Alhambra Resources Ltd.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the Six Months Ended June 30, 2011 (US$)

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, 2011 and the factors reasonably expected to impact future operations.

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, 2010 and the related notes. The financial statements have been prepared in accordance International Financial Reporting Standards and are reported in US$000's except as otherwise stated.

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, the strategy of advancing the Uzboy Project towards pre-feasibility, the formalization of a development plan, converting inferred resources to mineral reserves by conducting additional exploration, Alhambra's plans to spend up to $7.5 million in 2011 on exploration, the possible outcome of Saga Creek's legal challenges against its tax assessment in Kazakhstan, the possible outcome of the Corporation's application to the Government of Kazakhstan with respect to the pre-emptive right 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, the intention or ability for the Corporation to obtain a listing of its common shares on an Asian stock exchange, the possible outcome of Saga Creek's legal challenges against its tax assessment in Kazakhstan, the possible outcome of the Corporation's application to the Government of Kazakhstan with respect to the pre-emptive right 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 mining assets, equipment and exploration and development costs, asset retirement obligations, 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.

Pursuant to a Partnership Unit Purchase and Exchange Agreement (the "Agreement") dated March 21, 2002, as amended by an agreement dated January 16, 2003, Alhambra acquired all of the issued and outstanding units of Saga Creek Gold Company LLP ("Saga Creek") and Goodwin Golems LLP (jointly the "Kazakhstan Subsidiaries") from Marsa Aktiengesellschaft, a Liechtenstein company and Teragol Investments Limited, a Cyprus company (jointly the "Vendors") in exchange for the issuance of 4,000,000 common shares of Alhambra at a deemed price of CDN$0.25 per share for total consideration of CDN$1,000 and the granting to the Vendors of a Net Smelter Return with respect to the production of minerals from the properties owned by Saga Creek. The Net Smelter Return is equal to (i) 2.5% of gross revenue as defined in the Agreement in the event that the weighted-average price of gold is less than US$300 per ounce; (ii) 2.75% of gross revenue in the event that the weighted-average price of gold is equal to or greater than US$300 per ounce; and (iii) 3% of gross revenue in the event that the weighted-average price of gold is equal to or greater than US$350 per ounce. The acquisition received conditional approval from the TSX Venture Exchange (the "Exchange") on July 8, 2003 and was accepted on August 8, 2003. As the Corporation satisfied the conditions required to be completed by the Exchange on September 29, 2003, this date was used as the effective date of the acquisition. As a result of the acquisition the Alhambra obtained the licenses to the Uzboy gold property. These licenses consist of License MG No. 1029D, dated February 10, 1997, as amended, and License MG No. 719DD, dated February 10, 1997, as amended, (collectively the "Licenses"), which Licenses are valid for twenty-five (25) years and can be extended if requested.

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. 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 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 June 30, 2011, 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.

Operating and Financial Highlights

Six months ended June 30 (except as noted below [2])	2011	2010
Operating		
Mining:		
Waste mined (Tonnes ("T"))	899,134	990,899
Ore stacked (T) [1]	320,065	390,109
Grade of ore mined (Grams/T)	0.83	0.81
Recoverable gold mined (Troy ounces (oz)) [1]	5,557	6,601
Gold sales (ozs)	3,803	5,415
Gold in work in progress (ozs) [2]	38,377	36,623
Financial:		
Revenue ($000's)	5,543	6,371
Average gold price ($/oz)	1457.59	1,176.61
Operations expenses ($000's)	3,022	4,104
Operations expenses ($/oz)	794.61	757.96
Net income (loss) ($000's)	(3,751)	(773)
Net income (loss) per share		
Basic and diluted($)	(0.04)	(0.01)
Capital expenditures ($000's)	1,636	650
Total assets ($000's) [2]	127,186	125,801
Shareholders' equity ($000's) [2]	72,066	73,158
Common shares outstanding [2]	104,082,059	103,994,309

Notes:

1. Recoverable gold is equal to 65% of estimated total gold stacked onto the leach pads.
2. Numbers indicated for 2010 are as at December 31, 2010.

For the six months ended June 30, 2011 and 2010, the Corporation mined oxide gold mineralization from the East zone of the Uzboy gold deposit. The Corporation started the period on January 1, 2011 with an estimated 36,623 ounces ("ozs") of gold in work in progress. During the six months ended June 30, 2011, the Corporation sold a total of 3,803 ozs of gold for total proceeds of $5.6 million. An additional estimated 5,557 ozs of gold was stacked which, after selling the 3,803 ozs of gold, resulted in an estimated balance of 38,377 ozs of gold in work in progress at June 30, 2011.

During the six months ended June 30, 2011, the Corporation mined a total of 899,134 T of waste and stacked 320,065 T of ore at an average gold grade of 0.83 gram/T ("g/t").

Financial Review

Segmented information

The Corporation and its subsidiaries operate in one reportable segment, the exploration for and development of mineral properties. Identifiable assets, liabilities, revenues, expenses, net loss and capital expenditures in each of its geographic areas are as disclosed in note 18 to the June 30, 2011 unaudited consolidated financial statements.

Sales

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.

During the six months ended June 30, 2011, the Corporation recognized $5,543 in revenue from the sale of 3,803 ozs of gold at an average price of $1,457.59/oz. This compares to revenue recognized for the six months ended June 30, 2010 of $6,371 from the sale of 5,415 ozs at an average price of $1,176.61/oz.

During the three months ended June 30, 2011, the Corporation recognized $3,077 in revenue from the sale of 2,033 ozs of gold at an average price of $1,513.77/oz. This compares to revenue recognized for the three months ended June 30, 2010 of $4,247 from the sale of 3,523 ozs at an average price of $1,205.68/oz.

Another extremely cold winter in the first quarter of 2011 as was experienced in the first quarter of 2010 resulted in lower gold sales than originally anticipated. Unfortunately the spring thaw in 2011 was later than experienced in 2010 which resulted in recoveries during the second quarter of 2011 being lower than was anticipated. In addition, the gold mined in 2011 was from deeper in the east pit than in 2010 which of course is consistent with open pit mining. The hardness of the ore increases as the pit depth increases. This harder ore takes longer to leach.

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 six months and three months ended June 30, 2011, the Corporation recognized $166 (2010 - $192) and $92 (2010 - $128), respectively in net smelter royalty expenses, which is 3% of the revenue recognized in the period.

Mineral extraction tax ("MET")

Effective January 1, 2009 the Government of Kazakhstan enacted new tax legislation that included a tax on the value of useful mineral reserves extracted under the terms of a subsoil use contract. Under the provisions of the legislation, the tax is based on production volumes priced at the average daily benchmark price. The rate for gold and silver, being the two products which the Corporation currently mines, is 5% from January 1, 2009 to December 31, 2012 and 5.5% thereafter. A total of $353 (2010 - $320) and $214 (2010 - $227) was expensed for the six and three month periods ended June 30, 2011.

The Corporation believes that under the terms of its foreign investment contract that governs the terms in which the Corporation operates its licenses, it is not subject to MET. Despite the Corporation's position relative to its obligation, it has however, been accruing MET since inception of the tax and paying it since January 1, 2010. In 2010 the tax authorities in Kazakhstan assessed Saga Creek for the unpaid 2009 MET plus penalties and interest. As reported, the Corporation has challenged that assessment in the Kazakhstan courts but to date has been unsuccessful. It is because the risk is high that the Corporation will not be successful in its legal challenge against the assessment that the Corporation continues to accrue the liability and any related penalties and interest. (see note 21 (Subsequent event) to the June 30, 2011 unaudited consolidated financial statements and the Subsequent Event section of this MD&A).

Cost of sales

The Corporation charges to work in progress all costs associated with the production of gold, (including direct costs incurred in the mining, leaching and resin stripping processes ("process operating costs"), as well as depreciation of equipment used in each process and depletion of mineral assets which is primarily the fair value assigned to mineral assets at September 15, 2009. All process operating costs and depletion and depreciation charged to work in progress are expensed on the basis of the quantity of gold sold as a percentage of total estimated recoverable quantity of gold mined with the portion related to process operating costs being expensed as the cost of sales and the portion relating to depletion and depreciation being expensed as depletion and depreciation.

Cost of sales for the six months ended June 30, 2011 totaled $3,022 or $794.61/oz (2010 - $4,104 or $757.96/oz of gold sold). Included in this amount is $133.30/oz (2010 - $208.50/oz) related to the amortization of the bump-up to fair value of the estimated cost of work in progress on re-valuation at September 15, 2009. For the three months ended June 30, 2011, operating costs were $1,659 or $815.83/oz as compared to $2,584 or $733.70/oz for the comparable three month period ending June 30, 2010. Cash costs for the three months periods ended June 30, 2011 and 2010 were $687.30 and $533.58, respectively after adjusting for the costs associated with the amortization of the bump-up.

Lower sales volumes were primarily responsible for the higher unit costs as operating costs are not fully variable with gold grade and volumes mined. Other factors that contributed to the higher per unit operating costs in 2011 included longer hauling distances to stack ore on the leach pads and to remove waste and the mining of harder ore from deeper in the pit that necessitated more blasting and higher hauling costs.

Administrative expenses

Six months ended June 30,		2011		2010
Canada				
Share-based compensation	$	2,109	$	250
Cash based corporate overhead costs		1,182		427
Total Canada		3,291		677
Kazakhstan		1,439		585
	$	4,730	$	1,262

Three months ended June 30,		2011		2010
Canada				
Share-based compensation	$	754	$	98
Cash based corporate overhead costs		474		215
Total Canada		1,228		313
Kazakhstan		983		285
	$	2,211	$	598

Administrative expenses for the six months ended June 30, 2011 were $4,730, an increase of $3,468 over the $1,262 recorded in the comparable six month period ended June 30, 2010. Of the totals, $1,439 related to the Saga Creek operations in the six months ended June 30, 2011 as compared to $584 for the comparable six month period in 2010.

Administrative expenses for the three months ended June 30, 2011 were $2,211, an increase of $1,613 over the $598 recorded in the comparable three month period ended June 30, 2010. Of the totals, $983 related to the Saga Creek operations in the second quarter of 2011 as compared to $598 for the second quarter of 2010.

Penalties accrued on unpaid historical cost installments and unpaid 2009 mineral taxes plus legal fees related to the Corporation's challenge of the tax authorities' assessment of these taxes accounted for the increase in Saga Creek administrative expenses. These amounts are being challenged by the Corporation in the Kazakhstan courts expenses however to date the Corporation has been unsuccessful in its appeals (see notes 13 (Provisions) and 21 (Subsequent event) to the June 30, 2011 unaudited consolidated financial statements and the Subsequent Event section of this MD&A).

The remainder of administrative expenses relates to corporate activities and is comprised of share-based compensation and cash based corporate overhead. Share-based compensation totaled $2,109 and $754 for the six month and three month periods ended June 30, 2011, respectively as compared to $250 and $98 for the comparable six month and three month periods in 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 the first half of 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 the first half of 2010 relates primarily to the 3,050,000 options granted in September of 2009 at a price of $0.22 per share.

Cash based corporate overhead expenses for the six month and three month periods ended June 30, 2011 totaled $1,182 and $474, respectively as compared to $427 and $215 for the comparable six month and three month periods in 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. 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 help with the conversion particularly considering that significant time of Alhambra's employees were also devoted to the work necessary to pursue the Asian public listing.

Increased employee costs also contributed to the higher cash corporate overhead costs as a result of 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 first half of 2010 the Corporation recorded a recovery of $116 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 activity level picks up.

Depletion and depreciation

Depletion and depreciation expense for the six month and three month periods ended June 30, 2011 was $1,017 and $572, respectively as compared to the $696 and $471 recorded for the comparable six month and three month periods ended June 30, 2010. The Kazakhstan operations account for almost the entire expense for both periods.

Depletion and depreciation charged on the fair value assigned to mineral properties as a result of the re-acquisition 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 sales as a percentage of the quantity of gold estimated to be in work in progress. For the six months ended June 30, 2011, approximately $2,736 (2010 - $2,645) of depletion and depreciation was charged to work in progress. The major component of this cost is 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 reason that the depletion and depreciation expense in the six months ended June 30, 2011 is substantially higher than the same expense in the six months ended June 30, 2010.

Finance income and expenses

		Three months ended June 30,				Six months ended June 30,		
		2011		2010		2011		2010
Finance income (expense)	$	(125)	$	–	$	99	$	106
Finance costs		297		243		553		291
Net finance income (expense)	$	(422)	$	(243)	$	(454)	$	(185)

Finance costs

		Three months ended June 30,				Six months ended June 30,		
		2011		2010		2011		2010
Unwinding of the discount on provisions	$	89	$	7	$	178	$	13
Interest accrued on unpaid taxes		208		39		375		71
Unwinding of discount on loans and borrowings		–		45		–		88
Interest on loans and borrowings		–		35		–		69
Other		–		117		–		50
Total finance costs	$	297	$	243	$	553	$	291

During the six months ended June 30, 2011, the Corporation recorded a foreign exchange gain of $99 compared to $106 for the comparable six month period ended June 30, 2010. Saga Creek's operations recorded a gain of $162 (2010 - $87) as the weakening US$ relative to the Kazakhstan Tenge had a positive impact on Saga Creek which carries a negative working capital position. The Canadian operations recorded a foreign exchange loss of $63 in the first half of 2011 as compared to a gain of $19 in first half of 2010. As a result of the US$ financing done in the third quarter of 2010, the Corporation is holding US$ which resulted in the foreign exchange loss recorded due to the weakening of the US$ relative to the CDN$.

Finance costs for the six months ended June 30, 2011 totaled $553, an increase of $262 over the comparable six month period ended June 30, 2010 amount of $291. Saga Creek's interest expense for the period for the six months ended June 30, 2011 totaled $375 as compared to the $71 recorded in the first half of 2010. The interest expense recorded by Saga Creek in 2011 and 2010 relates to interest on unpaid 2009 Mineral Extraction Tax and the Historical Cost obligation that was assessed by the Kazakhstan tax authorities. Both of these liabilities are being challenged by the Corporation in the Kazakhstan courts however to date the Corporation has been unsuccessful in its appeals. (see notes 13 (Provisions) and 21 (Subsequent event) to the June 30, 2011 unaudited consolidated financial statements and the Subsequent Events section of this MD&A).

The remaining $178 of finance costs incurred in the six months ended June 30, 2011 (2010 - $13) was the unwinding of the discount on the historical cost and site restoration provisions recorded by the Corporation. For the six months ended June 30, 2010, the Corporation recorded $119 in interest expense and $88 related to the unwinding of the discount both related to the twelve percent (12%) secured debentures which were converted to common shares in August of 2010.

Share of loss in equity accounted investee

The Corporation accounts for its 27% ownership of the common shares of DOT using the equity method of accounting. The equity loss recorded by the Corporation for the six months ended June 30, 2011 was $9 as compared to the $59 recorded in the six months ended June 30, 2010. The decline in the amount of loss recorded is mainly due to DOT not incurring any management fees in 2011 as a result of Alhambra's agreement to forego charging these fees.

Income tax expense

Income tax expense (recovery) recorded relates entirely to Saga Creek. As Saga Creek is a profitable entity, it pays corporate income tax in Kazakhstan. During the six months ended June 30, 2011 the Corporation recorded a net recovery of income tax of $457 comprised of a current tax expense of $83 and a deferred tax recovery of $540. For the six months ended June 30, 2010 the income tax expense of $326 of which $31 was current and $295 deferred income tax.

At September 15, 2009 Saga Creek recorded a large future income tax liability associated with the fair value assigned to Saga Creek's assets and liabilities. Expectations are that the Corporation will begin to record future income tax recoveries as these assets are amortized to income. As a result, Saga Creek recognized a recovery of deferred income tax liabilities previously recorded of $457 during the six months ended June 30, 2011.

Effective January 1, 2009 the government of Kazakhstan introduced an excess profits tax. This tax is a progressive tax in that as excess profits increase, the rate of tax on the increment in excess profits, as defined, also increases. To date, the Corporation has not been subject to any excess profits tax.

Net income (loss)

The Corporation recorded a net loss of $3,751 for the six months ended June 30, 2011 compared to a net loss recorded in the comparable six month period ended June 30, 2010 of $773. The net loss for the six months ended was comprised of a net loss of $384 (2010 – net profit of $155) from mining operations and a net loss of $3,367 (2010 - $928) from corporate activities.

For the three months ended June 30, 2011 the Corporation recorded a net loss of $2,065 as compared to a loss of $19 for the comparable three month period ended June 30, 2010. The net loss for the three months ended was comprised of a net loss of $804 (2010 – net profit of $434) from mining operations and a net loss of $1,261 (2010 - $453) from corporate activities.

The $539 decrease in results from mining operations for the six months ended June 30, 2011 is mainly due higher administrative and finance costs recorded as a result of the tax assessment related to historical costs and mineral extraction tax that the Corporation is currently appealing. The gross margin on the sale of gold consisting of sales less net smelter royalty, mineral extraction tax and cost of sales actually increased $247 for the six months ended June 30, 2011 as compared to the comparable six months ended June 30, 2010 partially offsetting the negative impact of the increase in administrative costs.

The $1,238 decrease in results from mining operations for the three months ended June 30, 2011 was also primarily the result of higher administrative and finance costs in addition to a decrease in the gross margin on the sale of gold of $196.

The loss from corporate operations increased $2,439 to $3,367 recorded for the six months ended June 30, 2011 from the $928 recorded for the comparable period in 2010. For the three months ended June 30, 2011, loss from corporate operations increased $808 to $1,261 from the $453 recorded in the comparable three month period ended June 30, 2010. As explained earlier, the increase in share-based compensation expense and cash based corporate overhead expenses accounted for the reported increases.

Based on the weighted average number of common shares outstanding of 104,074,828 and 81,074,421, the Corporation's basic and diluted loss per common share was $0.04 and $0.01 for the six months ended June 30, 2011 and 2010, respectively. Based on the weighted average number of common shares outstanding of 104,128,213 and 81,074,421, the Corporation's basic and diluted loss per common share was $0.02 and $0.00 for the three months ended June 30, 2011 and 2010, respectively.

Cash flow from operating activities

Six months ended June 30, 2011		Kazakhstan		Canada		Total
Net loss adjusted for items not involving cash	$	615	$	(1,572)	$	(957)
Change in non-cash working capital		(349)		328		(21)
Cash from (used in) operating activities	$	266	$	(1,244)	$	(978)

Six months ended June 30, 2010						
Net loss adjusted for items not involving cash	$	1,907	$	(546)	$	1,361
Change in non-cash working capital		(929)		33		(896)
Cash from (used in) operating activities	$	978	$	(513)	$	465

Cash flow used in operating activities for the six months ended June 30, 2011 was $978 as compared to cash flow generated from operating activities for the six months ended June 30, 2010 of $465. Mining operations contributed positive cash flow of $266 and $978 for the six month periods ended June 30, 2011 and 2010, respectively. Positive cash flow from mining operations was offset by cash flow utilized in corporate activities of $1,244 and $513 for the six months ended June 30, 2011 and 2010, respectively. Cash flow from corporate activities is primarily corporate overhead costs.

Selected Balance Sheet Items

Trade and other receivables

Accounts receivable consists primarily of 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 June 30, 2011 the balance outstanding on account of VAT was $612 (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 $889 at June 30, 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

Included in prepaid expense at June 30, 2011 is approximately $2,272 (December 31, 2010 - $600) in connection with costs incurred in its advancement of a potential listing on an Asian stock exchange. These costs will be charged to financing costs if the Corporation ultimately competes the listing, otherwise they will be expensed.

Inventories

The Corporation's inventory comprises mostly of 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 depreciation of equipment used in each process, and depletion of mineral assets, are charged to work in progress inventory and expensed based on the quantity of gold sold as a percentage of the quantity of gold mined. At June 30, 2011 the Corporation estimated that there was approximately 38,377 ozs of gold in work in progress (December 31, 2010 – 36,623 ozs) at a carrying cost of $27,644 (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 June 30, 2011, the Corporation classified 23,378 ozs ($15,067) (December 31, 2010 – 21,623 ozs and $13,110) as non-current.

At June 30, 2011, the Corporation also had $1,156 (December 31, 2010 - $1,247) of raw materials and supplies inventory which is to be used in its operations.

Trade and other payables

At June 30, 2011 the Corporation had outstanding $9,427 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 substantially all amounts outstanding are due within one month.

Provisions

At June 30, 2011 the Corporation had outstanding provisions for future liabilities of $14,388 (December 31, 2010 - $14,093). Of the total, $276 (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 the Uzboy project. A discount rate of 7% (December 31, 2010 – 7%) was used. The undiscounted value of the liability is approximately $316 (December 31, 2010 - $316).

The Corporation has 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 to begin paying to the Government of Kazakhstan the unpaid amounts beginning on January 1, 2009 in equal quarterly installments over ten (10) years. It is the opinion of the Corporation that it should not liable for the costs associated with the Historical Data as the obligation is not included as part of the foreign investment contract which governs 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 has since filed a claim in the courts in Kazakhstan seeking to have the decision of the tax authorities reversed together with the obligation and related interest and penalties however to date all appeals have been unsuccessful. While Alhambra believes that its position is defendable, there is a high risk that it will not be successful in the Kazakhstan courts and as such has recorded the provision. (see notes 13 (Provisions) and 21 (Subsequent event) of the June 30, 2011 Unaudited Consolidated Financial Statements and the Subsequent Event section of this MD&A).

The discounted liability associated with the provision for Historical Data at June 30, 2011 is $14,112 (December 31, 2010 - $13,828) of which $8,843 (December 31, 2010 - $9,381) has been recorded as non-current. A discount rate of 3.2% was used to determine the amount of the liability. The undiscounted value of the liability is $15,738.

Deferred Tax Liabilities

At June 30, 2011 the Corporation has $31,305 (December 31, 2010 – $31,597) in deferred tax liabilities that relate primarily to the fair value assigned to the Uzboy project on the re-acquisition of control of Saga Creek.

Disclosure of material components of expenditures

Capital expenditures

Six months ended June 30, 2011

During the three months ended June 30, 2011, the Corporation spent $1,099 in capital expenditures on Saga Creek's mining projects of which $23 was spent on equipment and $1,076 on exploration. This brings the total for the six months ended June 30, 2011 to $1,633 of which $1,558 has been expended on exploration. The details of the Corporation's exploration activities are as follows:

During the three months ended June 30, 2011, Alhambra completed 7,338 metres ("m") (11,202 m 6 months year to date) of exploration drilling which was completed on two of its three advanced exploration projects, the Uzboy Gold Deposit ("Uzboy") and Shirotnaia. In addition, soil sampling programs were initiated at the early stage exploration areas of Zhusaly and Kontaktovy and assay results were received for a number of projects.

At Uzboy, drilling continued with the objective of increasing the oxide and sulphide resources, while at Shirotnaia the second stage of core drilling was initiated targeting the newly identified zones of gold mineralization as discovered via earlier drill programs.

In this period, another batch of drill samples was successfully shipped to the Kyrgyzstan Stewart Group laboratory. It included 636 core samples from Uzboy and 930 core samples from Shirotnaia winter drilling for a total of 1,566 samples.

With the exception of seven deep Uzboy holes (3,284 samples) that are awaiting export and the 1,566 drill samples referenced above, all remaining 2010 drill samples have now been assayed**.**

Additional updates were made to the planned 2011 drilling program in this quarter. With the exception of Uzboy, all other project areas have been finalized.

Uzboy Gold Deposit

During the second quarter of 2011, the final stage of the 2010 core drilling program targeting the sulphide resource at deeper levels was completed. Five deep core holes totaling 2,838.2 m comprising 2,815 samples were drilled of which 1,568.4 m was drilled in the second quarter of 2011. Visual inspection and logging of these holes confirmed the continuation to depth of previously established zones of hydrothermal alterations, quartz veining and pyrite impregnation.

Core from the last 12 holes was cut and sampled during this period. In total, 3,920 samples were taken and 636 were sent to the Kyrgyzstan Stewart Group laboratory for assaying.

Assay results are positive. For example, Diamond drill hole C1101 intersected 1.26 grams per tonne gold ("g/t Au") over a core interval of 6.0 m starting at a core depth of 24.2 m. This hole extended the West Uzboy zone of gold mineralization 160 m to the NE where it was intersected by a previous core hole. The mineralization in this zone remains open at depth. To the NE, the mineralization in this zone is narrower and contains higher grades at depth.

The most encouraging results came from the area between the two current East Uzboy open pits which had not previously been explored at depth. Two parallel mineralized zones were established here. One of the zones was intersected by hole C 4203 (20.2 m @ 1.09 g/t Au) and the second zone was intersected by hole C 3404 (9.0 m @ 1.39 g/t Au). As a result, the length of both zones of gold mineralization was extended by 100 to 120 m. The second zone was also intersected further to the NE by hole P 5831 which intersected the mineralized interval at the depth of 189 m and assayed 11.0 m @ 2.21 g/t Au. As a result, the strike length of this zone was increased by more than 50 m along the dip**.** The extensions of these mineralized zones increase the probability for transforming the two current East Uzboy open pits into one larger pit which would make it technically and economically more suitable for mining.

An extension of the mineralized zones westward of the East Uzboy open pits was established by holes C 0401 and C 0101. These holes intersected 12.9 m @ 2.58 g/t Au and 5.0 m @ 1.04 g/t Au respectively and increased the strike length of these zones by a minimum of 50 m. The gold mineralization is open to the SW and trends in the direction of the current West Uzboy open pit.

The final details for the 2011 drilling program anticipated at Uzboy will be determined once the assay results from the seven deep holes are received. The objective of the Uzboy drilling program is to further delineate additional oxide and sulphide gold mineralization along strike and depth. This includes more core drilling at the NE and SW flanks of East Uzboy as well as the SW flank of West Uzboy.

Shirotnaia

During the second quarter of 2011 assay results for the recently completed RC drilling program were obtained. This program successfully confirmed the presence of gold mineralization outside the boundaries of that previously known and provided new targets for further core drilling. However, to ensure sample quality where high groundwater flows were encountered, the RC holes were drilled generally shallower than planned.

Broad intervals of anomalous gold concentrations (for +0.15 g/t) ranging from 2 to 30 m were intersected in 34 of 43 holes drilled. The intercepts returned were mainly shallow and low-grade, the best one being 16.0 m @ 1.23 g/t Au.

New analysis of the results of the RC program together with all the data from the previous core, KGK and RAB drilling resulted in the outlining of four higher grade (+ 1.0 g/t Au) almost parallel mineralized zones being 1.8 kilometres ("kms") long by 15 to 30 m wide and open.

The second stage of the Shirotnaia core drilling program targeted these newly interpreted higher grade zones with the objective to develop a grid which would allow for an independent National Instrument ("NI") 43-101 compliant resource estimate. This second stage of drilling was completed in the second quarter and includes drilling 43 core holes totaling 5,726 m. All holes intersected zones of chlorite-sericite alterations with 1-3% disseminated pyrite. The width of these zones varies from several meters to 38 m. Eight holes intersected silicification up to 25 m in width with lead or copper mineralization.

Petrological studies indicate that this is the very top of the mineralized system. Furthermore, in this district, hypogene gold grades are typically higher than the surface supergene grades. Hence, higher grades of gold mineralization are anticipated at depth at both Main and Southern zones of Shirotnaia. The drill samples from these 43 holes have been prepared but have yet to be assayed.

Dombraly

Assay results from the Dombraly 2010 rotary air-blast ("RAB") drilling program were received during the second quarter of 2011. The program consisted of 192 holes with the bottom sample in each hole collected for analysis. The objective of this program was to check for gold anomalies which could mark undiscovered mineralization at the periphery of the Dombraly known mineralized zone. This goal was successfully achieved. One hole drilled southward of the stock pile returned a highly anomalous sample which graded 0.58 g/t Au. This implies that either a possible extension of one of the Dombraly mineralized zones or, most likely, that a parallel cluster of mineralized zones could exist there. If so, it would add at least another 850 m of strike length to the known mineralization. This new mineralization zone (or zones) could have the same trend as the known mineralized Dombraly zones and is also controlled by the splays of the main NNE tectonic structure. The existence of this new extended mineralized zone appears to be confirmed by the presence of a second deep mineralized interval (from 16.0 m) in one of the RC holes which drilled the waste pile. To outline and evaluate these new zones, several RC lines and diamond holes are planned to be drilled in the near future.

Zhusaly and Kontaktovy

Soil sampling programs were initiated at the early stage exploration areas of Zhusaly and Kontaktovy during the second quarter of 2011. This was done over a grid of 500 by 50 m and 250 by

50 m. Respectively 576 and 255 soil samples were taken. These samples are being screened and prepared for fire assay and ICP analysis.

Subsequent to June 30, 2011

Dombraly

The next stage of the Dombraly exploration program includes drilling 31 core hole (5,210 m) and 10 RC holes (1,500 m). The objectives of this program are to follow up the new zones of gold mineralization discovered as a result of 2010 drilling and to develop an appropriate drill grid allowing for the completion of an independent NI 43-101 compliant resource estimate.

Shirotnaia

An additional 1,803 samples were taken by the end of July for the 43 core hole drilling program which had been completed in the second quarter of 2011. In total, 4,461 samples have been taken.

Also in July, 930 assay results from 4 of 6 core holes drilled at Shirotnaia in February 2011 were received. These assay results will be reported once the results from all 6 core holes have been received and interpreted.

Uzboy

Assay results from 34 holes drilled at East and West Uzboy (4,276 samples) were received. Drilling successfully extended the strike length of four zones of gold mineralization from 50 to 160 m in length (see Uzboy Gold Deposit section above). The mineralization in these four zones located on the southwest flanks of the West and East Uzboy gold deposits is open along strike and down dip and demonstrates the potential to expand mineralization size and intersect higher grade gold mineralization. The gold mineralization of the East Uzboy deposit continues in the direction of the West Uzboy deposit and could be part of a single large gold system.

Zhanatobe

During this period, the remaining assay results from the 2010 Zhanatobe rotary air-blast ("RAB") drilling program were received. This drilling program resulted in the discovery of two possible "Carlin-style", zones of gold mineralization, one in the Central area and the second in the Northern area.

The mineralization exhibits many similarities to sediment hosted disseminated style gold mineralization in Nevada ("Carlin-style" gold mineralization) which is completely new for the region. The zone of gold mineralization discovered in the Central area is approximately 850 m in length and 100 m in width. The zone of gold mineralization discovered in the Northern area is approximately 400 m in length and 150 m in width and open on both ends. Gold grades range from 0.10 to 1.72 g/t Au in the Central zone and from 0.19 to 0.51 g/t Au in the Northern zone.

As a result of the positive 2010 drilling results, Alhambra updated and expanded its anticipated 2011 core, RC and RAB drilling program for Zhanatobe to approximately 12,000 m as follows: 850 m of core drilling (5 holes), 2,550 m of RC drilling (17 holes) and 8,560 m of RAB drilling (856 holes).

North Balusty

Assay results from the North Balusty 2010 hydro-core lift ("KGK") drilling program were received that resulted in the discovery of mineralized corridors with an indicated length of 1,600 m and width up to 520 m. The objective of the 2010 exploration program at North Balusty was to determine the origin of a 12.8 km by 2.5 km zone of gold anomalism in alluvium and saprolitic rocks as established by trenching in prior years and to estimate the width of the mineralized zone.

Drill results confirmed that a hard rock (lode) gold mineralization is indeed present in North Balusty.

The mineralized corridors ranged in width from 440 to 520 m while individual zones ranged in thickness from 2 to 8 m. Gold grades ranged from 0.13 to 10.91 g/t Au.

As a result of the successful KGK drilling program, Alhambra is currently reviewing an expanded second phase 42 hole, 6,300 m RC Drilling program at North Balusty. The objective of this second phase drilling program is to determine the exact shape of the mineralization and its continuation to depth.

Administrative expenditures

For the six months ended June 30, 2011, administrative expenses totaled $4,730, an increase of $3,468 over the comparable 2010 amount of $1,262. Included administrative expenses for the six months ended June 30, 2011 was $1,439 related to Saga Creek operations. This represented an increase of $854 over the comparable six month period of 2010 amount of $585. Penalties accrued on unpaid historical cost installments and unpaid 2009 mineral taxes plus legal fees related to the Corporation's challenge of the tax authorities' assessment of these taxes accounted for the increase in Saga Creek administrative expenses.

The remaining $3,291 of administrative expenses for the six months ended June 30, 2011 relates to corporate overhead costs which was an increase of $2,614 over the corporate overhead costs for the corresponding six month period ended June 30, 2010 of $677. Included in these amounts were share-based compensation expenses of $2,109 and $250 for the six months ended June 30, 2011 and 2010, respectively. The remaining $1,182 and $427 for the six months ended June 30, 2011 and 2010 respectively relate to corporate cash overhead expenses as detailed below.

Employee costs accounted for $536 (45%) of the total corporate administrative costs in the six months ended June 30, 2011 as compared to $354 (83%) in the comparable 2010 period. 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 listing on an Asian stock exchange.

Corporate professional costs, which include legal, auditing and outside consulting fees, totaled $331 (28%) in the six months ended June 30, 2011 as compared to $18 (4%) in the comparable six month period in 2010. 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 the 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 help to assist with the conversion, particularly considering that significant time of Alhambra's employees was devoted to the work necessary to pursue the Asian public listing.

Office expenses in the six months ended June 30, 2011 totaled $91 (8%) as compared to $45 (10%) in the comparable six month period in 2010. The increase was primarily the result of the additional travel, particularly to Kazakhstan, to manage and monitor the Corporation's operation.

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 $224 (19%) of total corporate administrative expenses in the six months ended June 30, 2011 as compared to $126 (30%) for the comparable six month period in 2010. 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.

The Corporation billed DOT $nil (nil%) during the six months ended June 30, 2011 under its agreement to provide management services under the Contract. This compares to $116 (27%) billed during the comparable six month period in 2010.

Liquidity and capital resources

At June 30, 2011 the Corporation had $922 (December 31, 2010 – $3,375) in cash and $4,222 (December 31, 2010 – $7,785) in positive working capital. Included in other working capital is $12,577 (December 31, 2010 - $11,209) in work in progress related to 15,000 ozs (December 31, 2010 – 15,000) 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.

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$20 plus all reasonable out of pocket expenses and is for an indefinite term but may be terminated by either party upon providing 30 days prior written notice. The Corporation billed DOT CDN$nil (2010 - CDN$120) under the Contract for the six months ended June 30, 2011. The amount uncollected as of June 30, 2011 was CDN$359 (2010 - CDN$232). 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. The Corporation has classified the total outstanding owing from DOT as a long term receivable until such time there is more certainty that DOT will be able to return the funds in the short term.

Financial instruments

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

Commitment and contingencies

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 $7,500 on exploration activities during 2011, 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.

Subsequent events

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 as well as for their disallowance of certain income tax deductions. 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 assessment. 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. Alhambra continues to believe that Saga Creek's position is defendable and as such Saga Creek filed a further appeal to the Cassation Chamber of Akmola Oblast Court ("Cassation Chamber") on August 22, 2011. As the risk remains high that Saga Creek will not be successful in its appeal, the Corporation continues to accrue in its financial statements the estimated negative financial impact of the assessment. While the Cassation Chamber is not the final court to which Saga Creek can appeal, should the decision from the Cassation Chamber be to reject the appeal, the tax authorities would be in a position where they could legally move to enforce the judgment against Saga Creek and demand payment on the amounts outstanding. As Saga Creek does not currently have the funds necessary to pay the amounts outstanding, it would be required to negotiate a payment plan. Currently, the tax authorities in Kazakhstan have filed a lien against some of Saga Creek's assets to secure their position for the indebtedness outstanding.

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 August 17, 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. As the Corporation is not aware of any such applications that have been rejected by the Government of Kazakhstan, the Corporation anticipates that its application will be accepted prior to the end of 2011.

Disclosure of outstanding share data

	As of June 30, 2011	Change in 2011	Issued in 2011	As of August 23, 2011
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

At June 30, 2011, there were 104,132,059 common shares issued and outstanding and 124,453,334 fully diluted common shares after giving effect to the exercise of all outstanding stock options and warrants.

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 slowdown

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 cannot predict the impact of this uncertainty 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 assists in the 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.

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.

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. 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 a company 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

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 also in 2010 has significantly reduced Alhambra's going concern risk. However, 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. The rationale behind the Corporation's desire to list on an Asian stock exchange is to give the Corporation access to significant financial resources in an area of the world that the Corporation believes has a significant interest in precious metal investments combined with an interest in and understanding of investing in Kazakhstan.

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 the Kazakhstan Subsidiaries. Upon re-acquisition 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.

Upon re-acquisition, the Corporation was required to record mineral properties at fair market value. In determining the fair market value of Saga Creek's assets, the Corporation made assumptions about reserves, recovery rates, prices, operating, general and administration costs and capital costs and future 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. These values are management's best estimates based on current information and are subject to change.

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 compensation expense

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.

Summary of Quarterly Results

Selected Quarterly Data

	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Gold sales (ozs)	4,378	2,870	1,770	2,033
Average gold price ($/oz)	$ 1,277	$ 1,404	$ 1,392	$ 1,514
Revenue ($000's)	$ 5,590	$ 4,030	$ 2,466	$ 3,077
Net profit (loss) ($000's)	$ (289)	$ (4,005)	$ (1,686)	$ (2,065)
Basic earnings (loss) per share	$ (0.00)	$ (0.05)	$ (0.02)	$ (0.02)
Diluted earnings (loss) per share	$ (0.00)	$ (0.05)	$ (0.02)	$ (0.02)

	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Gold sales (ozs)	1,104	4,502	1,892	3,523
Average gold price ($/oz)	$ 1,020	$ 1,118	$ 1,123	$ 1,206
Revenue ($000's)	$ 1,126	$ 5,034	$ 2,124	$ 4,247
Net profit (loss) ($000's)	$ 76,016	$ (8,142)	$ (754)	$ 19
Basic earnings (loss) per share	$ 0.99	$ (0.10)	$ (0.01)	$ 0.00
Diluted earnings (loss) per share	$ 0.93	$ (0.10)	$ (0.01)	$ 0.00

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.

Objectives for 2011

Due to the late completion of the 2010 drill program, assaying and subsequent interpretation of the drill samples, the updated Uzboy NI 43-101 compliant resource report and Preliminary Economic Assessment (i.e. Scoping Study) Reports were delayed and will be available during the second half of 2011. The initial NI 43-101 compliant resource reports for both Dombraly and Shirotnaia are still anticipated to be completed by year-end 2011.

During 2011, Alhambra is planning to accelerate the development of its advanced 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.

Alhambra anticipates implementing an exploration and development program of up to $7,500, 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.

Alhambra is currently working towards a dual listing of its shares on an Asian stock exchange. The expected benefits of the dual listing are increased market liquidity, which should support Alhambra's share price moving to reflect intrinsic asset value, and greater access to capital in the very rapidly developing and currently, very buoyant Asian capital market. However, given the dramatic recent market downturn and the impact of Alhambra's share price, management will move cautiously to continue its historical efforts to minimize shareholder dilution.