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

This management's discussion and analysis ("MD&A") focuses on key items from the unaudited consolidated financial statements of Alhambra Resources Ltd. (also referred to as "Alhambra" or the "Corporation") for the nine months ended September 30, 2011 and the factors reasonably expected to impact future operations.

This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other matters may occur which could affect the Corporation in the future. This discussion should be read in conjunction with the audited consolidated financial statements of the Corporation for the year ended December 31, 2010 and the related notes. The financial statements have been prepared in accordance International Financial Reporting Standards and are reported in US$000's except as otherwise stated.

This MD&A and the related interim consolidated financial statements were approved by the Corporation's Audit Committee and Board of Directors on November 24, 2011.

Additional information on the Corporation is available under the Corporation's profile on SEDAR at www.sedar.com.

Forward-Looking Information

Except for the statements of historical fact contained herein, certain statements contained in this MD&A constitute "forward-looking statements" as such term is used in applicable Canadian and US laws. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. In particular, any statements concerning the Corporation's ability to continue as a going concern, the strategy of advancing the Uzboy Project towards pre-feasibility, the formalization of a development plan, converting mineral resources to mineral reserves by conducting additional exploration, Alhambra's plans to spend up to $4.0 million in 2011 on exploration, the possible outcome of Saga Creek's legal challenges against its tax assessment in Kazakhstan, the possible outcome of the Corporation's application to the Government of Kazakhstan with respect to the pre-emptive right and other factors and events described in this MD&A should be viewed as forward-looking statements to the extent that they involve estimates thereof. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and should be viewed as "forward-looking statements". Such forward-looking statements, involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and other factors include, among others, the Corporation's liquidity and financial capacity, the Corporation's funding sources to meet various obligations, advancing the project towards pre-feasibility, formalizing a development plan, lack of financing in order to convert mineral resources to mineral reserves through additional exploration, costs and timing of exploration and production development, availability of capital to fund exploration and production development; political, social and other risks inherent in carrying on business in a foreign jurisdiction, the effects of a recessionary economy, the intention or ability for the Corporation to obtain a listing of its common shares on an Asian stock exchange, the possible outcome of Saga Creek's legal challenges against its tax assessment in Kazakhstan, the possible outcome of the Corporation's application to the Government of Kazakhstan with respect to the pre-emptive right and such other business risks as discussed herein and other publicly filed disclosure documents. Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could vary or differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements contained in this MD&A.

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

Measurement Uncertainty

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those reported. Significant areas requiring the use of management estimates include the determination of impairment of mining assets, equipment and exploration and development costs, asset retirement obligations, and assumptions used in calculating share-based compensation expense. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Business Overview

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

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

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

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

Pursuant to the Arrangement, the DOT Property was transferred to DOT at its carrying amount of $944 in exchange for 30,000,000 common shares. Every shareholder of the Corporation received one (1) new common share and 0.21153 of a DOT common share for every one (1) common share of the Corporation held on the effective date of the Arrangement resulting in 15,000,000 DOT common shares held by Alhambra being distributed to Alhambra shareholders on a pro rata basis. As a result of the Arrangement, Alhambra holds 15,000,001 shares of DOT which represents approximately 27% of the 55,734,333 common shares of DOT currently outstanding. At September 30, 2011, the market trading value of the 15,000,001 DOT shares owned by Alhambra was CDN$450.

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

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

Operating and Financial Highlights

Nine months ended September 30 (except as noted below [2])	2011	2010
Operating		
Mining:		
Waste mined (Tonnes (“T”))	1,178,980	1,811,228
Ore stacked (T) [1]	577,068	743,083
Grade of ore mined (Grams/T)	0.85	0.79
Recoverable gold mined (Troy ounces (oz)) [1]	10,222	12,314
Gold sales (ozs)	7,661	9,793
Gold in work in progress (ozs) [2]	39,184	36,623
Financial:		
Revenue ($000’s)	12,555	11,853
Average gold price ($/oz)	1,639	1,210
Operations expenses ($000’s)	5,834	7,021
Operations expenses ($/oz)	761	717
Net income (loss) ($000’s)	(1,201)	(797)
Net income (loss) per share		
Basic and diluted($)	(0.01)	(0.01)
Capital expenditures ($000’s)	2,399	1,296
Total assets ($000’s) [2]	111,649	125,801
Shareholders’ equity ($000’s) [2]	74,361	73,158
Common shares outstanding [2]	104,132,059	103,994,309

Notes:

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

For the nine months ended September 30, 2011 and 2010, the Corporation mined oxide gold mineralization from the East zone of the Uzboy gold deposit. The Corporation started the period on January 1, 2011 with an estimated 36,623 troy ounces (“ozs”) of gold in work in progress. During the nine months ended September 30, 2011, the Corporation sold a total of 7,661 ozs of gold for total proceeds of $12,555 million. An additional estimated 10,222 ozs of gold was stacked which, after selling 7,661 ozs of gold, resulted in an estimated balance of 39,184 ozs of gold in work in progress at September 30, 2011.

During the nine months ended September 30, 2011, the Corporation mined a total of 1,178,980 T of waste and stacked 577,068 T of ore at an average gold grade of 0.85 grams/T (“g/t”).

Financial Review

Segmented information

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

Sales

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

During the nine months ended September 30, 2011, the Corporation recognized $12,555 in revenue from the sale of 7,661 ozs of gold at an average price of $1,639/oz. This compares to revenue recognized for the nine months ended September 30, 2010 of $11,853 from the sale of 9,793 ozs at an average price of $1,210/oz.

During the three months ended September 30, 2011, the Corporation recognized $7,012 million in revenue from the sale of 3,858 ozs of gold at an average price of $1,817/oz. This compares to revenue recognized for the three months ended September 30, 2010 of $5,482 from the sale of 4,378 ozs at an average price of $1,252/oz.

Gold production and sales for the third quarter of 2011 recovered partially from the effects of the extremely cold winter in the first quarter of 2011 and the late spring thaw that had impacted sales and production in the first six months of 2011. The gold mined in 2011 is from deeper in the east pit than in 2010 which of course is consistent with open pit mining. The hardness of the ore increases as the pit depth increases. This harder ore takes longer to leach.

The Corporation continues to benefit from higher average gold prices which have more than offset the decrease in sales volumes. This resulted in sales revenues increasing 6% and 28% for the nine month and three month periods ending September 30, 2011 over the corresponding periods in 2010.

Net smelter royalty

The net smelter royalty ranges from 2.5% to 3.0% (dependent on the price of gold) of the gross revenue. During the nine months and three months ended September 30, 2011, the Corporation recognized $377 (2010 - $356) and $211 (2010 - $164), respectively in net smelter royalty expenses, which is 3% of the revenue recognized in the period.

Mineral extraction tax ("MET")

Effective January 1, 2009 the Government of Kazakhstan enacted new tax legislation that included a tax on the value of useful mineral reserves extracted under the terms of a subsoil use contract. Under the provisions of the legislation, the tax is based on production volumes priced at the average daily benchmark price. The rate for gold and silver, being the two products which the Corporation currently mines, is 5% from January 1, 2009 to December 31, 2012 and 5.5% thereafter. A total of $699 (2010 - $596) and $346 (2010 - $276) was expensed for the nine and three month periods ended September 30, 2011.

The Corporation believes that under the terms of its foreign investment contract that governs the terms in which the Corporation operates its licenses, it is not subject to MET. Despite the Corporation's position relative to its obligation, it has however, been accruing MET since inception of the tax and paying it since January 1, 2010. In 2010 the tax authorities in Kazakhstan assessed Saga Creek for the unpaid 2009 MET plus penalties and interest. As reported, the Corporation challenged that assessment in the Kazakhstan courts with the latest appeal made to the Cassation Chamber of Akmola Oblast Court ("Cassation Chamber") on August 22, 2011 however continued to accrue the obligation plus interest and penalties. The Cassation Chamber is considered the final court of appeal before the Supreme Court of Kazakhstan. If the Cassation Chamber ruled against the Corporation's appeal, the Corporation would be obligated to pay amounts owing as a result of the assessment. The Cassation Chamber rendered its decision on September 27, 2011 in which the tax assessment related to MET was upheld. As a result of that decision, the Corporation was obligated to settle the unpaid amount of the 2009 MET plus interest. The amount owing for MET plus interest totaled $1,148 and was paid on October 17, 2011. The associated penalty, which is estimated to be $421, must be approved by the courts before the Corporation is actually obligated to make payment. The Corporation understands that this is just a technicality and the penalty will be paid once the court decision has been rendered. The Corporation has up to one year from the date of the decision to appeal this latest decision to the Supreme Court of Kazakhstan and is currently assessing its options in this regard. (see note 21 (Legal challenge of tax assessment) to the September 30, 2011 unaudited consolidated financial statements and the Legal challenge of tax assessment section of this MD&A).

Cost of sales

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

Cost of sales for the nine months ended September 30, 2011 totaled $5,834 or $761/oz of gold sold (2010 - $7,021 or $717/oz). Included in this amount is $120/oz (2010 - $192/oz) related to the amortization of the bump-up to fair value of the estimated cost of work in progress on re-valuation at September 15, 2009. Therefore, cash costs for the nine months ended September 30, 2011 were $641/oz (2010 - $525/oz). For the three months ended September 30, 2011, operating costs were $2,812 or $729/oz as compared to $2,917 or $668/oz for the comparable three month period ending September 30, 2010. Included in these amounts were $107/oz and $171/oz for the three months ended September 30, 2011 and 2010, respectively, related to the amortization of the bump-up to fair value of the estimated costs of work in progress on re-evaluation at September 15, 2009. Therefore, cash costs for the three months ended September 30, 2011 were $622/oz (2010 - $497/oz).

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

Administrative expenses

Nine months ended September 30,		2011		2010
Canada				
Share-based compensation	$	2,577	$	714
Cash based corporate overhead costs		1,598		718
Total Canada		4,175		1,432
Kazakhstan		290		1,015
	$	4,465	$	2,447

Three months ended September 30,		2011		2010
Canada				
Share-based compensation	$	468	$	464
Cash based corporate overhead costs		416		292
Total Canada		884		756
Kazakhstan		(1,149)		429
	$	(265)	$	1,185

Administrative expenses for the nine months ended September 30, 2011 were $4,465, an increase of $2,018 over the $2,447 recorded in the comparable nine month period ended September 30, 2010. Of the totals, $290 related to the Saga Creek operations in the nine months ended September 30, 2011 as compared to $1,015 for the comparable nine month period in 2010.

Administrative expenses for the three months ended September 30, 2011 were a net recovery of ($265), a decrease of $1,450 over the $1,185 in expenses recorded in the comparable three month period ended September 30, 2010. Of the totals, Saga Creek operations recorded a net recovery of ($1,149) in the third quarter of 2011 as compared to an administrative expense of $429 for the third quarter of 2010.

As a result of the positive ruling from the Cassation Chamber of the Kazakhstan court on September 27, 2011 (see notes 13 (Provisions) and 21 (Legal challenge of tax assessment) to the September 30, 2011 unaudited consolidated financial statements and the Provisions and Legal challenge of tax assessment sections of this MD&A), the Corporation has reversed the Historical

Cost provision together with all interest and penalties previously recorded. The penalty provision had previously been recorded as Saga Creek administration expense while the interest charges as finance expenses. The amount of penalties reversed in September 30, 2011 was $1,841 of which $1,477 had been recorded up to December 31, 2010. These recovered amounts were offset by legal costs incurred in defending the Corporation's position in the various Kazakhstan courts.

The remainder of administrative expenses relates to corporate activities and is comprised of share-based compensation and cash based corporate overhead. Share-based compensation totaled $2,577 and $468 for the nine month and three month periods ended September 30, 2011, respectively as compared to $714 and $464 for the comparable nine month and three month periods in 2010. Due primarily to the high volatility of the Corporation's stock price, this calculation results in the value assigned to stock options approaching the actual option grant price. As a result, the higher the option price, the higher the value assigned to the options for purposes of share-based compensation expense. This value must be expensed separately for each vesting portion of each option and during their vesting period. Share-based compensation expense for the nine months ended September 30, 2011 relates to the amortization of the value calculated for the 3,050,000 options granted in January of 2011 at a price of $1.05 per share while the share-based compensation expense for the nine months ended September 30, 2010 relates primarily to the 3,050,000 options granted in September of 2009 at a price of $0.22 per share.

Cash based corporate overhead expenses for the nine month and three month periods ended September 30, 2011 totaled $1,598 and $416, respectively as compared to $718 and $292 for the comparable nine month and three month periods in 2010. Professional costs accounted for the biggest component of the cost increase as expenses associated with the conversion to International Financial Reporting Standards ("IFRS") and the year end audit greatly exceeded the Corporation's estimate and accrual in 2010. As part of the audit, work was done to remove the audit qualification that Alhambra received on its 2008 annual financial statements because of the loss of the Kazakhstan subsidiaries. With the re-acquisition on September 15, 2009 it was then possible to clear up that qualification which will be required in order for the Corporation to pursue the Asian public listing. As the Corporation maintains a small professional accounting staff, it was necessary to contract professional help to assist with the conversion, particularly considering that a significant amount of time of Alhambra's employees was being devoted to the work necessary to pursue the Asian public listing.

Increased employee costs also contributed to the higher cash corporate overhead costs as a result of increases given to employees at the end of 2010. Corporate maintenance costs also contributed to the increase as the Corporation had renewed its investor relations program that had been curtailed greatly as a result of the 2009 lawsuit. In the first half of 2010, the Corporation was just beginning to resume its aggressive investor relations program. Finally, during the first nine months of 2010 the Corporation recorded a recovery of $174 in corporate overhead costs through the contract to provide administration services to DOT. There was no similar recovery in 2011 as the Corporation has stopped billing for these services until DOT's activity level picks up.

Depletion and depreciation

Depletion and depreciation expense for the nine month and three month periods ended September 30, 2011 was $2,127 and $1,110, respectively as compared to the $1,420 and $724 recorded for the comparable nine month and three month periods ended September 30, 2010. The Kazakhstan operations account for almost the entire expense for both periods.

Depletion and depreciation charged on the fair value assigned to mineral properties as a result of the re-acquisition at September 15, 2009 is charged to work in progress on the basis of the volume of gold produced as a percentage of total estimated gold resources. It is then expensed on the basis of the quantity of gold sold as a percentage of the quantity of gold estimated to be in work in progress. For the nine months ended September 30, 2011, approximately $4,785 (2010 - $5,588) of depletion and depreciation was charged to work in progress. The major component of this cost is the depletion of the revaluation amount assigned to the carrying cost of mineral assets. The depletion of this cost only started in September, 2009 and as a result its impact on the financial results is only recent. As this cost continues to be charged to work in progress, the amortization of the cost to depletion and depreciation expense will continue to increase which is the reason that the depletion and depreciation expense in the nine and three months period ended September 30, 2011 is substantially higher than the same expense in the nine and three month periods ended September 30, 2010.

Finance income and expenses

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Foreign exchange loss (income)	$ 457	$ 22	$ 358	$ (84)
Unwinding of the discount on Provisions	(173)	–	5	13
Interest accrued on unpaid taxes	(556)	47	(181)	118
Unwinding of discount on loans and borrowings	–	20	–	108
Interest on loans and borrowings	–	16	–	85
Other	–	(53)	–	(3)
Total net finance costs	$ (272)	$ 52	$ 182	$ 237

During the nine months ended September 30, 2011 the Corporation recorded total finance expenses of $182 as compared to total finance expenses of $237 for the comparable nine month period ended September 30, 2010. For the three month period ended September 30, 2011 the Corporation recorded a net recovery of finance costs of ($272) as compared to an expense of $52 for the comparable three month period ended September 30, 2010

During the nine months ended September 30, 2011, the Corporation recorded a foreign exchange loss of $358 as compared to foreign exchange gain of $84 for the comparable nine month period ended September 30, 2010. Saga Creek's operations recorded a foreign exchange loss of $281 (2010 – gain of $211) as in September, 2011 as the US$ strengthened relative to the Kazakhstan Tenge thus negatively impacting the Saga Creek's net monetary liability position. The Canadian operations recorded a foreign exchange loss of $77 (2010 – loss of $127) in the nine months ended September 30, 2011. As a result of the US$ financing done in the third quarter of 2010, the Corporation has been holding US$ which has resulted in the foreign exchange loss recorded due to the weakening of the US$ relative to the CDN$.

Interest accrued on unpaid taxes for the nine and three month periods ended September 30, 2011 was a net recovery of ($181) and ($556), respectively which compares to interest expense for the nine and three month periods ended September 30, 2010 of $118 and $47 The 2011 net recovery was the result of the reversal of interest previously accrued in 2010 of $437 and 2011 of $189 related to the unpaid Historical cost assessment as a result of the favorable ruling by the Cassation Chamber (see notes 13 (Provisions) and 21 (Legal challenge of tax assessment) to the September 30, 2011 unaudited consolidated financial statements and the Provisions and Legal challenge of tax assessment sections of this MD&A). Offsetting the recovery for the nine month period ended September 30, 2011 was interest accrued in the amounts of $135 and $121, respectively on unpaid MET and corporate income tax. Both these items were part of the tax assessment which the Corporation appealed. As noted above, the Cassation Chamber dismissed the Corporation's appeal of the 2009 MET assessment and as such the MET interest was paid in October, 2011. The assessment related to corporate income tax was sent back to a lower court for reconsideration. The Corporation will continue to accrue interest related to the corporate income tax assessment until a final decision is reached by the Kazakhstan courts.

Finally, during the three months ended September 30, 2011, the Corporation reversed the finance expense relating to the unwinding of the discount on the Historical cost provision that had been recorded during the six month period ended June 30, 2011. Since the provision had been first recorded at December 31, 2010 there was no comparable unwinding of the discount during 2010. The expense relating to unwinding of the discount reported in 2011 now relates only to the site restoration provision.

Share of loss in equity accounted investee

The Corporation accounts for its 27% ownership of the common shares of DOT using the equity method of accounting. The equity loss recorded by the Corporation for the nine months ended September 30, 2011 was $10 as compared to the $80 recorded in the nine months ended September 30, 2010. The decline in the amount of loss recorded is mainly due to DOT not incurring any management fees in 2011 as a result of Alhambra's agreement to forego charging these fees.

Income tax expense

Income tax expense (recovery) recorded relates entirely to Saga Creek. As Saga Creek is a profitable entity, it pays corporate income tax in Kazakhstan. During the nine months ended September 30, 2011 the Corporation recorded an income tax expense of $62 comprised of a current tax expense of $501 less a deferred tax recovery of $439. For the nine months ended September 30, 2010 the Company recorded an income tax expense of $493 of which $168 was current and $325 deferred income tax.

At September 15, 2009 Saga Creek recorded a large future income tax liability associated primarily with the fair value assigned to Saga Creek's assets and liabilities. The Corporation is recording future income tax recoveries related to these assets as they are amortized to depletion and depreciation. As a result, Saga Creek recognized a recovery of deferred income tax liabilities previously recorded of $439 during the nine months ended September 30, 2011.

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

Net income (loss)

The Corporation recorded a net loss of $1,201 for the nine months ended September 30, 2011 compared to a net loss recorded in the comparable nine month period ended September 30, 2010 of $797. The net loss for the nine months ended was comprised of a net income of $3,066 (2010 – net income of $1,041) from mining operations and a net loss of $4,267 (2010 - $1,838) from corporate activities.

For the three months ended September 30, 2011 the Corporation recorded a net income of $2,550 as compared to a loss of $24 for the comparable three month period ended September 30, 2010. The net income for the three months ended September 30, 2011 was comprised of a net income of $3,450 (2010 – net income of $886) from mining operations and a net loss of $900 (2010 - $910) from corporate activities.

The increases in net income from mining operations of $2,025 and $2,564 for the nine month and three month periods ended September 30, 2011 over the comparable nine and three month periods ended September 30, 2010 were the result of a combination of higher gross operating margins from the sale of gold plus the penalty and interest expense recoveries due to the reversal of the Historical Cost provision. The gross margin on the sale of gold consisting of sales less net smelter return, MET and cost of sales accounted for $1,765 and $1,518 of the increases for the nine and three month periods, respectively.

The loss from corporate operations increased $2,429 to $4,267 recorded for the nine months ended September 30, 2011 from the $1,838 recorded for the comparable period in 2010. For the three months ended September 30, 2011, the loss from corporate operations of $900 remained relatively unchanged from the comparable three month period ended September 30, 2010.

Based on the weighted average number of common shares outstanding of 104,094,115 and 83,562,988, the Corporation's basic and diluted loss per common share was $0.01 for both the nine months ended September 30, 2011 and 2010. Based on the weighted average number of common shares outstanding of 104,132,059, the Corporation's basic income per common share for the three months ended September 30, 2011 was $0.02. This compares to basic loss per common share of $0.00 for the three months ended September 30, 2010 based on the weighted average number of common shares outstanding of 88,458,974.

For the three months ended September 30, 2011 the Corporations fully diluted earnings per share was $0.02 based on a weighted average number of commons shares outstanding for the period of 106,079,287. As the Corporation incurred a loss for the three months ended September 30, 2010, fully diluted earnings per share and the fully diluted number of shares outstanding were the same reported for basic loss per share.

Cash flow from operating activities

Nine months ended September 30, 2011	Kazakhstan	Canada	Total
Net income (loss) adjusted for items not involving cash	$ 4,755	$ (1,676)	$ 3,079
Change in non-cash working capital	(3,360)	(919)	(4,279)
Cash from (used in) operating activities	$ 1,395	$ (2,595)	$ (1,200)

Nine months ended September 30, 2010			
Net income (loss) adjusted for items not involving cash	$ 2,480	$ (833)	$ 1,647
Change in non-cash working capital	(757)	(1,156)	(1,913)
Cash from (used in) operating activities	$ 1,723	$ (1,989)	$ (266)

Cash flow used in operating activities for the nine months ended September 30, 2011 was $1,200 as compared to cash flow used in operating activities for the nine months ended September 30, 2010 of $266. Mining operations contributed positive cash flow of $1,395 and $1,723 for the nine month periods ended September 30, 2011 and 2010, respectively. Positive cash flow from mining operations was offset by cash flow utilized in corporate activities of $2,595 and $1,989 for the nine months ended September 30, 2011 and 2010, respectively. Cash flow from corporate activities is primarily corporate overhead costs.

Selected Balance Sheet Items

Trade and other receivables

Accounts receivable consists primarily of refundable Value Added Tax (“VAT”) and amounts owing on the sale of gold. VAT is paid by the Corporation on goods and services purchased in Kazakhstan and utilized in its operations. At September 30, 2011 the balance outstanding on account of VAT was $834 (December 31, 2010 - $1,335). The Corporation is currently applying for a refund of VAT every six months. The refund claim is subject to audit by the tax authorities in Kazakhstan with the refund usually received within three months of the application being filed and after the tax authorities complete an audit of the Corporation’s application. Historically, the Corporation has been successful in collecting all amounts due.

Amounts outstanding for the sale of gold were $1,918 at September 30, 2011 (December 31, 2010 - $984). The Corporation recognizes revenue from the sale of gold when the price is determinable, the product has been delivered and title has been transferred to the customer and the collection of sale is reasonably assured. Accounts receivables typically arise when a gold sale is made near a month end but payment is not made until the following month. Normally, the time between shipment and the receipt of cash is approximately two weeks.

Deposits and prepaid expenses

Included in prepaid expense at September 30, 2011 is approximately $1,870 (December 31, 2010 - $600) in connection with costs incurred in its advancement of a potential listing on an Asian stock exchange. These costs will be charged to financing costs if the Corporation ultimately completes the listing, otherwise they will be expensed.

Inventories

The Corporation's inventory comprises mostly of work in progress in which all costs associated with the production of gold, including direct costs incurred in the mining, leaching and resin stripping processes, as well as a depreciation of equipment used in each process, and depletion of mineral assets, are charged to work in progress inventory and expensed based on the quantity of gold sold as a percentage of the estimated quantity of gold mined. At September 30, 2011 the Corporation estimated that there was approximately 39,184 ozs of gold in work in progress (December 31, 2010 – 36,623 ozs) at a carrying cost of $27,693 (December 31, 2010 - $24,319). The Corporation reclassifies the portion of this inventory that it does not expect to sell in the next year as non-current. At September 30, 2011, the Corporation classified 24,184 ozs ($15,305) (December 31, 2010 – 21,623 ozs and $13,110) as non-current.

At September 30, 2011, the Corporation also had $1,011 (December 31, 2010 - $1,247) of raw materials and supplies inventory which is to be used in its operations.

Trade and other payables

At September 30, 2011 the Corporation had outstanding $5,948 in trade and other payables (December 31, 2010 - $6,953). The credit terms that govern the Corporation's relationship with its suppliers are such that substantially all amounts outstanding are due within one month.

Provisions

At September 30, 2011 the Corporation had outstanding provisions for future liabilities of $278 (December 31, 2010 - $14,093). Of the total, $278 (2010 - $265) relates to future site reclamation. The liability for site reclamation was determined using an inflation rate of 5% (December 31, 2010 – 5%) and an estimated mine life of 10 years (December 31, 2010 – 10 years) for the Uzboy Project. A discount rate of 7% (December 31, 2010 – 7%) was used. The undiscounted value of the liability is approximately $316 (December 31, 2010 - $316).

The Corporation recorded a provision as of December 31, 2010 related to the acquisition of geological information from the Government of Kazakhstan ("Historical Data"). This Historical Data was acquired by a previous owner of the Saga Creek licenses for a cost of $95. The indicative cost incurred by the Government of Kazakhstan at that time was $15,833 ("Historical Costs"). Effective January 1, 2009 the Government of Kazakhstan enacted legislation that required those companies that had acquired Historical Data to begin paying to the Government of Kazakhstan the Historical Costs beginning on January 1, 2009 in equal quarterly installments over ten (10) years. It was the opinion of the Corporation that it should not be subject to this liability for Historical Costs as the obligation was not included as part of the foreign investment contract which details the Corporation's rights and obligations associated with its licenses.
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In late 2010, as the result of an audit of Saga Creek by the Kazakhstan tax authorities, the Government of Kazakhstan assessed Saga Creek for the Historical Cost liability plus interest and penalties for nonpayment of that portion of the liability related to the 2009 year. As a result the Corporation recorded the obligation plus interest and penalties for nonpayment up to June 30, 2011. The accrual also included amounts related to the 2010 year and 2011 up to June 30, 2011 that would have been payable should the Corporation ultimately be unsuccessful in its appeal of the 2009 assessment. On September 27, 2011, the Cassation Chamber overturned the decision of previous courts that had upheld the assessment. As a result, in the third quarter, the Corporation reversed the provision recorded on the balance sheet of $13,828 and interest and penalties charged against earnings totaling $2,467. The tax department has one year to appeal the ruling of the Cassation Chamber. (see notes 13 (Provisions) and 21 (Legal challenge of tax assessment) to

the September 30, 2011 unaudited consolidated financial statements and the Legal challenge of tax assessment section of this MD&A).

Deferred Tax Liabilities

At September 30, 2011 the Corporation has $31,062 (December 31, 2010 – $31,597) in deferred tax liabilities that relate primarily to the fair value assigned to the Uzboy Project on the re-acquisition of control of Saga Creek.

Disclosure of material components of expenditures

Capital expenditures

Three months ended September 30, 2011

During the three months ended September 30, 2011, the Corporation spent $763 in capital expenditures on Saga Creek's mining projects of which $722 was spent on exploration and $41 on equipment. This brings the total for the nine months ended September 30, 2011 to $2,399 of which $2,276 has been expended on exploration. The details of the Corporation's exploration activities are detailed below.

During the three months ended September 30, 2011, Alhambra completed 4,272 metres ("m") (15,474 m for the nine months ended September 30, 2011) of exploration drilling which was completed on its three advanced exploration projects, the Uzboy Gold Deposit ("Uzboy"), Shirotnaia and Dombraly. The technical information presented below has been made public in news releases previously issued by the Corporation.

All remaining 2010 drill samples have now been assayed**.**

In this period, the Corporation initiated a regional gravity survey of 1,360 square kilometers ("km^2") and a 1,070 km^2 magnetic survey. The surveys will be conducted on the southeast part of the license including Dombraly and Shirotnaia. Field magnetic measurements will be conducted along a 1.0 by 0.1 kilometre ("km") grid and the gravity measurements along a 1.0 by 1.0 km grid. The interpretation of a satellite imagery remote sensing survey which began in July continued to be progressed. The objective of the surveys being conducted is to identify new target areas inside Alhambra's license area. The Corporation anticipates that these surveys will be completed by year end 2011 followed by the analysis of additional exploration projects.

Uzboy Gold Deposit

During the third quarter of 2011, assay results from 34 holes drilled at East and West Uzboy (4,276 samples), being the final stage of the 2010 core drilling program targeting the sulphide resource at deeper levels and additional oxide mineralization along strike of some zones, were received from the Kyrgyzstan Stewart Group laboratory. Drilling successfully extended the strike length of four zones of gold mineralization from 50 to 160 m in length. The mineralization in these four zones located on the southwest flanks of the West and East Uzboy gold deposits is open along strike and down dip and demonstrates the potential to expand the mineralized zone and intersect higher grade gold mineralization. The gold mineralization of the East Uzboy deposit continues in the direction of the West Uzboy deposit and these two deposits could be part of a single large gold system.

Assay results were positive. For example, Diamond drill hole ("DDH") C 0401 intersected a 12.90 m interval averaging 2.58 grams per tonne gold ("g/t Au") starting at a core depth of 51.2 m.

As reported earlier, the southern zone of West Uzboy gold deposit was extended along the dip by at least 50 m by DDH P 3321 that returned several mineralized intervals with the highest grade interval being 9 m averaging 3.36 g/t Au from 218.2 m. In addition, the potential of this zone was increased significantly by DDH C 3319 that returned two mineralized intervals, one of which yielded 4.0 m averaging 3.66 g/t Au from a core interval of 34.60 m. The gold mineralization is still open at depth and possibly plunging in a SW direction.

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

An updated National Instrument ("NI") 43-101 compliant resource estimate and an updated Preliminary Economic Analysis (Scoping Study) are being prepared by Alhambra's independent geological consultant, ACA Howe. The Corporation anticipates that these reports will be completed and released during the first quarter of 2012.

Shirotnaia

During the third quarter of 2011 sampling of the 43 core holes completed in the second quarter of 2011 was completed. An additional 1,803 samples were taken. In total, 4,461 samples were taken from 43 core holes. In addition, 930 assay results from four of six core holes drilled at Shirotnaia in February 2011 were received.

The objective of the second stage of core drilling at Shirotnaia was to collect enough information to develop a grid which would allow for an independent NI 43-101 compliant resource estimate.

An initial NI 43-101 compliant resource estimate which is being prepared by ACA Howe will include all diamond drill core and trench assays collected at Shirotnaia up to and including the 2011 core drilling program. Alhambra anticipates that this initial NI 43-101 compliant resource estimate will be completed and released during the first quarter of 2012.

Dombraly

The next stage of the Dombraly exploration program consisting of 32 diamond drill core holes (5,360 m) began early in the third quarter. The objectives of this program are to follow up the new zones of gold mineralization discovered as a result of 2010 drilling and to develop an appropriate drill grid allowing for the completion of an independent NI 43-101 compliant resource estimate. Drilling continued through the quarter with an end October 2011 anticipated completion date.

An initial NI 43-101 compliant resource estimate is being prepared by ACA Howe which will include all diamond drill core and trench assay results from prior years up to and including the 2010 core drilling program completed at Dombraly. The Corporation anticipates that this initial NI 43-101 compliant resource estimate will be completed by year end 2011 and released during the first quarter of 2012.

Zhanatobe

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

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

As a result of the positive 2010 drilling results, Alhambra expanded its anticipated 2011 core, reverse circulation ("RC") and RAB drilling program for Zhanatobe to approximately 12,600 m as follows: 1,450 m of core drilling (9 holes), 1,950 m of RC drilling (13 holes) and 9,220 m of RAB drilling (922 holes).

North Balusty

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

Drill results confirmed that bedrock (lode) gold mineralization is indeed present in North Balusty. The mineralized corridors ranged in width from 440 to 520 m with individual mineralized zones ranging in thickness from 2 to 8 m. Gold grades within the mineralized zones ranged from 0.13 to 10.91 g/t Au.

As a result of the successful KGK drilling program, Alhambra expanded its second phase of RC drilling to a 42 hole program (6,300 m). The objective of this second phase drilling program is to determine the exact shape of the mineralization and its continuation to depth.

Subsequent to September 30, 2011

Uzboy

Assay results from seven DDHs completed southwest of the West Zone of Uzboy were received. Drilling successfully extended the zone of gold mineralization in West Uzboy to depth and along strike including the intersection of several zones of higher-grade gold mineralization.

A down-plunge extension of a higher-grade zone of gold mineralization was confirmed. Gold mineralization was expanded by an additional 225 m along the dip and 60 m along strike. Broad intervals (from 9.0 to 46.0 m) of gold mineralization were intersected in all seven diamond drill holes and the deposit is still open on strike to the southwest and at depth.

DDHs P734, C791A and P792 intersected multiple intervals (from three to seven) of gold mineralization over core widths that ranged in width from 3.00 to 46.00 m at core depths from 322.70 m down to 694.00 m. One interval averaged 3.31 g/t Au over 8.2 m of core length (P734) and another interval averaged 5.43 g/t Au for 5 m (P792). A third 1.00 m sample returned a maximum gold grade of 31.7 g/t Au. The deepest known vertical depth of mineralization from surface intersected to date within the Uzboy gold deposit occurred in P792 whereby the vertical depth was extended by 52% to 570 m from 375 m.

The main zone of gold mineralization at West Uzboy was extended along the dip by an additional 225 m and has been traced over a minimum strike length of 60 m between Section 73 and Section 79. It is open on strike to the southwest and open at depth. Additional diamond drilling is required to further trace the zone of gold mineralization outlined to date.

Of great interest was DDH C431 which was drilled to test the deeper part of another zone of gold mineralization within the West Uzboy (Zone #4) deposit. This hole returned a 22.9 m core interval averaging 2.82 g/t improving the parameters of Zone #4 which the Corporation anticipates may potentially lead to an increase in resources.

All assay results have been forwarded to Alhambra’s independent geological consultant, ACA Howe, for inclusion in the updated NI 43-101 resource estimate report for Uzboy that is currently being prepared.

Shirotnaia

An additional 6,257 assay results for 42 of the 49 core hole drilling program were received. The results are being interpreted and will be released when completed.

Dombraly

During this period, the remaining core holes of the 32 core hole (5,360 m) drill program were completed. The drill samples have been logged, cut and prepared for export but have yet to be exported.

Zhanatobe

Late during this period, the 2011 RAB drilling program for Zhanatobe was initiated. A 9,200 m (922 holes) program was planned. By the end of October all holes were completed and each hole was sampled at hard rock bottom. Due to thinner overburden thicknesses, the completed program amounted to 5,296 m.

Administrative expenditures

For the nine months ended September 30, 2011, administrative expenses totaled $4,465, an increase of $2,018 over the comparable 2010 amount of $2,447. Included in administrative expenses for the nine months ended September 30, 2011 was $290 related to Saga Creek operations. This represented a decrease of $725 over the comparable nine month period of 2010 amount of $1,015. The reversal of amounts accrued for penalties on unpaid Historical Costs installments partially offset by legal fees related to the Corporation's challenge of the tax authorities' assessment of these taxes accounted for the decrease in Saga Creek administrative expenses.

The remaining $4,175 of administrative expenses for the nine months ended September 30, 2011 relates to corporate overhead costs which was an increase of $2,743 over the corporate overhead costs for the corresponding nine month period ended September 30, 2010 of $1,432. Included in these amounts were share-based compensation expenses of $2,577 and $714 for the nine months ended September 30, 2011 and 2010, respectively. The remaining $1,598 and $718 for the nine months ended September 30, 2011 and 2010, respectively relate to corporate cash overhead expenses as detailed below.

Employee costs accounted for $751 (47%) of the total corporate administrative costs in the nine months ended September 30, 2011 as compared to $504 (70%) in the comparable 2010 period. The increase was the result of increased salaries for staff effective January 1, 2011 as well as additional consulting costs in connection with the Corporation's early adoption of IFRS required as a result of the Corporation's investigation into listing on an Asian stock exchange.

Corporate professional costs, which include legal, auditing and outside consulting fees, totaled $449 (28%) in the nine months ended September 30, 2011 as compared to $107 (15%) in the comparable nine month period in 2010. Professional costs were higher in 2011 as the Corporation's costs associated with the conversion to IFRS and the Corporation's audit were significantly higher than originally contemplated and accrued for during the 2010 year. As part of the audit, work was done to remove the audit qualification that Alhambra received on its 2008 annual financial statements because of the loss of the Kazakhstan subsidiaries. With the re-acquisition on September 15, 2009 it was then possible to clear up that qualification which will be required in order for the Corporation to pursue the Asian public listing. As the Corporation maintains a small professional accounting staff, it was necessary to contract professional assistance to help with the conversion, particularly considering that a significant amount of time of Alhambra's employees was devoted to the work necessary to pursue the Asian public listing.

Office expenses in the nine months ended September 30, 2011 totaled $124 (8%) as compared to $77 (11%) in the comparable nine month period in 2010. The increase was primarily the result of the additional travel, particularly to Kazakhstan, to manage and monitor the Corporation's operation.

Costs related to the maintenance of Alhambra as a public Corporation including investor relations, stock exchange and corporate trust services and annual and quarterly report costs accounted for $274 (17%) of total corporate administrative expenses in the nine months ended September 30, 2011 as compared to $204 (28%) for the comparable nine month period in 2010. As a result of the re-acquisition on September 15, 2009, the Corporation began to re-establish its investor relations program which was only in the planning and initiation stages in the first half of 2010.

The Corporation billed DOT $nil (nil %) during the nine months ended September 30, 2011 under its agreement to provide management services under the Contract. This compares to $174 (24%) billed during the comparable nine month period in 2010.

Liquidity and capital resources

At September 30, 2011 the Corporation had $158 (December 31, 2010 – $3,375) in cash and $13,451 (December 31, 2010 – $7,785) in positive working capital. The 73% increase in working capital from December 31, 2010 to September 30, 2011 was as a result of the elimination of the provision for Historical Costs (see notes 13 (Provisions) and 21 (Legal challenge of tax assessment) to the September 30, 2011 unaudited consolidated financial statements and the Legal challenge of tax assessment section of this MD&A). Included in other working capital is $12,388 (December 31, 2010 - $11,209) in work in progress related to 15,000 ozs (December 31, 2010 – 15,000 ozs) of gold that the Corporation is estimating it will sell during the next twelve months.

Related party transactions

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

On August 29, 2007, the Corporation and DOT entered into an Administrative and Corporate Services Contract (the “Contract”) whereby DOT agreed to engage the Corporation to provide management, administration and corporate services to DOT. The Contract provides for a monthly remuneration of CDN$20 plus all reasonable out of pocket expenses and is for an indefinite term but may be terminated by either party upon providing 30 days prior written notice. The Corporation billed DOT CDN$nil (2010 - CDN$180) under the Contract for the nine months ended September 30, 2011. The amount uncollected as of September 30, 2011 was CDN$359 (2010 - CDN$295). Effective January 1, 2011, the Corporation suspended billing DOT the monthly remuneration. In addition, the Corporation advanced DOT CDN$400 to enable DOT to meet working capital requirements while DOT is investigating options regarding financing. At this time the Corporation is not charging DOT any interest. The Corporation has classified the total amount outstanding owing from DOT as a long term receivable until such time there is more certainty that DOT will be able to repay those amounts.

Financial instruments

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

Commitment and contingencies

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

The Corporation is currently reviewing the results of its 2011 capital expenditure program which is anticipated will total approximately $4.0 million. These results will factor into the development of the Corporation’s capital expenditure program for 2012 and will be announced once finalized. The plans will also be impacted by the availability of suitable financing.

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

The Corporation has no other off balance sheet financing arrangements.

Legal challenge of tax assessment

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

(i) The 2009 assessment for Historical Costs amounting to approximately US$1.6 million was cancelled. While the assessment was only for the 2009 year, the legislation as enacted had provided that the total obligation for Historical Costs of $15,833 be paid in equal quarterly installments over ten (10) years. As a result the Corporation had accrued a total of approximately $2,467 in interest and penalties to June 30, 2011 ($1,914 to December 31, 2010), all of which were reversed in the third quarter of 2011.

(ii) The assessment for CIT amounting to approximately US$0.4 million was cancelled and sent back to the lower court for review and re-consideration by a new panel of judges. Due to the continuing uncertainty regarding the outcome of the Corporation's appeal of the CIT assessment, the Corporation has continued to accrue interest and penalties related to the CIT portion of the assessment. As at September 30, 2011 the Corporation has accrued a total of $691 (December 31, 2010 - $493) related to the CIT assessment including interest and penalties.

(iii) The assessment for the 2009 MET in the amount of approximately US$1.0 million was upheld. A total of approximately $1,569 related to the MET, interest and penalty has been accrued in the financial statements with the MET obligation and interest thereon calculated to the date of payment in October totaling $1,148. The penalty portion estimated to be $421 will have to be paid once a notice requiring payment is issued by the Kazakhstan courts. It is expected that the order for payment of interest will be received by year end.

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

As a result of the decision by the Cassation Chamber that no Historical Costs are payable, the Corporation has, as indicated, reversed the original provision and all related penalties and interest that had previously been recorded. As indicated, the tax authorities and the public prosecutor have until September 27, 2012 to appeal the decision of the Cassation Chamber to the Supreme Court. While the Corporation understands that it is standard practice in Kazakhstan for the tax authorities to appeal unfavorable court rulings, there is no guarantee that they will in fact appeal. Even if they do appeal the decision, there is no guarantee that the Supreme Court will in fact choose to hear the appeal and if it agrees to hear the appeal there is no guarantee that it will reverse the decision of the Cassation Chamber. If however the final result is that the Supreme Court hears the appeal and decides in favor of the tax authorities, the effect on the Corporation's Consolidated Statement of Financial Position at September 30, 2011 would be to increase Intangible Assets by $13,828, to increase Trade and Other Payables by $2,833, to increase Provisions by $14,091, and to decrease retained earnings by $3,096. The decrease in retained earnings would result from a charge to administration expenses for penalties of $2,045 and a charge to finance costs of $1,051 for interest and unwinding of the discount on the Historical Cost provision for the nine months ended

September 30, 2011. The Corporation is not aware of any legal arguments that would support overturning the decision of the Cassation Chamber.

Government of Kazakhstan pre-emptive right

The Subsoil and Subsoil Use Act (the "Act") in Kazakhstan grants the Government of Kazakhstan the first right of refusal to purchase any direct or indirect interest in any subsoil license or legal entity holding that license or the legal entity controlling the holder of the subsoil use license at market prices should the license or shares or instruments convertible or giving rights to shares (joint, the "Subsoil Use Assets") come up for sale. As a result, before a company can accept an offer to sell its Subsoil Use Assets, it must first get approval from relevant Kazakhstan authorities. The Act extends this obligation to require a company whose main business is connected with subsoil use in Kazakhstan to get approval should it desire to issue any common shares or issue any derivative instruments that are convertible into common shares. On August 17, 2011, the Corporation completed and filed an application with the relevant Kazakhstan agency to have pre-approved, any shares that may be issued upon conversion of outstanding warrants and options as well as requested that the Government of Kazakhstan pre-approve a private placement that the Corporation would contemplate doing in the near future to finance its exploration and development activities. This application was amended on October 25, 2011 which included responses to certain questions received from the Kazakhstan agency. The Corporation is not aware of any such applications that have been rejected by the Government of Kazakhstan.

Disclosure of outstanding share data

	As of September 30, 2011	Change in 2011	Issued in 2011	As of November 24, 2011
Common shares issued and outstanding	104,132,059	–	–	104,132,059
Common shares issuable upon exercise of stock options	8,518,500	–	–	8,518,500
Common shares issuable upon exercise of warrants	11,802,775	–	–	11,802,775
Common shares fully diluted	124,453,334	–	–	124,453,334

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

Business Risks

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

World economic slowdown

While certain economies and business sectors are recovering from the recent economic slowdown, there still remains stock market uncertainty and an international credit crisis that could adversely impact the Corporation's ability to raise sufficient working capital to sustain operations. The Corporation cannot predict the impact of this uncertainty on future results.

Exploration and development

The mining industry in general is inherently risky in nature. Mineral properties are often non-productive for reasons that cannot be anticipated in advance and a company may be subject to risks from operations, mining law, environmental regulations, permits and licenses and financing.

Focusing exploration efforts in areas in which a company has existing knowledge and expertise helps in its efforts to find reserves. Exploration activities rely on the exploration results collected at that time and on the professional judgment of people involved in the exploration business. There is no assurance that exploration programs will result in a discovery being made. In the event that a discovery is made, no assurance can be given that the discovery will result in either resources or reserves being established on the property. If reserves are established, it may take a number of years and substantial expenditures until production is achieved, during which time the economic feasibility of the project may change.

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

Operations risk

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

Country risk

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

Regulations and mining law

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

Environmental factors

All phases of a company's operations are subject to environmental regulations in the country in which it operates. Environmental legislation may continue to evolve in a manner which requires stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. While a company may take the steps necessary to protect the environment around its operations, there is no assurance that future changes in environmental regulation, if any, will not adversely affect a company's operations or result in substantial costs and liabilities in the future.

Permits and licenses

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

Income and other taxes

As in many emerging markets, the taxation system in Kazakhstan is relatively new and is characterized by numerous taxes and frequent changes in legislation, official pronouncements and court decisions. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year may remain open for review by the tax authorities for a number of subsequent calendar years which also adds to the uncertainty.

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

Going Concern Risk

The re-gaining of control of the Kazakhstan Subsidiaries effective September 15, 2009 combined with the financing done in 2010 and the conversion to share capital of the secured debentures also in 2010 has significantly reduced Alhambra's going concern risk. However, to continue as a going concern, as well as implement exploration and development plans to sustain the Corporation and promote growth, significant additional capital will be required. The Corporation is currently attempting to raise additional funds; however, there is no assurance that it will be able to do so. The rationale behind the Corporation's desire to list on an Asian stock exchange is to give the Corporation access to significant financial resources in an area of the world that the Corporation believes has a significant interest in precious metal investments combined with an interest in and understanding of investing in Kazakhstan.

Significant Accounting Policies

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

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

Work in progress

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

Mineral resources and reserves

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

Upon re-acquisition, the Corporation was required to record mineral properties at fair market value. In determining the fair market value of Saga Creek's assets, the Corporation made assumptions about reserves, recovery rates, prices, operating, general and administration costs and capital costs and future income tax rates as well as made assumptions in determining the Corporation's weighted average cost of capital used to discount the estimated annualized cash flows that were derived from the modeling work done. These values are management's best estimates based on current information and are subject to change.

Provisions

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

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

Share-based compensation expense

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

Income tax accounting

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

Summary of Quarterly Results

Selected Quarterly Data

	Q4 2010	Q1 2011	Q2 2011	Q3 2011
Gold sales (ozs)	2,870	1,770	2,033	3,858
Average gold price ($/oz)	$ 1,404	$ 1,392	$ 1,514	$ 1,817
Revenue ($000's)	$ 4,138	$ 2,466	$ 3,077	$ 7,012
Net profit (loss) ($000's)	$ (4,245)	$ (1,686)	$ (2,065)	$ 2,550
Basic earnings (loss) per share	$ (0.05)	$ (0.01)	$ (0.02)	$ 0.02
Diluted earnings (loss) per share	$ (0.05)	$ (0.01)	$ (0.02)	$ 0.02

	Q4 2009	Q1 2010	Q2 2010	Q3 2010
Gold sales (ozs)	4,502	1,892	3,523	4,378
Average gold price ($/oz)	$ 1,118	$ 1,123	$ 1,206	$ 1,252
Revenue ($000's)	$ 5,034	$ 2,124	$ 4,247	$ 5,482
Net profit (loss) ($000's)	$ (8,142)	$ (754)	$ (19)	$ (24)
Basic earnings (loss) per share	$ (0.10)	$ (0.01)	$ (0.00)	$ (0.00)
Diluted earnings (loss) per share	$ (0.10)	$ (0.01)	$ (0.00)	$ (0.00)

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

Objectives for 2011

Alhambra currently anticipates that spending on its 2011 drill program will be approximately $4.0 million with approximately 22,000 meters of drilling being completed. This is less than the approximately $7.5 million initially planned. Delays in receiving results of drilling samples caused by changes to the rules governing the export of samples plus lower than anticipated available cash flow caused by the effects of a cold winter and late spring thaw were the principal factors that impacted the size of the capital program. With the new Kazakhstan regulatory requirement to have new equity share issues approved prior to issue, the Corporation was not able to raise capital in the equity markets to compensate for lower than anticipated available cash flow.

Alhambra is currently developing its 2012 exploration however anticipates that the main focus will continue to be on its advanced exploration project areas of Uzboy, Dombraly and Shirotnaia with continuing resource development drilling and production development assessments, including metallurgical and gold recovery tests. The Corporation has filed an application with the Government of Kazakhstan to enable it to raise capital through the issue of common share equity in 2012 to the extent it is deemed necessary to help finance the 2012 exploration program.

Alhambra continues to work towards a dual listing of its shares on an Asian stock exchange. The expected benefits of the dual listing are increased market liquidity, which should support Alhambra's share price moving to reflect intrinsic asset value, and greater access to capital in the rapidly developing and buoyant Asian capital market.