended June 30, 2008 is detailed in Note 13 (Segment Information) to the interim consolidated financial statements.

General and administrative expenses

General and administrative expenses for the six months ended June 30, 2009 decreased by $245,817 to $804,104 from the $1,049,921 reported for corporate activities for the six months ended June 30, 2008. This 23% decrease in general and administration costs was primarily the result of the decrease in corporate activity resulting from the Kazakhstan Lawsuit, as well as a 20% appreciation in the value of the US$ in relation to the CDN$, which is the currency in which the corporate general and administration expenses are denominated. The Corporation did, however, incur a large increase in legal expenses associated with the Kazakhstan and Victoria lawsuits, which partially offset significant reductions in other general and administrative expenses.

General and administrative expenses for the three months ended June 30, 2009 decreased by $348,501 to $247,150 from the $595,651 reported for corporate activities for the three months ended June 30, 2008. This 59% decrease in general and administration costs was primarily the result of the decrease in corporate activity resulting from the Kazakhstan Lawsuit, as well as nearly a 16% appreciation in the value of the US$ in relation to the CDN$.

Interest expense and accretion on Notes

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Interest	$ 48,209	$ 25,075	$ 79,750	$ 50,574
Accretion on Notes	33,996	–	33,996	–
	$ 82,205	$ 25,075	$ 113,746	$ 50,574

Interest expense and accretion on Notes for the six months ended June 30, 2009 totaled $113,746 as compared to $50,574 for the comparable period in 2008. Saga Creek's operations were responsible for all of the interest expense for the six month and three month periods ended June 30, 2008. The interest expense incurred in 2009 related to the Debenture (note 3 to the interim consolidated financial statements) and the Notes (note 4 to the interim consolidated financial statements). The Accretion on the Notes relates amortization of fair value ascribed to the Warrants (notes 4 and 5(c) to the interim consolidated financial statements).

Stock-based compensation

Due primarily to the high volatility of the Corporation's stock price, this calculation gives a significant value to stock options which must be expensed during their vesting period. In addition, stock-based compensation expense is calculated for each vesting period separately, which results in the expense being the largest during the earlier vesting term of each option. The Corporation uses the fair value method of accounting for stock options granted. The fair value of employee stock options is estimated on the date of grant and the resulting fair value is recorded as an expense over the vesting periods of the stock option. The fair value of non-employee stock options is revalued each reporting date with the change in the fair value of the unvested options expensed over the remaining vesting periods. In determining the fair value of the stock options granted, the Black-Scholes model is used and assumptions regarding interest rates, underlying volatility of the Corporation's stock and expected life of the options are made.

For the six months ended June 30, 2009 stock-based compensation expense was $110,066 as compared to $1,109,648 for the comparable six month period in 2008. For the three months ended June 30, 2009 and 2008 stock-based compensation expenses were $47,246 and $434,440, respectively. Stock-based compensation expense for 2009 relates to the amortization of the value calculated for the 2,750,000 options granted in 2008. Since 75% of the options issued in 2008 had vested by January 21, 2009, the majority of stock-based compensation was expensed in 2008. The depreciation of the CDN$ dollar in relation to the US$ also accounted for a portion of the reduction in the quarter over quarter stock-based compensation expense.

Equity loss

The Corporation accounts for its 36% ownership of the common shares of DOT using the equity method of accounting. For the six months ended June 30, 2009, the Corporation recorded an equity loss of $48,246. This compares to a loss of $78,913 recorded for the comparable six month period ending June 30, 2008. For the three month periods ended June 30, 2009 and 2008, the equity loss in DOT was $25,067 and $27,848, respectively. The reduction in the equity loss was caused by a combination of the reduction in DOT's quarter over quarter loss plus the depreciation of the CDN$ in relation to the US$. At June 30, 2009, the market trading value of the 15,000,001 DOT shares owned by Alhambra was CDN$10,500,000.

Funds flow

Funds flow utilized in operating activities was $818,976 for the six months ended June 30, 2009, a decrease of $227,009 from the $1,045,985 recorded for corporate activities for the six months ended June 30, 2008. For the three months ended June 30, 2009, funds flow utilized in operating activities was $205,517, a decrease of $412,421 over the $617,938 recorded for corporate activities for the comparable three month period in 2008. Decreased general and administration expenses during both the six month and three month periods ending June 30, 2009, resulting from the Corporation's economic circumstances were responsible for the decreases in funds flow.

Funds flow from operating activities from the Kazakhstan operations during 2008 of $1,096,860 and $771,455 for the six and three month periods ending June 30, 2008, respectively, offset the funds flow utilized in corporate activities during those periods.

Net loss

The Corporation incurred a net loss of $1,087,438 for the six months ended June 30, 2009, a $1,154,307 improvement over the $2,241,745 reported for corporate activities for the comparable 2008 period. The decrease in funds flow utilized in operating activities in 2009 combined with the decrease in stock-based compensation expense accounted for the improved results. Net income from Kazakhstan activities for the six months ended June 30, 2008 of $452,082 offset some of the 2008 loss attributable to corporate activities, resulting in an overall net loss for the Corporation for the six months ended June 30, 2008 of $1,789,663.

For the three months ended June 30, 2009, the Corporation incurred a net loss of $410,703, a $673,149 decrease over the $1,083,852 reported for corporate activities for the comparable three month period in 2008. Again, the decrease in funds flow utilized in operating activities in 2009 combined with the decrease in stock-based compensation expense accounted for the improved results. Net income from Kazakhstan activities for the three months ended June 30, 2008 of $109,909 offset some of the 2008 loss attributable to corporate activities resulting in an overall net loss for the Corporation for the three months ended June 30, 2008 of $973,943.

Based on a weighted average number of common shares of 75,774,147 and 75,627,378, the Corporation's net loss per common share was $0.01 and $0.02 for the six months ended June 30, 2009 and 2008, respectively. For the three months ended June 30, 2009 and 2008, net loss per share was $0.00 and $0.01 based on a weighted average number of common shares of 75,774,147 and 75,676,609, respectively.

Liquidity and capital resources

At June 30, 2009 the Corporation had $20,427 of cash and cash equivalents and a deficiency in other working capital of $2,429,933.

The Corporation has outstanding a series of twelve percent (12%) secured debentures due August 11, 2009 in the principle amount of CDN$1,000,000 (“Debentures”) (note 3 of the interim consolidated financial statements). Alhambra is in default under the Debentures being unable to pay both the principle and the interest on August 11, 2009 as required. Subsequent to June 30, 2009 the holders of the Debentures agreed to extend the maturity date to August 11, 2010. In consideration for agreeing to extend the term, the Corporation has agreed to the following modifications to the Debentures, subject to regulatory approval:

(a) The Debenture holders will have the option to convert the principal amount and unpaid interest at any time prior to maturity into common shares of the Corporation at a price of CDN$0.30 per common share;
(b) Warrants to purchase up to 2,500,450 common shares ("Debenture Warrants") will be granted with an expiry date of August 11, 2011. Each Debenture Warrant may be converted into one common share of the Corporation at any time prior to expiry at a purchase price of CDN$0.45 per common share;
(c) Interest shall accrue on the new principal amount at a rate of 12% per annum, compounded quarterly and payable at the earlier of the date of conversion or the new maturity date; and
(d) The Corporation will have the right at any time prior to maturity, to prepay all or a portion thereof, of the Debentures and accrued interest, without notice, bonus or penalty. If the Corporation exercises this right, then the Debenture holders will have the option of converting the principal amount of the Debentures plus accrued interest, or any portion thereof prior to the prepayment date, into common shares of the Corporation at a price of CDN$0.30 per common share.

The Debentures continue to be secured by way of a first floating charge against all of the assets, property and undertakings of Alhambra, and are held by certain officers and/or directors of the Corporation. The modifications to the Debentures have been approved by the independent members of the board of directors with the applicable directors abstaining.

During the second quarter of 2009, the Corporation issued CDN$675,000 of subordinated secured promissory notes (the “Notes”). The Notes bear simple interest at an annual rate of 20%, mature April 29, 2010, are secured against assets of the Corporation and are subordinated to the Debentures. In connection with the Notes, the Corporation has issued 5,400,000 non-transferable warrants (the “Note Warrants”) to purchase 5,400,000 common shares of the Corporation. Half of the Note Warrants issued have an exercise price of CDN$0.10 per common share and the other half have an exercise price of CDN$0.20 per common share. All Note Warrants are exercisable until October 29, 2009. The Note Warrants and any common shares acquired upon exercise of the Note Warrants are subject to a hold period expiring on August 29, 2009. A total of CDN$215,000 of Notes were subscribed for by officers and directors of the Corporation. During the first quarter of 2009, the Corporation received CDN$375,000 which was converted into Notes.

The Notes are classified as current liabilities on the balance sheet with $194,472 of the proceeds allocated to the fair value of the Note Warrants (note 5(c) of the interim consolidated financial statements). The fair value of the Note Warrants has been recorded in shareholders’ equity. The carrying value of the Notes is accreted to the original face value of the obligations over the one year term of the Notes. Accretion expense of $33,996 has been expensed as “interest and accretion on Notes” during the three and six month periods ended June 30, 2009.

The proceeds received were used for corporate purposes to help sustain the Corporation while it appeals the decision reached in the Kazakhstan Lawsuit. With the loss of ownership of the Kazakhstan Subsidiaries, the Corporation no longer had access to funds from its former operating activities therefore had to rely on raising money in the debt or equity markets.

With the favorable ruling by the Supreme Court of Kazakhstan (see note 14 to the interim consolidated financial statements), Alhambra has initiated procedures necessary to have the ownership of the shares of the Kazakhstan Subsidiaries re-registered in the name of the Corporation. Once this re-registration is effective, Alhambra will once again have access to revenue producing assets, however, will still require additional financing to fund its exploration and development programs, to pay corporate overhead costs and to meet its obligations to its creditors.

The Corporation is currently attempting to raise additional funds, however, there is no assurance that it will be able to do so. If the Corporation is unable to continue to raise additional funds, the Corporation's ability to continue as a going concern is extremely doubtful.

Related party transactions

During the six months ended June 30, 2009, the Corporation paid $nil (2008 - $32,165) in consulting fees to a corporation controlled by a director and former officer of the Corporation. Of this amount, $nil (2008 - $3,286) was capitalized to exploration and development costs.

During the six months ended June 30, 2009, the Corporation incurred $39,134 (2008 - $55,931) in costs from a law firm in which a former officer of the Corporation is a partner. All of the costs were expensed as legal expenses. The officer resigned his position effective April 29, 2009.

The Corporation and DOT have 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$20,000 plus all reasonable out of pocket expenses and is for an indefinite term but may be terminated by either party upon providing thirty (30) days prior written notice. The Corporation billed DOT CDN$120,000 (2008 – CDN$120,000) under the Contract. As of June 30, 2009, CDN$40,037 remains uncollected.

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

Financial instruments

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and secured debentures are approximated by their carrying amounts because of their short-term nature or because they bear interest at market rates. The secured subordinated promissory notes are carried at their fair value which is equal to their face value less the unaccreted portion of the fair value assigned to the Note Warrants.

Contractual obligations

Effective September 1, 2008 the Corporation entered into a lease on the premises it used for its corporate head office. The terms of the lease committed the Corporation to make monthly rental payments of CDN$11,542 (exclusive of occupancy costs) up until expiry of the lease on August 31, 2013. The total amount remaining to be paid for future lease payments under the lease as of June 30, 2009 was approximately CDN$612,000 (exclusive of occupancy costs). Effective June 1, 2009 the landlord terminated the lease as the Corporation had not paid its current obligation under the lease. Despite the landlord terminating the lease, it has informed the Corporation that it believes the Corporation wrongly repudiated the lease and remains liable for the loss of rental revenue over the unexpired term of the lease. On June 16, 2009 the landlord notified the Corporation that it is seeking to recover CDN$97,793 in outstanding rent plus damages of CDN$810,877 for the loss of the benefit of the lease over the balance of the term. To the extent that the landlord recovers rent from a subsequent tenant, the amount claimed by the landlord would be reduced. The landlord gave the Corporation until June 30, 2009 to settle the claim. The Corporation has held discussions with the landlord relative to their claim and to the best of the Corporation's knowledge, the landlord has not yet taken any further legal action regarding enforcement of their claim. As at June 30, 2009, the Corporation has recorded all amounts due under the lease agreement. No provision for damages has been recorded in these financial statements. The Corporation is currently assessing its options in this matter.

The Corporation has no other off balance sheet financing arrangements.

Disclosure of outstanding share data

	As of June 30, 2009	Change in 2009	Issued in 2009	As of August 25, 2009
Common shares issued and outstanding	75,774,147	–	–	75,774,147
Common shares issuable upon exercise of vested stock options	4,117,500	–	–	4,117,500
Common shares issuable upon exercise of warrants	5,400,000	–	2,500,450	7,900,450
Common shares issuable upon conversion of Notes	–	–	3,768,000	3,768,000
Common shares fully diluted	85,291,647	–	6,268,450	91,560,097

At June 30, 2009, there were 75,774,147 common shares issued and outstanding and 85,291,647 fully diluted common shares after giving effect to the exercise of all outstanding vested stock options and warrants. Subsequently, up to August 25, 2009, no additional common shares have been issued.

Disclosure of material components of expenditures

During the three months ended June 30, 2009, general and administrative expenses totaled $247,150, a decrease of $348,501 from the comparable 2008 amount of $595,651. During the second quarter of 2008, an additional $410,946 in general and administrative costs were incurred in the Corporation's Kazakhstan operations bringing the total general and administrative expenses incurred in the three months ended June 30, 2008 to $1,006,597. The analysis that follows is restricted to corporate operations.

Employee and consulting costs incurred during the three months ended June 30, 2009 totaled $158,781 (64%) as compared to $239,946 (40%) for the comparable period in 2008. Of the decrease of $81,165, 30% was due to the depreciation of the CDN$ relative to the US$ while the remaining 70% resulted from a reduction in staffing reflecting the Corporation's economic circumstances.

Professional costs, which include legal, auditing and outside consulting fees, totaled $75,805 (31%) in the second quarter of 2009 as compared to $97,654 (17%) in the comparable 2008 period. Of the decrease of $21,849, 54% was due to the depreciation of the CDN$ relative to the US$ while the remaining 46% resulted from reduced activities that resulted from the unfavorable decision reached in the Kazakhstan Lawsuit. Most of the legal expenses incurred related to the two lawsuits took place prior to the second quarter of 2009.

Office expenses incurred in the three months ended June 30, 2009 totaled $50,862 (2008 - $130,899) accounting for a further 21% (2008 – 22%) of general and administrative expenses. Of the decrease of $80,037, 10% was due to the depreciation of the CDN$ relative to the US$ while the remaining 90% resulted from a reduction in staffing and related office expenses reflecting the Corporation's economic circumstances.

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 totaled $13,126 (5%) for the second quarter of 2009 as compared to $186,555 (31%) in the comparable 2008 period. The decrease was due to the elimination of the Corporation's investor relations program in 2009 reflecting the Corporation's current economic circumstances. In addition, the Corporation held its annual meeting in the second half of 2008 while the 2009 meeting is scheduled for the end of the third quarter. Now that the Corporation has been successful in its appeal to the Supreme Court, it will be necessary for Alhambra to resume an aggressive investor relations program to support an effort to raise funds to continue with its plans to develop Saga Creek's gold resources and reserves.

The Corporation billed DOT $51,424 (21%) during the three months ended June 30, 2009 under its agreement to provide management services under the Contract. This compares to $59,403 (10%) billed for the comparable three month period in 2008. The decrease is attributable to the depreciation of the value of the CDN$ relative to the US$ as the amounts billed in Canadian dollars were the same for both periods.

Business Risks

The following describes the types of risks that the Corporation was exposed to in its operations and how it managed those risks up until the unfavorable decision reached in the Kazakhstan Lawsuit resulted in the loss of its Kazakhstan Subsidiaries. Now that the Supreme Court has ruled in the Corporation's favor, Alhambra will once again be exposed to these risks once the shares of the Kazakhstan Subsidiaries have been re-registered in the name of the Corporation.

World economic slowdown

The current worldwide economic slowdown, stock market uncertainty and international credit crisis could adversely impact the Corporation's ability to raise sufficient working capital to sustain operations. The Corporation can neither predict the impact the current economic conditions will have on future results, nor predict when the economy will show meaningful improvement.

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.

The Corporation focuses exploration efforts in areas in which it has existing knowledge and expertise help 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 the Corporation'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. Currently, the Corporation maintains insurance as mandated under Kazakhstan law. Management reviews this insurance on a regular basis to ensure it is adequate for business purposes.

Country risk

Alhambra's operations are subject to economic, political and social risks inherent in doing business in Kazakhstan. These risks include matters arising out of the policies of the government, economic conditions, imposition of, or changes to, taxes and regulations, foreign currency exchange fluctuations and the enforceability of contract rights.

Regulations and mining law

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

Environmental factors

All phases of the Corporation's operations are subject to environmental regulations in Kazakhstan. 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 Alhambra takes 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 the Corporation's operations or result in substantial costs and liabilities in the future.

Permits and licenses

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

Financing risks

Continued exploration and development of the Uzboy Project is dependent on Alhambra's ability to obtain the funds necessary to finance these planned activities. While the Saga Creek is currently producing gold, there is no assurance that sufficient quantities of gold will be recovered to ensure adequate funds will be available to undertake the planned programs. Failure to do so may result in the Corporation seeking additional equity programs to finance its programs. While the Corporation has been successful in attracting equity financing in the past, there can be no assurance that additional funding will be available in the future. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration plans.

Income and other taxes

The taxation system in Kazakhstan is relatively new and is characterized by numerous taxes and frequent changes in legislation, official pronouncements and court decisions. 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 may remain open for review by the tax authorities for a number of subsequent calendar years which also adds to the uncertainty.

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

Going Concern Risk

With the decision reached by the Supreme Court of Kazakhstan on August 12, 2009 to reverse the decisions of the Kazakhstan lower courts and dismiss the Plaintiff's claim, the Corporation has initiated procedures necessary to have the shares of the Kazakhstan Subsidiaries re-registered in the name of Alhambra. Once this is effective, Alhambra will once again have access to revenue producing assets, however, will still require additional financing to carry out its exploration and development programs, meet its corporate overhead costs and satisfy its obligations to its creditors. As a result, Alhambra's ability to continue operating as a going concern is dependent upon its ability to raise additional capital. To date the Corporation has raised some funds through the issue of secured indebtedness, however, these funds are only adequate to fund a portion of its current and future obligations. Additional financing must be obtained in order to continue as a going concern. The Corporation is currently attempting to raise additional funds, however, there is no assurance that it will be able to do so.

Significant Accounting Policies

The significant accounting policies used by the Corporation are disclosed in the notes to the Corporation's December 31, 2008 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.

Stock-based compensation

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.

New Accounting Pronouncements

The Corporation has adopted the following guidelines provided by the Canadian Institute of Chartered Accountants ("CICA") effective January 1, 2009:

Credit risk and fair value of financial assets and financial liabilities

In January 2009, the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities including derivative instruments.

This standard is applicable to all financial assets and liabilities measured at fair value in interim and annual financial statement periods ending on or after January 20, 2009. The Corporation adopted EIC-173 effective January 1, 2009. The adoption of EIC-173 did not have a material impact the Corporation's financial statements.

Goodwill and intangible assets, CICA section 3064

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets. Effective for fiscal years beginning on or after October 1, 2008, this section provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. Retroactive application to prior-period financial statements will be required. The adoption of Section 3064 did not have a material impact the Corporation's financial statements.

Future accounting pronouncements

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued three new accounting standards: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling interests". These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Corporation is in the process of evaluating the requirement of the new standards.

Section 1582 replaces Section 1581 establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") 3 (2008), "Business Combinations". The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Sections 1601 and 1602 together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provision of IFRS 27 (2008), "Consolidated and Separate Financial Statements" and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

International financial reporting standards ("IFRS")

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010.

The International Accounting Standards Board ("IASB") has also issued an exposure draft relating to certain amendments and exemptions to IFRS 1. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. Although the amended IFRS 1 standard would provide relief, the changeover to IFRS represents a significant change in accounting standards and the transition from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Corporation's reported financial position and reported results of operations.

During 2009, the Corporation plans to complete a high-level IFRS changeover plan and establish a preliminary timeline for the execution and completion of the conversion project. The changeover plan will include a preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment will provide insight into what are anticipated to be the most significant areas of difference applicable to the Corporation.

Following the completion of the high-level IFRS changeover plan, the Corporation will perform an in-depth review of the significant areas of difference, identified during the preliminary assessment, in order to identify all specific Canadian GAAP and IFRS differences and select ongoing IFRS policies. Key areas addressed will also be reviewed to determine any information technology issues, the impact on internal controls over financial reporting and the impact on business activities. External advisors will be retained to assist management with the project on an as needed basis. The Corporation will also continue to monitor standards development as issued by the IASB and the

AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.

Summary of Quarterly Results

Three months ended, ($)	September 30 2008	December 31 2008	March 31 2009	June 30, 2009
Net loss	(196,476)	(31,687,984)	(676,735)	(410,703)
Basic and diluted net loss per share	(0.01)	(0.41)	(0.01)	(0.00)

Three months ended, ($)	September 30 2007	December 31 2007	March 31 2008	June 30, 2008
Net income (loss)	67,510	89,431	(815,720)	(973,943)
Basic and diluted net income (loss) per share	0.00	0.00	(0.01)	(0.01)

The significant loss reported in the fourth quarter of 2008 was the result of the write-off of the investment in the Kazakhstan Subsidiaries. As a result of the write-off, quarterly information starting in 2009 relates only to Alhambra's corporate activities.

Outlook for 2009

The outlook for Alhambra for 2009 and beyond remains extremely uncertain at this time. The Corporation is currently focused on re-registration of the ownership of the shares of the Kazakhstan Subsidiaries and resuming control of their operations. Once this is completed, the Corporation will conduct a thorough review of the operations that took place during the time period when the Kazakhstan Subsidiaries were managed by the Plaintiffs and thereafter plans will be put into place to resume exploration and development programs.

The loss of the Kazakhstan Subsidiaries made it necessary for the Corporation to seek external financing to fund corporate expenses including legal costs associated with the Kazakhstan Lawsuits. While the recently completed financings enabled Alhambra to meet some of these obligations, it was not adequate to meet them all.

While the favorable ruling by the Supreme Court has improved the outlook for the Corporation, it will still be necessary for the Corporation to obtain additional future financing to satisfy its outstanding obligations and continue with its plans to develop Saga Creek's gold resources and reserves. With the general worldwide economic slowdown, stock market uncertainty and worldwide credit crisis, there is no certainty that the Corporation will be able to raise the necessary working capital. Without additional financing, Alhambra's ability to continue as a going concern will remain in serious doubt.