

Alhambra Resources Ltd.
Management's Discussion and Analysis of Financial Condition
and Results of Operations
For the Three Months and Nine Months Ended September 30,
2006

This Management's Discussion and Analysis ("MD&A") focuses on key items from the unaudited interim consolidated financial statements for Alhambra Resources Ltd. (also referred to as "Alhambra" or the "Company") for the three months and nine months ended September 30, 2006 and the factors reasonably expected to impact future operations and results as prepared on November 27, 2006. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other matters may occur which could affect the Company in the future. This discussion should be read in conjunction with the audited Consolidated Financial Statements of the Company for the year ended December 31, 2005 and the related notes.

This MD&A was reviewed and approved by the Company's audit committee and board of directors on November 27, 2006. Additional information on the Company is available under the Company's profile on SEDAR at www.sedar.com

All dollar amounts are Canadian unless otherwise stated.

Forward-Looking Information

Certain statements contained in the following MD&A constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from actual future results and achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made. Readers are also advised to consider such forward-looking statements while considering the risks set forth below.

Non-GAAP Financial Measures

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

Business Overview

The Company was incorporated on January 27, 1993 and amalgamated with its wholly-owned subsidiaries, Signature Capital Corp. and Tarco Oil & Gas Ltd., effective January 1, 2002.

The Company is in the business of the exploration for and development of mineral properties and effective May 1, 2006, the production of gold and silver (as a by-product) in the Republic of Kazakhstan ("Kazakhstan"). The Company holds a 100% working interest in two exploration licenses totaling approximately 2.7 million acres located in north central Kazakhstan (the "Uzboy Project").

Highlights

Effective May 1, 2006, the Company began commercial operations from the oxide portion of the Uzboy gold deposit, therefore the consolidated statements of income (loss) and deficit for the three and nine months ended September 30, 2006 reflect operations from the Company's wholly-owned subsidiary, Saga Creek Gold Company LLP ("Saga Creek") beginning May 1, 2006. Because of seasonal variances in operating conditions, management believes operating efficiencies can only be reasonably assessed over a complete operating cycle.

The Company is currently mining oxide gold mineralization from the west and east zones of the Uzboy gold deposit. From December 2004 to April 30, 2006, the Company conducted a heap leach test program at the Uzboy project to test the equipment and processes built and established to produce gold. During that period the Company produced and sold a total of 16,314 troy ounces ("ozs") of gold and 2,970 ozs of silver for total proceeds of nearly \$9.3 million. At April 30, 2006 a further 15,700 ozs of recoverable gold had been stacked and was in various stages of processing for sale.

In the first five months of commercial operations from May 1, 2006 to September 30, 2006, the Company sold a further 6,917 ozs of gold and 2,093 ozs of silver. An additional 11,929 ozs of recoverable gold was stacked bringing the total recoverable gold in work in process at September 30, 2006 to 20,712 ozs. As a result of an unforeseen delay in the breaking of ore to the required size to ensure efficient leaching of gold caused by the lack of performance of a former contractor, Management believes that production of gold for the year will be approximately 20,000 ozs, (including a net increase in recoverable gold on the heap of approximately 1,700 ozs.) down from the original estimate of 25,000 ozs.

During the quarter, a total of 299,936 tonnes of waste and 266,500 tonnes of ore were mined of which 261,500 tonnes of ore at a grade of 1.42 grams of gold per tonne was stacked on the leach pad. This resulted in approximately 8,357 ozs of recoverable gold being stacked on the leach pad during the third quarter.

On June 30, 2006 a feasibility study independently conducted by ACA Howe International Limited ("Howe") was completed on the oxide portion of the Uzboy gold deposit (the "Report"). The Report in its entirety has been filed on Sedar at www.sedar.com. The Report included a reserve statement for the oxide portion of the Uzboy gold deposit and a resource statement for the primary gold mineralization. The effective date of the Report and the reserve and resource statements contained therein was January 1, 2005. Numerous intervals of primary gold mineralization from the 2005 diamond drilling program on the West zone were not included in the resource estimation completed by Howe.

The Uzboy gold deposit consists of consists of two styles of mineralization, an upper oxide mineralization and below that, a primary mineralization. The stated oxide reserves in the Report for the Uzboy gold deposit are 5,025,251 tonnes with an average grade of 0.99 g/t gold. Measured and Indicated resources for the primary mineralization are 4,004,540 tonnes with an average grade of 1.54 g/t gold (using a 0.5 g/t cutoff). Inferred resources at Uzboy exist almost entirely in the primary mineralization and are estimated to be 2,267,029 tonnes with an average grade of 1.40 g/t gold (using a 0.5 g/t cutoff). The Company plans to update resource estimation for the primary mineralization for the Uzboy gold deposit by the end of the first quarter of 2007. The resource estimation is expected to have an effective date of December 31, 2006.

The Company continued its US\$ 3,000,000 planned capital expenditure program during the third quarter. During this period, a total of Cdn\$1,623,000 was spent directly on exploration which included 7,322 metres of diamond drilling, 21,068 meters of reverse air blast ("RAB") circulation drilling, 11,847 metres of KGK drilling and 17,924 linear metres of trenching. A total of 27 diamond

drill holes were completed during the quarter of which 24 intersected gold intervals (containing a minimum grade of 0.2g/t) for a success rate of 89%. This brings the total for the year to 36 successful diamond drill holes and a success rate of 90%. The main components of the exploration program during the third quarter are highlighted below. As indicated, certain analytical results related to these activities are currently pending.

- **Uzboy Gold Deposit:**

During the third quarter, eleven holes (2,180 metres) were completed on the West zone. Eight of the eleven holes extended the limits of the mineralization along strike and down dip. Using a 0.2 g/t cutoff, the weighted average grade of all mineralized intervals intersected on the West zone in 2006 is 2.20 g/t gold. The mineralized intervals ranged in size from 2 to 100 metres. Two diamond drills are currently drilling on the West zone and these drills are expected to continue until the end of 2006.

On the East zone, sixteen holes (3,710 metres) were completed during the third quarter. All diamond drill holes intersected gold mineralization over intervals ranging from three to 85 metres. The weighted average grade (using a 0.2 g/t cutoff) of all mineralized intervals located in 2006 is 1.19 g/t gold. The mineralization in the East zone is characterized by multiple intervals of lower grade gold mineralization separated by intervals of non-mineralized rock.

- **Mamay Zone:**

Trenching programs conducted in 2005 and 2006 at Mamay outlined a zone of gold-silver mineralization in the central portion of the zone that measures 1,000 metres by 200 metres. This mineralized interval is open to the northwest. Diamond drilling of this central portion commenced in late September. The proposed diamond drilling program totals 17 drill holes (2,400 metres) over a strike length of 700 metres. RAB circulation drilling is planned to the northwest and southeast of the central portion of this zone in the fourth quarter.

- **Uzboy Extension:**

During the third quarter, 7,463 metres of RAB circulation drilling was completed in an area located approximately seven kilometers northeast of the Uzboy gold deposit to evaluate numerous gold anomalies outlined in 2005. The RAB circulation drilling was completed on lines spaced 200 metres apart with the drill collar spaced at 50 metres on the lines. In those places where the RAB circulation drilling encountered thicker than expected overburden, KGK drilling (11,847 metres) was used to test below the overburden. The exploration planned for this area has been completed. Analytical results for the RAB and KGK drilling are pending. Depending on analytical results, additional work may be completed in this area during the fourth quarter.

- **Kirtoge:**

An additional 165 metres of RAB circulation drilling was completed in this area during the third quarter. Analytical results are pending.

- **Mesgelsor:**

A total of 8,215 metres of trenching and 11,000 metres of RAB circulation drilling were completed during the third quarter to evaluate previously reported gold mineralization. Mapping and sampling (one metre sample interval) of the trenches has been completed. No additional exploration is planned for this area in 2006. Analytical results are pending.

- **Shirotnaia:**

During the third quarter, 3,845 metres of trenching (at one metre sample intervals) was completed to test the area located between the two zones of gold mineralization outlined by trenching in 2005. Analytical results are pending. Depending on the analytical results, diamond drilling of this zone may be carried out during the fourth quarter.

The main focus of the 2006 exploration program is to continue exploration and delineation of the primary gold mineralization in the West and East zones of the Uzboy gold deposit and complete the exploration required to generate diamond drill targets on five other zones of mineralization. In the fourth quarter, diamond drilling, KGK drilling, RAB circulation drilling and trenching are planned on various zones of gold mineralization throughout the Uzboy property. Depending on weather conditions, the KGK drilling, the RAB circulation drilling and trenching should continue until mid-November whereas diamond drilling is expected to continue to the end of 2006.

The construction of a resin stripping plant and operations base continued with expenditures for the third quarter totaling approximately \$877,000. The Company continued to utilize the services of a third party to strip the gold from the resin to produce cathodic sediment during the third quarter. Beginning in the fourth quarter, the Company will process the gold bearing resin through its own resin stripping plant.

Warrant holders continued to show their support for the Company during the third quarter as \$4,095,841 was received from the issuance of 5,472,781 common shares through the exercise of warrants. This brought the total warrants exercised to September 30, 2006 to 15,374,397 for total proceeds of \$11,024,728. There were no remaining warrants outstanding as of September 30, 2006. During 2005 and 2006, a total of 16,794,821 warrants were issued in conjunction with various unit private placements of the Company completed during 2004 and 2005. Greater than 99% of these warrants were exercised.

Financial Review

Results of continuing operations

In December 2004, the Company commenced a test heap leach operation on the oxide portion of the West zone of the Uzboy gold deposit to test the equipment and processes constructed and implemented to produce gold. Management believed that it was necessary to test the operation for at least one year to determine the operating parameters through an entire operating cycle and to ensure that a viable operation existed before going into commercial operation. Effective May 1, 2006 the Company declared commercial operations for accounting purposes. As a result, the financial statements for the nine months ended September 30, 2006 include the results of operations from the Uzboy gold deposit for five months.

Revenue

Revenue is recognized from the sale of gold and silver 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 Company ships cathodic sediment to its agent in Switzerland who supervises the refining and sale of the gold and silver on behalf of the Company.

During the third quarter of 2006, the Company sold 5,011 ozs of gold at an average price of \$698.24 and 1,470 ozs of silver at an average price of \$13.03. Total revenue for the third quarter was \$3,518,180.

Since the commencement of operations on May 1, 2006, the Company has sold 6,917 ozs of gold at an average price of \$697.80 and 2,093 ozs of silver at an average price of \$13.11. Total revenue from May 1 to September 30, 2006 was \$4,854,121.

Operating expenses

Operating expenses consist of all costs associated with the production of gold and silver, (including direct costs incurred in the mining, leaching and resin stripping processes as well as depreciation of equipment used in each process ("process operating costs")), transportation and refining of the cathodic sediment, a net smelter royalty and royalties paid to the government of Kazakhstan. All process operating costs are charged to work in progress and are expensed on the basis of the quantity of gold sold as a percentage of total gold mined.

Operating costs for the third quarter of 2006 totaled \$2,093,676 or \$409.64 per oz of gold sold. This compares favorably with the average cost reported in the second quarter of 2006 of \$451.21 per oz of gold sold.

General and administrative expenses

General and administrative expenses for the third quarter of 2006 relating to continuing operations increased to \$773,407 from the \$147,447 recorded in the comparable period in 2005. For the nine months ended September 30, 2006, general and administrative expenses relating to continuing operations increased to \$1,720,262 from the \$413,777 recorded in the comparable 2005 period.

Part of the increase in both the third quarter of 2006 and the nine-month period ended September 30, 2006 was a result of the start up of commercial operations at Uzboy on May 1, 2006. Up until April 30, 2006, all general and administrative costs for Saga Creek were charged to pre-production costs as part of heap leach test initiated in December 2004. Saga Creek's general and administrative costs for three months and five months ended September 30, 2006 were \$373,025 and \$575,389, respectively.

The remainder of the variance relates to increased expense for corporate activities. In 2006 the Company decided to increase its profile in the investment community and to improve its communications with shareholders and potential investors. Mr. Ihor P. Wasylikiw was hired as Vice President and Chief Information Officer to manage that process. During 2005, the cost of this activity was significantly lower as the Company had terminated contracts with consultants engaged in investor relations activities. In addition, during 2005, the Company shared office premises and some employees with another company. This relationship ended in late 2005. Since that time many of these costs have been born 100% by Alhambra.

Interest expense

For reporting purposes, the Company nets interest income on funds held on deposit against interest expense. Net interest for the third quarter of 2006 was \$21,238, an increase of \$19,268 over the comparable 2005 amount of \$11,970. For the nine months ended September 30, 2006, interest expense totaled \$70,152, a slight decrease over the comparable 2005 amount of \$70,958.

With the start up of commercial operations, interest incurred by Saga Creek was expensed beginning on May 1, 2006. For the third quarter of 2006, \$31,250 was charged to interest expense related to the Pre-Payment Gold Sales Facility Agreement ("Advances") (note 13(b) to the interim consolidated financial statements). Total interest incurred from May 1, 2006 related to the Advances was \$64,044. This facility bears interest at LIBOR plus 8%.

With the conversion of a convertible debenture on March 30, 2006 into common shares of the Company (note 4 to the interim consolidated financial statements), the only debt currently remaining relates to the Advances.

Stock-based compensation

Due primarily to the high volatility of the Company's stock price, this calculation gives a significant value to stock options which must be expensed during their vesting period. The amount of this expense for the third quarters of 2006 and 2005 was \$135,865 and \$80,425, respectively. For the nine months ended September 30, 2006 and 2005, stock-based compensation expense was \$651,103 and \$488,240 respectively. In May 2005, the Company issued options to purchase 1,520,000 common shares options with further options to purchase 1,350,000 commons shares options issued in February 2006.

Depreciation, depletion and accretion

Prior to the start up of commercial operations on May 1, 2006, all depreciation, depletion and accretion ("DD&A") related to the Uzboy heap leach mine was capitalized as part of pre-production expenses. Starting May 1, 2006 the Company began expensing depreciation, depletion and accretion to the extent it relates to the production of gold. DD&A expense for the third quarter of 2006 was \$308,306 as compared to \$2,600 for the comparable quarter in 2005. For the nine months ended September 30, 2006 and 2005, DD&A expense totaled \$457,773 and \$7,750 respectively.

Cash flow

Cash flow from continuing operations was \$372,533 in the third quarter of 2006 compared to cash flow utilized in continuing operations of \$170,725 in the third quarter of 2005. Positive cash flow from mining operations at Saga Creek of \$766,039 for the third quarter of 2006 was partially offset by the \$ 252,935 increase in corporate general and administration expense in the quarter.

For the nine months ended September 30, 2006, cash utilized in continuing operations was \$192,855 as compared to \$516,521 for the same period in 2005. Again the positive cash flow from operations contributed by the Saga Creek operation of \$989,940, was partially offset by an increase in general and administration expense for the corporate office of \$731,096, thus accounting for the variance.

Net Loss

The Company incurred a net loss of \$71,998 for the third quarter of 2006, compared to a net loss from continuing operations of \$209,900 for the third quarter of 2005. The decrease over the comparable 2005 was as result of the positive net income contributed from the Saga Creek operation in the amount of \$461,557 for the quarter offset partially by increases in corporate general and administration expenses of \$252,935 and in stock-based compensation expense of \$55,440.

Net loss for the nine months ended September 30, 2006 was \$1,302,091 as compared to a net loss for the same period in 2005 of \$984,699. The \$542,580 in net income contributed by the Saga Creek operation was more than offset by higher corporate general and administrative costs of \$731,096 and higher stock based compensation expense of \$162,863.

Based on a weighted average number of common shares of 64,997,906 and 48,871,860, the Company's net loss per common share from continuing operations for the third quarters of both 2006 and 2005 was \$0.02. For the nine months ended September 30, 2006 and 2005, net loss per share from continuing operations was \$0.00 on weighted average number of shares outstanding of 58,258,225 and 45,957,505, respectively.

Liquidity and capital resources

During the third quarter of 2006, Alhambra received \$4,095,841 from the issue of 5,472,781 common shares through the exercise of warrants issued pursuant to private placements completed in 2005 and 2004. An additional \$180,000 was received on the issue of 360,000 common shares through the exercise of stock options. This brings the total cash received for the nine months ended September 30, 2006 to \$11,502,853 from the exercise of 15,374,397 warrants and 1,130,000 options. The majority of this cash has been used to fund capital expenditures with the excess to be used in the Company's Uzboy project as required and to fund general working capital. In the first quarter of 2006, a further 1,321,353 common shares were issued upon the conversion of a convertible debenture in the amount of \$792,812.

At September 30, 2006 the Company had \$6,743,683 of cash and cash equivalents and a total of \$1,947,563 in other working capital. Included in the other working capital as of September 30, 2006, was \$3,418,108 of work in progress. This represents the costs incurred to September 30, 2006 in the mining, leaching and smelting of gold that has yet to be sold. The Company estimates that the recoverable gold related to this work in progress is 20,712 oz, which is anticipated to be sold within the next twelve months. Included as a reduction in other working capital as of September 30, 2006 was \$865,652 outstanding pursuant to a Pre-Payment Gold Sales Facility Agreement whereby the Company has a right to receive up to US\$750,000 as a pre-payment for gold to be sold to the purchaser (see note13(b) to interim consolidated financial statements).

During the quarter all remaining warrants associated with private placement financings completed during 2004 and 2005 were exercised or expired unexercised. The Company is not anticipating any financings at this time however the decision on future financings is, of course, dependent upon the results of the 2006 exploration program, as well as any other opportunities that may be identified during the year.

Related party transactions

During the third quarter of 2006, the Company paid \$36,000 (2005 - \$30,000) in consulting fees to a company controlled by the President and Chief Operating Officer of Alhambra bringing the total for the nine months ended September 30, 2006 and 2005 to \$108,000 and \$90,000 respectively. Of this amount, \$21,600 (2005 - \$22,500) was capitalized to mining assets in the third quarter while \$72,000 (2005 - \$67,500) was capitalized for the nine months ended September 30, 2006.

During the third quarter of 2006, the Company incurred \$25,759 of costs from a law firm in which an officer of the Company is a partner. Of this total \$22,776 was capitalized to deferred exploration and development costs while \$2,983 was expensed as legal expenses. The total for the nine months ended September 30, 2006 was \$61,335 of which \$22,776 was capitalized to deferred exploration and development costs and \$38,559 was expensed as legal expenses. The officer was appointed in the first quarter of 2006.

Subsequent events

The Company has no proposed transactions that would require disclosure as part of subsequent events.

Financial instruments

The fair values of accounts receivable, deposits and prepaid expenses, work in progress, accounts payable and accrued liabilities and advances are approximated by their carrying values because of their short-term nature or because they bear interest at market rates.

The Pre-Payment Gold Sales Facility Agreement is denominated in US\$ dollars and therefore the Company is subject to the risk of fluctuating exchange rates between the Cdn\$ and US\$.

Off Balance Sheet arrangements

The Company has no off balance sheet arrangements except the lease agreement on premises as disclosed in note 13(c) to the interim consolidated financial statements.

Disclosure of outstanding share data

	As of September 30, 2006	Change in 2006	Issued in 2006	As of November 27, 2006
Common shares issued and outstanding	68,528,980	–	50,000	68,578,980
Common shares issuable upon exercise of vested stock options	3,545,000	157,500	(50,000)	3,652,500
Common shares fully diluted	72,073,980	157,500	–	72,231,480

At September 30, 2006, there were 68,528,980 common shares issued and outstanding and 72,231,480 fully diluted common shares after giving effect to the exercise of all outstanding vested stock options. Subsequently, up to November 27, 2006, an additional 50,000 common shares were issued pursuant to the exercise of vested stock options.

Disclosure of material components of expenditures

Expenditures on mining assets for the quarter ended September 30, 2006 were \$3,357,555. Of this total, \$1,623,000 was spent directly on exploration while \$877,000 was spent on constructing the resin stripping plant. The remaining \$700,000 was spent on other fixed assets plus the purchase of inventory that will be used in the production process in the near future. For the nine months ended September 30, 2006, total capital expenditures were \$6,206,277. Direct exploration costs accounted for nearly \$2,500,000, while costs associated with the building of the resin stripping plant approximated \$2,550,000. A further \$750,000 was spent on the acquisition of fixed assets and inventory for the Saga Creek operation while \$220,000 of cash was expended to acquire the DOT property.

During the third quarter of 2006, general and administrative expenses from continuing operations were \$773,407. Included in the 2006 amount was \$373,025 of general and administrative costs directly related to the operations of Saga Creek. Corporate overhead costs accounted for the remaining \$400,382, which compares to the \$147,447 of corporate overhead costs incurred in the third quarter of 2005. Employee costs accounted for 43% (\$174,000) of the total corporate general and administration costs for the third quarter of 2006. In the comparable 2005 period employee costs were 42% of the total (\$62,000). With the startup of commercial operations, costs for head office employees working directly on the Uzboy project that had been previously capitalized as pre-production costs, were expensed starting May 1, 2006. In addition, a new employee was added to manage the Company's investor relations program which was expanded in 2006. Costs related to the maintenance of Alhambra as a public company including investor relations, stock exchange and corporate trust services costs accounted for 30% (\$121,000) of total general and administrative expenses for the third quarter of 2006 as compared to 29% (\$42,000) over the same period in 2005. Increases in public company costs resulted in part by the Company's decision to increase its profile in the investment community. In 2005 this cost was significantly lower as the Company had terminated contracts with consultants engaged in investor relations activities. Office expenses in the third quarter of 2006 of \$75,000 (2005 - \$40,000) accounted for a further 19% (2005 – 27%) of general and administrative expenses. Prior to September 2005, Alhambra shared office space with another company which relationship has been terminated.

Business risks

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

Summary of quarterly results (\$)

	2005		2006	
	December	March	June	September
Loss from continuing operations	(271,312)	(675,744)	(554,349)	(71,998)
Basic and diluted loss per share – continuing operations	(0.01)	(0.01)	(0.01)	–
Net loss for the period	(425,146)	(675,744)	(554,349)	(71,998)
Basic and diluted income (loss) per share	(0.02)	(0.01)	(0.01)	–
	2004		2005	
	December	March	June	September
Loss from continuing operations	(159,260)	(253,415)	(521,384)	(209,900)
Basic and diluted loss per share – continuing operations	–	(0.01)	(0.01)	–
Net loss for the period	50,762	(133,995)	453,521	(209,900)
Basic and diluted income (loss) per share	–	–	0.01	–