Alhambra Resources Ltd.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the Nine Months Ended September 30, 2010

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 nine months ended September 30, 2010 and the factors reasonably expected to impact future operations and results as prepared on November 24, 2010. 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, 2009 and the related notes and the unaudited consolidated financial statements for the nine months ended September 30, 2010. The financial statements have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") in Canada.

This MD&A was reviewed and approved by the Corporation's audit committee and board of directors on November 24, 2010. Additional information on the Corporation is available under the Corporation's profile on SEDAR at www.sedar.com.

All currency amounts reported in this MD&A are in US$ unless otherwise stated.

Forward-Looking Information

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

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

Non-GAAP Measures

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Cash flow provided by (used in) operating activities	$(1,627,512)	$ (61,818)	$ (266,086)	$ (492,535)
Change in non-cash working capital	3,395,151	292,625	3,628,474	(95,634)
Funds flow provided by (used in) operating activities	$ 1,767,639	$ 230,807	$ 3,362,388	$ (588,169)

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 stock-based compensation expense. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Business Overview

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

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

Under the Arrangement, which became effective on August 29, 2007, the Corporation divided its mineral assets between two separate publicly traded corporations. 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 $944,666 in exchange for 30,000,000 common shares. Every shareholder of the Corporation received one (1) new common share and 0.21153 of a DOT common share for every one (1) common share of the Corporation held on the effective date of the Arrangement resulting in 15,000,000 DOT common shares held by Alhambra being distributed to Alhambra shareholders on a pro rata basis. As a result of the Arrangement, Alhambra holds 15,000,001 shares of DOT which represents approximately 27% of the 55,734,333 common shares of DOT currently outstanding. At September 30, 2010, the market trading value of the 15,000,001 DOT shares owned by Alhambra was CDN$1,200,000.

On September 26, 2008 a statement of claim ("Kazakhstan Lawsuit") was filed in the Specialized Interdistrict Economical Court of the East-Kazakhstan Oblast ("Lower Court") of the Republic of Kazakhstan ("Kazakhstan") seeking to invalidate Alhambra's ownership of its Kazakhstan subsidiaries, Saga Creek Gold Company LLP ("Saga Creek") and Goodwin Golems LLP ("Goodwin") (together the "Kazakhstan Subsidiaries"). Alhambra had acquired 100% interest in the Kazakhstan Subsidiaries from Marsa Aktiengesellschaft ("Marsa"), a Liechtenstein company and Teragol Investments Limited ("Teragol"), a Cyprus company (jointly the "Plaintiffs") by virtue of a Partnership Unit Purchase and Exchange Agreement dated March 21, 2002 (the "Agreement"), as amended. The basis for the claim was that the Corporation's 100% owned subsidiary, Alhambra Overseas Limited, incorporated to hold Alhambra's interest in the Kazakhstan Subsidiaries, was not incorporated at the time the Agreement was initially entered into, despite the fact that such incorporation was subsequently completed soon thereafter. Alhambra applied to the Lower Court to have the litigation dismissed for 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 Plaintiffs. The Corporation appealed the Lower Court's decision to the Review Board, but on December 26, 2008 the Review Board issued its ruling upholding the Lower Court's decision. The Corporation appealed to the 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 Plaintiffs 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.

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 Plaintiffs' 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

Nine months ended September 30,	2010	2009
Operating:		
Mining:		
Waste mined (Tonnes ("T")) [1]	1,811,228	–
Ore stacked (T) [1]	743,083	–
Grade of ore mined (Grams/T) [1]	0.79	–
Recoverable gold mined (Troy ounces (ozs)) [1] [2]	12,314	–
Gold sales (ozs) [1]	9,793	1,104
Gold in work in progress (ozs) [4]	33,615	31,094
Financial [1]:		
Revenue ($) [1]	11,552,907	1,126,030
Average gold price ($/oz) [1]	1,179.71	1,019.95
Operations expenses ($) [1] [3]	7,029,807	418,049
Operations expenses ($/oz) [1] [3]	717.84	378.67
Net income (loss) ($) [1]	(1,036,513)	74,954,515
Net (loss) per share		
Basic ($) [1]	(0.01)	0.99
Diluted ($) [1]	N/A	0.94
Capital expenditures ($) [1]	1,296,394	40,733
Total assets ($) [1] [4]	113,703,579	104,424,372
Shareholders' equity ($) [1] [4]	76,854,193	67,974,295
Common shares outstanding [4]	103,900,559	81,074,421

Notes:

1. Effective September 15, 2009 the Corporation recorded the assets and liabilities of the Kazakhstan Subsidiaries at their estimated fair value for a cost of $nil thereby recognizing a gain on the re-acquisition on that date. Operating results for the nine months ended September 30, 2009 reflect the fact that the Corporation wrote off its investment of the Kazakhstan Subsidiaries at December 26, 2008 as a result of the Kazakhstan appeal court ruling in favor of the Plaintiff in the Kazakhstan lawsuit and then re-acquired them effective September 15, 2009..

2. Recoverable gold is equal to 65% of estimated total gold stacked.

3. Operations expenses include $1,879,912 ($191.94/oz) of non-cash costs related to the amortization of the bump-up to fair value from the estimated cost of work in progress on re-evaluation at September 15, 2009.

4. Gold work in progress, total assets, shareholders' equity and common shares outstanding for 2009 represent the balances as at December 31, 2009. All other 2009 figures are for the nine months ended September 30, 2009.

During the nine months ended September, 30 2010 substantially all the gold mined by the Corporation was from the East zone of the Uzboy gold deposit. The Corporation started the period on January 1, 2010 with an estimated 31,094 ozs of gold in work in progress. During the nine months ended September 30, 2010, the Corporation sold a total of 9,793 ozs of gold for total proceeds of $11.6 million. An additional estimated 12,314 ozs of gold were stacked which, after selling the 9,793 ozs of gold, resulted in an estimated balance of 33,615 ozs in work in progress at September 30, 2010.

During the nine months ended September 30, 2010, the Corporation mined a total of 1,811,228 T of waste and stacked 743,083 T of ore at an average gold grade of 0.79 grams/T ("g/t").

Financial Review

As a result of the decision of the courts of Kazakhstan which resulted in the write off of the Corporation's investment in the Kazakhstan Subsidiaries effective December 26, 2008, there were no results for mining activities for the period from January 1, 2009 until the date of re-acquisition of Saga Creek on September 15, 2009. As a result, the financial results recorded for the nine months ended September 30, 2010 are not necessarily comparative to the financial results for the nine months ended September 30, 2009.

Segmented information

The Corporation and its subsidiaries operate in one reportable segment, the exploration for and development of mineral properties. Identifiable assets, revenues and net income (loss) in each of its geographic are as disclosed in note 17 to the unaudited consolidated financial statements.

Sales revenue

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

During the nine months ended September 30, 2010, the Corporation recognized $11,552,907 in revenue from the sale of 9,793 ozs of gold at an average price of $1,179.71/oz. For the three months ended September 30, 2010 the Corporation recognized $5,181,558 in revenue from the sale of 4,378 ozs of gold at an average price of $1,183.54/oz. Gold sales normally increase on a quarterly basis throughout the year as warmer weather enhances the gold recovery process.

Sales in the second and third quarters of 2010 returned closer to historical averages after extremely cold weather significantly reduced first quarter sales volumes below those experienced in comparative quarters in previous years.

Net smelter royalty

The net smelter royalty ranges from 2.5 to 3.0% (dependent on the price of gold) of the gross revenue. The Corporation recognized $346,587 and $154,627 in net smelter royalty expenses for the nine and three month periods ending September 30, 2010, which are 3% of the revenues recognized in those periods.

Mineral extraction tax

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. The Corporation recognized $595,956 and $275,992 in mineral extraction tax expenses for the nine and three month periods ending September 30, 2010.

Operating expenses

All process operating costs (including direct costs incurred in the mining, leaching and resin stripping processes ("process operating costs")), transportation and refining of the cathodic sediment are charged to work in progress when incurred. In addition the bump up to fair value assigned to work in progress from the estimated cost of work in progress at September 15, 2009 (the "bump up") has been included in work in progress. The carrying value of work in progress (including the bump up) is expensed as operating expenses on the basis of the quantity of gold sold as a percentage of total recoverable gold mined.

Operating costs for the nine months ended September 30, 2010 totaled $7,029,807 or $717.84/oz of gold sold. Included in this amount is $1,879,712 or $191.94/oz related to the amortization of the bump-up to fair value from the estimated cost of work in progress on re-valuation at September 15, 2009. Cash operating costs were therefore $525.90/oz.

Operating costs for the three months ended September 30, 2010 totaled $2,925,481 or $668.22/oz of gold sold. Included in this amount is $750,679 or $171.47/oz related to the amortization of the bump-up to fair value from the estimated cost of work in progress on re-valuation at September 15, 2009. Cash operating costs for the third quarter were therefore $496.76/oz.

General and administrative expenses

General and administrative expenses for the nine months ended September 30, 2010 increased by $558,029 to $1,733,397 from the $1,175,368 recorded in the comparable nine month period ending September 30, 2009. Of the 2010 total, $1,014,153 related to the Saga Creek operations. The remainder of general and administrative costs related to corporate activities. For the nine months ended September 30, 2010, corporate general and administrative costs totaled $719,244, which was a decrease of $231,177 over the corresponding 2009 amount of $950,421.

The decrease in corporate general and administrative expenses for the nine months ending September 30, 2010 over the corresponding period in 2009 was primarily the result of higher legal costs incurred in defending the Corporation in the Kazakhstan lawsuit and rent on premises incurred up to May 31, 2009, offset partially by increased investor relations costs in 2010 as the Corporation has restarted its investor relations programs now that Alhambra has regained ownership of Saga Creek.

General and administrative expenses for the three months ended September 30, 2010 increased by $350,782 to $722,046 from the $371,264 recorded in the comparable three month period ending September 30, 2009. Of the 2010 third quarter total, $429,803 related to the Saga Creek operations. The remainder of general and administrative costs related to corporate activities. For the three months ended September 30, 2010, corporate general and administrative costs totaled $292,243, which was an increase of $145,926 over the corresponding 2009 amount of $146,317.

The increase in corporate general and administrative expenses for the three months ending September 30, 2010 over the corresponding period in 2009 was a result of consulting costs related to the conversion of the Corporation's accounting policies to International Financial Reporting Standards ("IFRS"), increased investor relations costs and maintenance costs associated with the Corporation's subsidiaries in the Netherlands and Cyprus.

Interest and accretion on debt

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Interest	$ 10,137	$ 67,657	$ 199,883	$ 147,407
Accretion on debt	20,301	76,494	108,270	110,490
	$ 30,438	$ 144,151	$ 308,153	$ 257,897

Interest and accretion on debt for the nine months ended September 30, 2010 totaled $308,153, an increase of $50,256 over the comparable 2009 amount of $257,897. For the three months ended September 30, 2010, interest and accretion on debt totaled $30,438, a decrease of $113,713 over the comparable 2009 amount of $144,151. Saga Creek's interest expense for the nine month and three month periods ended September 30, 2010 totaled $117,514 and $46,330, respectively. The interest expense recorded by Saga Creek in 2010 relates to interest on unpaid Mineral Extraction Tax.

The remaining $190,649 (2009 - $257,897) of interest and accretion incurred in the nine months ended September 30, 2010 is comprised of $193,443 (2009 – $151,438) related to interest and accretion on the twelve percent (12%) secured debentures (the "Debentures") offset by a net recovery of $2,794 of previously accrued interest originally expected to be paid on the settlement of outstanding accounts payable incurred during 2009 and 2010 as a result of the Corporation's cash flow shortage. For the nine months ended September 30, 2009, the Corporation incurred $106,458 in interest and accretion on the 20% secured subordinated promissory notes (the "Notes") that were retired on October 29, 2009.

For the three months ended September 30, 2010, interest and incretion on debt totaled a recovery of $15,892 (2009 – an expense of $144,150) and consisted of $36,631 (2009 - $57,063) related to interest and accretion on the Debentures, a recovery of previously accrued interest on outstanding accounts payable of $52,523 (2009 - $nil) and $nil (2009 - $87,087) in interest on the Notes.

Effective August 11, 2010, the principle amount of the Debentures plus accrued interest were converted to common shares pursuant to the terms attached to the Debentures (note 7 to the unaudited consolidated financial statements). The principle amount of the Notes, plus accrued interest, was retired on October 29, 2009.

Stock-based compensation

Due primarily to the high volatility of the Corporation's stock price, this calculation gives a significant value to stock options which must be expensed during their vesting period. The amount of this expense for the nine months and three months ended September 30, 2010 and 2009 was $788,584 (2009 – $325,520) and $563,799 (2009 – $215,454), respectively. Stock-based compensation expense for 2010 relates to the amortization of the value calculated for the 3,600,000 options granted in the last four months of 2009 and the 2,000,000 options granted during the third quarter of 2010. The stock-based compensation expense for 2009 relates primarily to the 3,600,000 options granted in the last four months of 2009 and to the 2,750,000 options that were granted in the first quarter of 2008. The large stock based compensation expense recorded in the third quarter of 2010 relates in part to the third quarter grant of the 2,000,000 options of which 800,000 vested immediately and in part, to the adjustment to the increase in value assigned to unvested options outstanding to consultants which increased significantly over previous months due to the recent increase in the Corporation's stock price.

Depreciation, depletion and accretion

Depletion, depletion and amortization related to assets used in mining operations. The fair value assigned to mineral properties as a result of the re-acquisition and accretion of asset retirement obligation is initially charged to work in progress and subsequently amortized to depreciation, depletion and accretion expense on the basis of the estimated volume of gold produced as a percentage of total estimated gold resources. Depreciation on equipment related to office activities is charged directly to expense. For the nine month and three month periods ended September 30, 2010, a total of $5,607,261 and $2,954,261 respectively of depreciation, depletion and accretion was charged to work in progress.

Depreciation, depletion and accretion expense for the nine month and three month periods ended September 30, 2010 was $1,433,538 (2009 - $6,317) and $724,321 (2009 - $2,262), respectively. The amounts recorded in 2009 relate only to the depreciation of corporate assets,

Foreign exchange gain

During the nine months ended September 30, 2010, the Corporation recorded a foreign exchange gain of $219,259 as compared to a foreign exchange gain of $12,987 for the comparable nine month period ended September 30, 2009. During the nine months ended September 30, 2010, Saga Creek's operations recorded gain of $347,891 was partially offset by a foreign exchange loss recorded in Alhambra's corporate records of $128,632.

During the three months ended September 30, 2010, the Corporation recorded a foreign exchange gain of $112,866 as compared to a foreign exchange gain of $20,208 for the comparable three month period ended September 30, 2009. In the third quarter of 2010 Saga Creek's operations recorded a gain of $260,830 was partially offset by a foreign exchange loss recorded on Alhambra's corporate records of $147,964.

The gains and losses recorded on the books of both entities is related primarily to the US$ denominated intercompany loan from Alhambra to Saga Creek. On Saga Creek's books, an improvement in the Tenge has resulted in a both a realized and unrealized foreign exchange gain on the Alhambra loan. In Canada however, as the loan was made to Saga Creek when the United States dollar was significantly stronger in relation to the Canadian dollar than it is currently, a foreign exchange loss has been realized on the $975,000 that was repaid from Saga to Alhambra during the nine months ended September 30, 2010.

Income tax expense

Income tax expense recorded relates entirely to Saga Creek. As Saga Creek is a profitable entity, it is subject to income tax under Kazakhstan law. During the nine months ended September 30, 2010 the Corporation recorded $492,892 of income tax expense of which $168,189 was future income tax and $324,703 was current income tax. The 2010 current income tax expense relates entirely to the second quarter and third quarters as Saga Creek utilized tax losses incurred in prior years to reduce current taxes that otherwise would have been payable. The utilization of this loss carry forward resulted in the recording of the $168,189 future income tax expense for the nine months ended September 30, 2010 as the Corporation had recognized in future income taxes on the balance sheet at December 31, 2009, the future benefit of this loss carry forward.

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 the income statement. With the utilization of the available loss carry forwards in the first quarter of 2010, the Corporation began to recover this previously recorded future income tax provision during the second quarter of 2010. The recovery for this period totaled $35,938 in the second quarter and $126,673 in the third quarter of 2010. This recovery should continue into the future.

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. The Corporation was not subject to any excess profits tax in the nine months ended September 30, 2010.

Equity loss on investment

The Corporation accounts for its ownership of the common shares of DOT using the equity method of accounting. On September 23, 2009 DOT issued additional common share equity that reduced Alhambra's ownership to 27% from the 36% owned prior to the DOT common share issue. Despite the lower equity interest, the Corporation recorded an $8,692 larger equity loss of $79,765 for the nine months ended September 30, 2010 as compared to the $71,073 recorded for the comparable nine months ended September 30, 2009. This increase was the result of a 33% increase in the loss recorded by DOT in the nine months ended September 30, 2010 as compared to the loss recorded by DOT in the comparable nine month period in 2009, combined with a 12% decrease in the average value of the US$ as compared to the CDN$ over the same period.

Funds and cash flow

Funds flow provided from operating activities was $3,362,388 for the nine months ended September 30, 2010 as compared to funds flow utilized in operating activities of $588,169 for the nine months ended September 30, 2009. In the nine months ended September 30, 2010, mining operations at Saga Creek continued to contribute positive funds flow which totaled $4,207,470 (2009 - $299,185).

For the three months ended September 30, 2010 funds flow provided from operating activities was $1,767,639 as compared to funds flow provided from operating activities of $230,807 for the three months ended September 30, 2009. In the three months ended September 30, 2010, mining operations at Saga Creek contributed positive funds of $2,086,480 (2009 - $299,185).

Positive funds flow from mining operations was offset by funds flow utilized in corporate activities, which is primarily head office general and administration expense. For the nine months ended September 30, 2010 and 2009, funds flow used in corporate activities was $845,082 and $887,354, respectively. Reductions in general and administration fees and cash interest expense in 2010 were offset by realized foreign exchange loss resulting in utilized funds flow being relatively unchanged from the comparative 2009.

For the three months ended September 30, 2010 and 2009, funds flow utilized in corporate activities was $318,841 and $68,378, respectively. The increase in negative corporate funds flow in the third quarter of 2010 as compared to the third quarter of 2009 was principally the result of higher general and administration costs as previously detailed and a realized foreign exchange loss partially offset by lower cash interest expenses.

Net income (loss)

The Corporation recorded a net loss of $1,036,513 for the nine months ended September 30, 2010 compared to a net income recorded in the comparable nine month period ending September 30, 2009 of $74,954,515. The net loss for the nine months ended September 30, 2010 was comprised of a net income of $876,034 (2009 net income of $76,557,826) from mining operations and a net loss of $1,912,547 (2009 – $1,603,311) from corporate activities.

Mining operations for the nine months ended September 30, 2009 included a gain of $76,340,583 related to the re-acquisition of Saga Creek as a result of the favorable decision reached by the Supreme Court of Kazakhstan. This gain was based on information available as of September 30, 2009. Subsequently, this gain was reduced to the $68,866,350 reported at December 31, 2009. The decrease in the reported gain was primarily the result of an increase in the estimated future tax liability partially offset by a higher valuation of work in progress.

The $309,236 increase in corporate losses for the nine months ended September 30, 2010 as compared to the nine month period ending September 30, 2009 was primarily the result of the higher stock based compensation expense in 2010.

For the three months ended September 30, 2010 the Corporation recorded a net loss of $289,079 as compared to the $76,041,953 net income reported for the comparable three month period in 2009. Net income from mining operations was $721,303 for the third quarter of 2010. As Saga Creek was re-acquired effective September 15, 2009, net income for the three and nine months ended September 30, 2009 from mining operations was the same at $76,557,826.

Corporate losses for the third quarters of 2010 and 2009 were $1,010,382 and $515,873, respectively. The increase in funds flow utilized in operating activities along with the increase in stock based compensation in the third quarter of 2010 as compared to the comparable 2009 quarter accounted for the negative variance.

For the nine months ended September 30, 2010 Alhambra recorded a basic loss per share amount of $0.01 based on a weighted average number of shares outstanding of 83,562,988. This compares to the basic earnings per share amount of $0.99 based on a weighted average number of common shares of 75,774,147 in the comparable 2009 period. As all outstanding warrants, options and convertible instruments were anti-dilutive because of the loss recorded in 2010, diluted earnings per share was not applicable for that 2010 period. For the nine months ended September 30, 2009, diluted earnings per share was $0.94 based on a diluted weighted average number of shares outstanding of 80,714,640. This number of shares did not include 3,640,000 common shares issuable upon the exercise of options as well as the conversion of the Debentures as their impact would have been anti-dilutive.

For the three months ended September 30, 2010 Alhambra recorded a basic loss per share amount of $0.00 based on a weighted average number of shares outstanding of 88,458,974. This compares to the basic earnings per share amount of $1.00 based on a weighted average number of common shares of 75,774,147. As all outstanding warrants, options and convertible instruments were anti-dilutive because of the loss recorded 2010, diluted earnings per share was not applicable for that 2010 period. For the three months ended September 30, 2009, diluted earnings per share was $0.95 based on a diluted weighted average number of shares outstanding of 78,545,579. This number of shares did not include 3,640,000 common shares issuable upon the exercise of options as well as the conversion of the Debentures as their impact would have been anti-dilutive.

Liquidity and capital resources

Alhambra's working capital position at September 30, 2010 was $17,920,392 (December 31, 2009 – $7,925,530) which included cash of $6,392,111 (December 31, 2009 – $343,619). Also included in working capital was $11,670,604 (December 31, 2009 - $9,494,769) in work in progress related to 17,000 ozs (December 31, 2009 – 17,000) of gold that the Corporation is estimating it will sell during the next twelve months.

During the quarter, the holders of the Debentures exercised their option to convert the principle and accrued interest into common shares of the Corporation at a price of CDN$0.30 per common share. As a result the Corporation issued 4,221,488 common shares upon the conversion of $1,211,215 of principle and accrued interest. The retired Debentures were held by officers and directors of the Corporation.

During the quarter, the Corporation completed a private placement of 18,604,650 units for cash proceeds of $8,000,000 at a price of $0.43 per unit. Each unit was comprised of one (1) common share of the Corporation and one half (1/2) of a common share purchase warrant (the "Warrants"). Each whole Warrant vested upon issue and entitles the holder to purchase one additional common share of the Corporation at an exercise price of $0.72 per common share on or before February 19, 2012 for 5,388,690 Warrants and March 28, 2012 for 3,913,635 Warrants. The common shares issued as part of the unit and any common shares that are issued as a result of the exercise of the warrants are subject to a four month hold period expiring on December 19, 2010 for 10,777,380 shares and December 28, 2010 for 7,827,270. The Corporation paid cash commission of $474,800 in connection with the offering.

Related party transactions

During the nine months ended September 30, 2010, the Corporation incurred $79,970 (2009 - $112,788) in costs from a law firm in which a former officer of the Corporation is a partner. Of this amount, $30,034 was recorded as general legal expenses and $49,936 was incurred in connection with the Corporation's private placement. The officer resigned his position effective April 29, 2009. The amount owing to the law firm as of September 30, 2010 was $76,606 (December 31, 2009 - $126,411). This outstanding balance was repaid in full subsequent to September 30, 2010.

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$20,000 plus all reasonable out of pocket expenses and is for an indefinite term but may be terminated by either party upon providing thirty (30) days prior written notice. The Corporation billed DOT CDN$180,000 (2009 – CDN$180,000) under the Contract. The amount uncollected under the Contract as of September 30, 2010 was CDN$295,398 (December 31, 2009 − CDN$105,368). In addition, the Corporation agreed to advance DOT CDN$400,000 to enable DOT to meet working capital requirements while DOT is investigating options regarding financing. As it is expected that the advance will be for a short term, no interest has been charged nor have any security arrangements been undertaken at this time.

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

Financial instruments

The fair values of cash, accounts receivable and accounts payable and accrued liabilities are approximated by their carrying amounts because of their short-term nature or because they bear interest at market rates.

Commitment and contingencies

Effective September 1, 2008 the Corporation entered into a lease on the premises it used for its corporate head office. The terms of the lease committed the Corporation to make monthly rental payments of approximately CDN$11,542 (exclusive of occupancy costs) up until expiry of the lease on August 31, 2013. Effective June 1, 2009 the landlord terminated the lease as the Corporation had not paid its current obligation under the lease. Despite the landlord terminating the lease, it has informed the Corporation that it believes the Corporation wrongly repudiated the lease and remains liable for the loss of rental revenue over the unexpired term of the lease. On October 1, 2010 the landlord filed a statement of claim in the Court of Queen's Bench of Alberta claiming the following:

1. Judgment in the sum of CDN$356,157.12 for amounts due and owing under the lease up to and including September 1, 2010 and for the present value of rent and other amounts payable under the lease for the balance of the term in the sum of CDN$671,629.35:

2. Interest pursuant to terms of the lease, or in the alternative, interest pursuant to the Judgment Interest Act;
3. Costs of this action on a solicitor client basis; and,
4. Such further costs and other relief as this Honourable Court deems just.

As at September 30, 2010 the Corporation has recorded all amounts due under the lease agreement as of the date of the termination of the lease by the landlord. The Corporation has not provided in the consolidated financial statements for any additional amounts claimed as per the statement of claim. The Corporation is currently assessing its options in this matter.

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 provision 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 and sells is 5% from January 1, 2009 to December 31, 2012 and 5.5% thereafter. As the tax is new, the determination of what constitutes useful mineral reserves extracted is not well understood. While the Corporation believes that it is correct in its interpretation of the rules relative to the determination of useful mineral reserves extracted, there still exists some uncertainty at this time as to whether the tax authorities will be in agreement. No provision has been made in the financial statements for the costs and penalties that may be applicable should it be determined that the Corporation's interpretation is incorrect.

The Corporation has no other off balance sheet financing arrangements.

Disclosure of outstanding share data

	As of September 30, 2010	Change	Issued	As of November 24, 2010
Common shares issued and outstanding	103,900,559	–	93,750	103,994,309
Common shares issuable upon exercise of stock options	7,725,000	(93,750)	100,000	7,731,250
Common shares issuable upon exercise of warrants	11,802,775	–	–	11,802,775
Common shares fully diluted	123,428,334	(93,750)	193,750	123,528,334

At September 30, 2010, there were 103,900,559 common shares issued and outstanding and 123,428,334 fully diluted common shares after giving effect to the exercise of all outstanding stock options and warrants. Between September 30, 2010 and November 24, 2010, options to purchase 100,000 common shares at a price of CDN$0.65 per share were issued and 93,750 common shares were issued on the exercise of options at a price of CDN$0.22 per share. The options were granted to a consultant for a period of three years and vest as to 25%, three (3), six (6), nine (9) and twelve (12) months after they were issued. As of November 24, 2010, there were 123,528,334 fully diluted common shares after giving effect to the exercise of all outstanding stock options and warrants.

Disclosure of material components of expenditures

During the nine months ended September 30, 2010, the Corporation spent $1,296,394 on Saga Creek's various mining projects. Alhambra's extensive drilling program started as the exploration efforts were focused on three advanced (Uzboy Gold Deposit ("Uzboy"), Shirotnaia and Dombraly) and three early stage (Zhanatobe, Kerbay and North Balusty) projects.

The first focus area was Uzboy, both the Nova Zone ("Uzboy Nova") and the North West Zone ("Uzboy NW"). At Uzboy Nova, logistically part of the existing Uzboy heap-leach operation, eight core holes totaling 571 metres ("m") were drilled. Four oxide and four sulfide mineralization zones were successfully intercepted. Assay results are still pending. At Uzboy NW, 127 hydro-core lift

("KGK") holes totaling 4,183 m were completed. Favorable geology, suggesting gold mineralization, was drilled. Assay results are still pending.

At Shirotnaia, the first stage of the drilling program was completed which included nine core holes amounting to 941 m. Several intervals of promising geology (intensive hydrothermal alterations, quartz veinleting and pyrite impregnation) possibly indicating gold mineralization were intercepted in almost every drill hole. It appears that the spatial distribution of alteration could extend the mineralized zone for at least another 550 m of strike length to the northeast.

Core drilling also started at Dombraly where eight holes totaling 1,470 m were drilled northward and southward of the existing open pit. Two of the holes collapsed and could not be recovered. The reason for holes collapsing was instability of the geological formation. Re-drilling of one of the holes from a location six m apart was successfully completed. Both southern and northern holes intercepted hydrothermally altered rocks, quartz veins and veinlets as well as oxidized hematitic and limonitic sediments that look very similar to the Dombraly main mineralized body. If the assay results that are pending confirm the presence of gold mineralization in these zones, the total length of the mineralization there will reach 800 m remaining open in both (northern and southern) directions.

Rotary air-blast ("RAB") drilling at Dombraly targeting possible further extension to the south from the stockpile of the main Dombraly ore zone as well as another possible mineralized zone 900 m north-east of the pit was also completed during the third quarter of 2010. Totally 679 RAB holes amounting to 8,610 m were drilled. The assay results are pending.

RAB drilling was also completed at Zhanatobe. Fifteen drill lines with 483 holes amounting to 4,744 m were drilled. A total of 2,672 samples were collected as only the samples from the bottom of each hole and the samples from the holes drilled in the silicified rocks will be assayed. Geological results of the RAB drilling are encouraging. As it was established by the drill chip logging, numerous bodies of completely silicified iron oxide rich rocks were intercepted. These types of rock could be an indicator for the presence of carbonate hosted gold mineralization.

Two diamond holes were completed at Kerbay with a total of 305 m drilled. Both holes intercepted interesting intervals of hydrothermal alterations in andesite and siltstone that could indicate the presence of gold mineralization.

Subsequent to the quarter end, exploration continued at the Shirotnaia, Dombraly and Uzboy advanced projects as well at the North Balusty early stage project.

At Dombraly the core drilling program was completed. A total of 13 core holes amounting to 3,788 m were drilled. The last holes confirmed the presence of previously established zones of hydrothermal alterations, quartz veining and pyrite impregnation as well as other zones of strongly oxidized sediments north and south of the existing open pit.

Reverse-circulation ("RC") drilling at Dombraly in three separate areas was also completed totaling 800 m. The waste pile was successfully drilled as 17, ten and twenty m deep holes totaling 260 m were made and 260 samples taken. Back fill material was also successfully drilled with seven inclined and vertical RC holes. A total of 284 m was drilled with the same number of samples taken. An RC line was drilled northward of the pit (five holes) totaling 256 m.

At Shirotnaia the second stage of the drilling program, RC drilling, started and 29 holes were completed. These holes covered the eastern and central parts of the prospective area. The total amount of drilling was 1,619 m. The average depth of the holes was 56 m, with the maximum being 147 m. A total of 1,619 samples were taken.

At North Balusty a test line including 51 KGK holes was completed. A total of 2,018 m was drilled at depths ranging from seven to 79 m with an average depth of 40 m. A total of 988 samples were taken, split and prepared for shipment to the lab.

At Uzboy relatively shallow core drilling targeting mostly additional oxide mineralization commenced in November. Six holes with the total depth of 476 m were drilled. Numerous intervals of intensive hydrothermal alteration, pervasive silicification and quartz veining were intercepted.

For the remainder of 2010 Alhambra plans to continue core drilling at Uzboy. It will include continuation of relatively shallow drilling for mostly oxide resource that was already started, and drilling for the deep sulfide resource which will begin in December. The shallow drilling planned will include 24 more holes up to 150 m deep that will amount to about 2,500 m in total. The deep sulfide drilling program planed will consist of five holes totaling approximately 2,180 m.

Alhambra anticipates that a large portion of the core samples taken during the various drilling programs conducted during the year will be assayed and interpreted before year end and the results will be released when available.

For the nine months ended September 30, 2010, general and administrative expenses totaled $1,733,397, an increase of $558,029 from the comparable 2009 amount of $1,175,368. Included in the 2010 amount was $1,014,153 of general and administrative costs related to Saga Creek's operations. Saga Creek's general and administrative costs consist of employee costs (52%), office related expenses (23%), professional service costs consisting of legal and audit (17%) and corporate maintenance costs (8%).

Corporate overhead costs accounted for the remaining $719,244 of the 2010 amount, which is $231,177 lower than the $950,421 reported in the nine months ended September 30, 2009. As the vast majority of corporate general and administrative costs are incurred in CDN$, fluctuations in the exchange rate can have a significant effect on the amount of general and administrative expenses reported from year to year. For the nine month period ended September 30, 2010, the value of the US$ declined nearly 12% against the CDN$. On a purely CDN$ basis, general and administrative expenses for the nine months ended September 30, 2010 actually declined nearly CDN$400,000 from that recorded in the comparable nine month period in 2009.

Employee costs accounted for $504,834 (70%) of the total corporate general and administration costs in the nine months ended September 30, 2010 as compared to $459,002 (48%) of the total in the comparable 2009 period. The increase was the result of the 12% decline in the value of the US$ as compared to the CDN$ over the same period as the actual CDN$ total of employee costs were CDN$26,598 lower in the 2010 period than in 2009.

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 $203,990 (28%) of total corporate general and administrative expenses in the nine months ended September 30, 2010 as compared to $39,617 (4%) for the comparable nine month period in 2009. As a result of the re-acquisition on September 15, 2009, the Corporation began to re-establish its investor relations program which together with the decline in the value of the US$ as compared to the CDN$ period over period accounted for the increase.

Office expenses for the nine months ended September 30, 2010 of $76,823 (2009 - $156,215) accounted for a further 11% (2009 – 17%) of corporate general and administrative expenses. The $79,392 decrease was primarily the result of Alhambra not incurring any rent in the nine month period ended September 30, 2010. In 2009 Alhambra incurred rent expense up until the Corporation was forced to vacate its office premises on May 31, 2009.

Corporate professional costs, which include legal, auditing and outside consulting fees, totaled $107,397 (15%) in the nine months ended September 30, 2010 as compared to $449,830 (47%) in the comparable nine month period in 2009. Professional costs were high in 2009 as the Corporation incurred significant legal costs in defending the Kazakhstan Lawsuit.

The Corporation billed DOT $173,800 (24%) during the nine months ended September 30, 2010 under its agreement to provide management services under the Contract. This compares to $154,243 (16%) billed during the comparable nine month period in 2009. The difference between the 2010 and 2009 reported amounts is entirely due to the weaker US$ in 2010 as compared to 2009 as the total billed in each period was CDN$180,000.

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

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

Exploration and development

The mining industry in general is inherently risky in nature. Mineral properties are often non-productive for reasons that cannot be anticipated in advance and a company may be subject to risks from operations, mining law, environmental regulations, permits and licenses and financing.
Focusing exploration efforts in areas in which a company has existing knowledge and expertise helps in its efforts to find reserves. Exploration activities rely on the exploration results collected at that time and on the professional judgment of people involved in the exploration business. There is no assurance that exploration programs will result in a discovery being made. In the event that a discovery is made, no assurance can be given that the discovery will result in either resources or reserves being established on the property. If reserves are established, it may take a number of years and substantial expenditures until production is achieved, during which time the economic feasibility of the project may change.

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

Operations risk

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

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-acquisition of the Kazakhstan Subsidiaries effective September 15, 2009 significantly reduced Alhambra's going concern risk. In addition the private placement (note 9(b) to the unaudited consolidated financial statements) and conversion of the Debentures to common shares (note 7 to the unaudited consolidated financial statements) further reduced the going concern risk.

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. Changes in Proven and Probable mineral reserves impact the calculation of depletion and the evaluation for impairment as discussed in note 2(g) of the December 31, 2009 audited consolidated financial statements.

Upon re-acquisition, the Corporation was required to record mineral properties at fair market value. In determining the fair market value of 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.

Asset retirement obligations

Asset retirement obligations are initially measured at fair value when they are incurred which is the discounted future value of the estimated liability. This requires an estimate to be made of the future costs of retiring the asset at the point in time the asset is acquired.

Stock-based compensation

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

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.

Future accounting pronouncements

International financial reporting standards ("IFRS")

Publicly accountable entities will be required to adopt International Financial Reporting Standards ("IFRS") in interim and annual financial statements for fiscal years beginning on or after January 1, 2011 including comparative figures for the prior year. The Corporation will transition to IFRS effective January 1, 2011 and intends to issue its first interim financial statements under IFRS for the three month period ending March 31, 2011 and a complete set of financial statements under IFRS for the year ending December 31, 2011.

The Corporation has commenced the process of transitioning from current Canadian GAAP to IFRS. During the nine months of 2010, education and initial assessment activities were completed. A formal conversion assessment was also completed and is currently being implemented. Significant internal and external resources, led by executive management, including key participants from various areas of the Corporation have been dedicated as necessary to plan and achieve a smooth transition to IFRS. The Corporation has mostly completed the detailed impact analysis phase of its conversion project for the standards that affect the transition to IFRS. The Corporation is currently focusing its efforts on the solutions development phase. To date, the project is progressing according to plan. The following table summarizes the key activities of the Corporation's IFRS conversion project.

Key Activities	Target Milestones	Current Status
Identify differences between IFRS and Canadian GAAP.	Complete assessment of differences between IFRS and GAAP.	Completed.
Select accounting policy choices.	Review and approval of policy decisions in Q4 2010.	In progress. To be completed in Q4 2010.
Evaluate and select which IFRS 1 exemptions will be taken on transition to IFRS.	Confirm selection of exemptions in Q4 2010.	In progress. To be completed in Q4 2010.
Prepare financial statements and note disclosures in compliance with IFRS.	Management approval and audit committee review of preliminary pro forma financial statements and note disclosures in Q1 2011.	In progress. To be completed in Q1 of 2011.
Quantify the effect of converting to IFRS.	Quantification of the effect of the conversion in Q1 2011.	In progress. To be completed in Q1 of 2011
Prepare first time adoption reconciliation required under IFRS 1.	Reconciliation to be completed and approved in Q1 2011	Differences currently being quantified. Reconciliation to be completed in Q1 2011.
Identify required changes to the financial system based on the implementation of IFRS.	Complete a review of systems and process to address additional systems required to implement IFRS.	Identification of changes required to the financial systems was preliminarily determined to be minimal.

The Corporation has completed an extensive analysis of the IFRS component evaluation for those areas of the financial statements that have identified accounting differences between GAAP and IFRS. The table below provides a brief summary of selected IFRS that may impact Alhambra, their differences from Canadian GAAP and their potential impact to the Corporation. The table is not comprehensive and does not include all of the differences from GAAP for the standards noted. Also, the table does not include all the standards that may require changes for the transition to IFRS. Ongoing work relating to other standards not presented in the table may possibly have a significant impact on the Corporation's consolidated financial statements.

Standards	Difference from GAAP	Potential Impact
Mineral assets	The carrying value of Corporation's undeveloped properties will be considered E&E assets under IFRS. IFRS permits an entity to elect the level at which E&E assets will be tested for impairment whilst in the E&E stage. E&E assets can be tested at a granular level up to the level of an operating segment. Under Canadian GAAP, the Corporation assesses its undeveloped properties for impairment at the level of a mineral property (i.e. Uzboy).	Management has not determined if it will continue to assess E&E assets under IFRS at the same level as under Canadian GAAP.
Business combinations	In 2009 the Corporation early adopted revised Canadian accounting standards on accounting for business combinations that are consistent with IFRS.	Management anticipates that on conversion to IFRS an election will be made such that business combinations prior to 2009 are not restated. Business combinations completed in 2010 will be recorded in accordance with Canadian accounting standards that are conformed to IFRS, thereby eliminating a transition difference.

Share-based payments	Share-based payments: Under IFRS 2, Share-Based Payment, awards will continue to be measured at fair value, with compensation expense under the Corporation's plans recognized over the service period. For Alhambra's plan which is equity-settled, the Corporation will continue to recognize a corresponding increase in equity. Unlike Canadian GAAP, the service period under IFRS may commence prior to the date of grant and end on the vesting date. Also unlike Canadian GAAP, which allows the expense to be recorded on a straight-line basis, IFRS requires the expense recognition to be graded.	Management anticipates that on conversion to IFRS, differences represent a difference in timing and ultimately do not impact the overall expense.
Convertible Debentures	IFRS and Canadian GAAP have a similar methodology for accounting for convertible debentures (i.e. split the convertible debenture between its debt and equity components). However, IFRS has specific rules that if not met would prevent the conversion feature from being included in equity. Under IFRS, if the conversion feature cannot be classified in equity it would be considered a derivative liability which would be recorded at fair value each period with changes in fair value included in earnings. Alternatively, IFRS permits, in certain circumstances, an election whereby the convertible debenture in its entirety is recorded at fair value with changes included in earnings.	The Corporation has not determined if the conversion feature in the debentures will meet the requirements under IFRS that will allow it to continue to be recorded in equity.

While the Corporation believes it has performed an appropriate level of analysis in selecting its IFRS accounting policies, actual quantitative results may reveal additional impacts to the Corporation that were not anticipated. The IASB has several projects slated for completion in 2010 and 2011 that may impact the transition to IFRS and the financial statements of the Corporation. The Corporation continues to monitor the IASB's progress on these projects and their impact on the Corporation's transition to IFRS.

Impact on information systems and technology

The most significant information system challenge for the IFRS conversion is to ensure the Corporation has the ability to track its IFRS adjustments in the year of transition and that any new IFRS compliance reports can be produced to facilitate the preparation of IFRS financial statements. The Corporation is confident in its ability to track IFRS adjustments throughout transition process to facilitate the preparation of the increased note disclosure required under IFRS. As of now, the transition is not expected to have a significant impact on the Corporation's other information systems.

Impact on internal controls over financial reporting and disclosure controls and procedures

As described further below, in accordance with its conversion plan the Corporation is continually reviewing its internal controls over financial reporting and its disclosure controls and procedures and will update these as required to ensure they are appropriate for reporting under IFRS.

As noted, the transition to IFRS for the Corporation mainly affects the presentation and disclosure of its financial statements. This may lead to process changes in order to facilitate the reporting of more detailed information in the notes to the financial statements, but it is not currently expected to lead to many measurement or fundamental differences in the accounting processes used by the Corporation. Also, the Corporation has implemented controls over its IFRS adjustment process, which primarily includes review by qualified members of Alhambra's head office. The conversion to IFRS exposes the Corporation to control risks when there are new or modified processes. To address these risks the Corporation is in process of designing adquate controls for areas where increased judgment is required.

Business Activities

The transition to IFRS is currently having a minimal impact on Alhambra's operational activities.

Summary of Quarterly Results

Three months ended	December 31, 2009	March 31, 2010	June 30, 2010	September 30, 2010
Net income (loss)	$ (8,202,362)	$ (766,590)	$ 19,156	$ (289,079)
Basic net income (loss) per share	(0.10)	(0.01)	0.00	(0.00)
Diluted net income per share	n/a	n/a	0.00	n/a

Three months ended	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009
Net income (loss)	$(31,687,984)	$ (676,735)	$ (410,703)	$ 76,041,953
Basic net income (loss) per per share	(0.41)	(0.01)	(0.01)	1.00
Diluted net income per share	n/a	n/a	n/a	0.95

The significant net income reported in the third quarter of 2009 was the result of the gain recorded on the re-acquisition of the Kazakhstan Subsidiaries while the significant loss reported in the fourth quarter of 2008 was the result of the write-off of the investment in the Kazakhstan Subsidiaries. The large loss in the fourth quarter of 2009 was as a result of an adjustment made to the gain on re-acquisition recorded in the third quarter. This adjustment related primarily to an adjustment to the future tax rate offset by an increase in the fair value of work in progress.

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. This trend was consistent during the 2009 and 2010 years.

Plans for 2011

Alhambra is in the process of planning its 2011 capital expenditure program. The plan will depend, in part, on the assay results from the 2010 drilling program which are currently pending. A number of Alhambra's more important objectives for 2011 include:

- An anticipated expanded drilling program focused on three advanced exploration areas (Uzboy gold deposit, Dombraly and Shirotnaia) and on a number of high potential, early stage exploration projects.
- Increasing current National Instrument ("NI") 43-101 compliant resources and reserves. Updating the current NI 43-101 report for the Uzboy gold deposit as well as completing new NI 43-101 reports for Dombraly and Shirotnaia are planned.
- Updating the compliant Preliminary Economic Assessment (Scoping Study) on the Uzboy gold deposit. This study will incorporate the updated NI 43-101 results for the Uzboy gold deposit and will be valued at current gold prices versus the US$850 per ounce previously used.