

Alhambra Resources Ltd.
Management's Discussion and Analysis of Financial Condition
and Results of Operations
For the Year Ended December 31, 2011 (US Dollars)

This management's discussion and analysis ("MD&A") focuses on key items from the audited consolidated financial statements of Alhambra Resources Ltd. (also referred to as "Alhambra" or the "Corporation") for the year ended December 31, 2011 and the factors reasonably expected to impact future operations and results as prepared on April 26, 2012. 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, 2011 and the related notes. The financial statements have been prepared in accordance with International Financial Reporting Standards and are reported in US\$000's except as otherwise stated.

This MD&A was reviewed and approved by the Corporation's audit committee and board of directors on April 26, 2012. 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 as described, statements concerning the strategy of advancing the Uzboy Gold Deposit ("Uzboy") 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.

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 property, plant and equipment and exploration and evaluation costs, provisions, 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.

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. Except for the period from December 26, 2008 through September 15, 2009, 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 December 31, 2010, the market trading value of the 15,000,001 DOT shares owned by Alhambra was CDN\$600.

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

mineral operations were written off as of December 26, 2008 as the Corporation ceased to control the Kazakhstan Subsidiaries.

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

Selected Annual Operating and Financial Information

	2011	2010	2009 ⁽³⁾
Operating (for the years ended December 31):			
Mining:			
Waste mined (Tonnes ("T"))	1,758,873	2,374,398	854,781
Ore stacked (T)	861,025	1,023,853	303,383
Grade of ore mined (Grams/T)	0.80	0.85	0.91
Recoverable gold mined (Troy ounces (oz)) ⁽¹⁾	14,403	18,192	5,799
Gold sales (ozs)	9,187	12,663	5,606
Gold inventory (ozs) ⁽²⁾	615	-	-
Gold in work in progress (ozs)	41,224	36,623	31,094
Financial:			
Revenue (\$)	15,260	15,991	6,160
Average gold price (\$/oz)	1,661	1,263	1,099
Operations expenses (\$)	6,646	10,118	3,650
Operations expenses (\$/oz)	723	799	651
Net (loss) (\$)	(3,779)	(5,042)	66,755
Net (loss) per share			
Basic (\$/share)	(0.04)	(0.06)	0.87
Diluted (\$/share)	(0.04)	(0.06)	0.81
Capital expenditures (\$)	3,979	16,093	349
Total assets (\$)	112,339	125,801	104,424
Shareholders' equity (\$)	71,146	73,158	67,974
Common shares outstanding at year end	104,132,059	103,994,309	81,074,421

Notes:

1. Recoverable gold mined is estimated to be equal to 65% of estimated total gold stacked.
2. Gold inventory represents 615 ounces of gold in transit to the refinery for final processing and sale.
3. Operating results and certain financial results for the year ended December 31, 2009, are based on the Corporation owning its Kazakhstan subsidiaries from the date of re-acquisition of control on September 15, 2009. Effective September 15, 2009 the Corporation recorded the assets and liabilities of the Kazakhstan Subsidiaries at their estimated fair value for consideration of \$nil thereby recognizing a gain on the re-acquisition.

Substantially all the ore mined during 2011 came from the East zone of Uzboy. During the year ended December 31, 2011, the Corporation sold a total of 9,187 ounces ("ozs") of gold for total proceeds of \$15,260. This compares to sales of 12,663 ozs and \$15,991 of sales during the year ended December 31, 2010. At December 31, 2010, an estimated 36,623 ozs of gold had been stacked and was in various stages of processing for sale ("work in progress"). During 2011 an additional estimated 14,403 ozs of gold was stacked which, after selling 9,187 ozs and with 615 ozs of gold inventory in transit, resulted in an estimated balance of 41,224 ozs in work in progress at December 31, 2011.

During 2011, the Corporation mined a total of 1,758,873 T of waste and stacked 861,025 T of ore at an average gold grade of 0.80 grams/T ("g/t"). This compares to 2,374,398 T of waste mined and 1,023,853 T of ore stacked at an average gold grade of 0.85 g/t during the year ended December 31, 2010.

Financial Review

Segmented information

The Corporation and its subsidiaries operate in one reportable segment, the exploration for and development of mineral properties in Kazakhstan and therefore presentation geographically is the most appropriate. Identifiable assets, revenues and net loss in each of its geographic are as disclosed in note 22 (*Operating segments*) to the December 31, 2011 audited 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. The Corporation sells all of its gold to one supplier.

During 2011 the Corporation recognized \$15,260 in revenue from the sale of 9,187 ozs of at an average price of gold \$1,661/oz. During 2010 the Corporation recognized \$15,991 in revenue from the sale of 12,663 ozs of gold at an average price of \$1,263/oz.

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 year ended December 31, 2011, the Corporation recognized \$458 in net smelter royalty expenses as compared to \$480 for the year ended December 31, 2010, which is 3% (2010 – 3%) of the revenue recognized in the period.

Cost of sales

Operating expenses consist of all costs associated with the production of gold, (including direct costs incurred in the mining, leaching and resin stripping processes (“process operating costs”), Mineral Extraction Tax (“MET”), transportation and refining of the cathodic sediment. All process operating costs are charged to work in progress and are expensed on the basis of the quantity of gold sold as a percentage of total recoverable gold mined.

Operating costs for the year ended December 31, 2011 were \$6,646 or \$723/oz sold as compared to \$10,118 or \$799/oz of gold sold for 2010.

Included in the 2011 operating cost amount is \$1,131 or \$123/oz related to the amortization of the bump-up to fair value from the estimated cost of work in progress on re-valuation in 2010. Cash operating costs were therefore \$600/oz. In 2010, \$2,309 or \$182/oz of similar costs were included in operating costs resulting in the cash cost of gold sold for this period of \$617/oz.

Administrative expenses

Years ended December 31,	2011	2010
Canada		
Share-based compensation	\$ 2,903	\$ 908
Non-collectable account receivable	747	-
Cash based corporate overhead costs	2,117	1,407
Total Canada	5,767	2,315
Kazakhstan	1,219	3,707
	\$ 6,986	\$ 6,022

Administrative expenses for the year ended December 31, 2011 were \$6,986, an increase of \$964 over the \$6,022 recorded in the year ended December 31, 2010. Of the totals, \$1,219 related to the Saga Creek operations for the year ended December 31, 2011 as compared to \$3,707 for the year ended December 31, 2010.

Of the \$3,707 charged to Kazakhstan administrative expenses during the year ended December 31, 2010, a total of \$2,071 related to penalties potentially owing as a result of an assessment by the tax authorities of Kazakhstan for Historical Costs (\$1,436), MET (\$471) and the disallowance of certain income tax deductions (\$164). In the year ended December 31, 2011, as a result of the September 27, 2011 decision of the Cassation Chamber that no Historical Costs were payable, Kazakhstan administrative expenses were credited for the corresponding 2010 amount \$1,436. The Cassation Chamber upheld the assessment related to MET and the penalty was therefore paid in the fourth quarter of 2011. As no decision was reached regarding the disallowance of certain income tax deductions, the accrual for that penalty remains recorded as a liability (see note 25 (*Legal challenge to tax assessment*) to the December 31, 2011 audited financial statements and the Legal challenge of tax assessment section of the MD&A). This 2011 recovery was partially offset by an accrual of a \$369 penalty related to a Commercial Discovery Bonus effective in 2011 but not assessed by the tax authorities until 2012 (see note 27 (*Commercial discovery bonus*) to the December 31, 2011 audited financial statements and the Commercial discovery bonus section of the MD&A). If the effects of the penalties are removed from the 2011 and 2010 administrative expenses, Kazakhstan administrative expenses would be \$2,286 and \$1,636 for the years ended December 31, 2011 and 2010 respectively. The \$650 increase in the remaining administrative expenses related to Kazakhstan is primarily the legal expenses associated with challenging the tax assessments and other matters.

The remainder of administrative expenses relates to corporate activities and is comprised of share-based compensation, allowance for non-collectability of an account receivable and cash based corporate overhead. Share-based compensation totaled \$2,903 for the year ended December 31, 2011 as compared to \$908 for the year ended December 31, 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 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 2010 relates primarily to the 3,050,000 options granted in September of 2009 at a price of \$0.22 per share.

The allowance for non-collectability of an accounts receivable relates to the \$747 owed by DOT to the Corporation. Due to DOT's current financial position, the Corporation believes that there is a high probability that DOT will not be able to pay the obligation and as such has charged administration expenses.

Cash based corporate overhead expenses for the year ended December 31, 2011 totaled \$2,117 as compared to \$1,407 for the year ended December 31, 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 with the difference being expensed in 2011. 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 a dual listing on an Asian exchange. 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 a dual listing on an Asian exchange.

Increased employee costs also contributed to the higher cash corporate overhead costs as a result of salary 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 year ended December 31, 2010 the Corporation recorded a recovery of \$233 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 financial condition improves.

Depletion and depreciation

Depletion and depreciation expense for the year ended December 31, 2011 was \$2,781 as compared to \$2,028 in 2010. Substantially all the amounts for both years relate to the Kazakhstan operation.

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 year ended December 31, 2011, \$6,729 (2010 - \$8,141) 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 year ended December 31, 2011 is substantially higher than the same expense in the year ended December 31, 2010.

Finance costs

For the years ended December 31,	2011	2010
Interest on overdue taxes	\$ 351	\$ -
Extension of warrants	146	-
Accrued interest on successful tax appeal	(425)	425
Interest on secured debentures	-	85
Unwinding of the discount on provisions	7	5
Interest on trade payables	-	(5)
Interest expense on financial liabilities measured at amortized cost	-	109
Foreign exchange loss	504	268
Total finance costs	\$ 583	\$ 887

During the year ended December 31, 2011 the Corporation recorded total finance expenses of \$583 as compared to \$887 for the year ended December 31, 2010.

Interest accrued on overdue taxes for the year ended December 31, 2011 was \$351. Included in this amount is interest on overdue amounts related to the 2009 MET of \$132 and corporate income tax of \$134, both of which were part of the tax assessment that the Corporation appealed to the Kazakhstan courts. The Cassation Chamber dismissed the Corporation's appeal of the 2009 MET assessment and as such the MET interest was paid in October, 2011. As the corporate income tax issue is still being reviewed by the Kazakhstan courts, the Corporation continues to accrue for the potential of having to pay interest on the outstanding balance should the appeal be unsuccessful (see note 25 '*Legal challenge of tax assessment*' to the December 31, 2011 audited financial statements and the Legal challenge of tax assessment section of this MD&A). The remaining \$85 relates to interest on the unpaid commercial bonus assessed by the government of Kazakhstan which the Corporation is currently in the process of appealing (see note 27 ('*Commercial discovery bonus*') to the audited consolidated financial statements and the Commercial discovery bonus section in this MD&A).

The 2011 credit of \$425 for accrued interest on successful tax appeal represents the recovery of the interest recorded in 2010 on the Historical cost assessment. As a result of the favorable ruling by the Cassation Chamber (see notes 16 ('*Provisions*') and 25 ('*Legal challenge of tax assessment*') to the December 31, 2011 audited consolidated financial statements and the

Provisions and Legal challenge of tax assessment sections of this MD&A), the financing expense accrued in 2010 was reversed in 2011.

During the year ended December 31, 2011 the Corporation charged \$146 to financing costs representing the value attributed to the extension of the expiry date of 2,500,450 warrants originally scheduled to expire on August 11, 2011 (see note 19(d) ('Warrants') to the audited consolidated financial statements).

During the year ended December 31, 2011, the Corporation recorded a foreign exchange loss of \$504 as compared to \$268 for the year ended December 30, 2010. Saga Creek's operations accounted for \$449 of the total foreign exchange loss in 2011 as the US\$ strengthened relative to the Kazakhstan Tenge thus negatively impacting the Saga Creek's net monetary liability position. In the year ended December 31, 2010 Saga Creek recorded a small foreign exchange gain. The Canadian operations recorded a foreign exchange loss of \$55 (2010 – \$274) for the year ended December 31, 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\$.

The \$85 interest on secured borrowings in 2010 relates to the 12% convertible secured debentures ("Debentures") that were converted to common shares on August 11, 2010. Similarly, in 2010, the \$109 interest expense on financial liabilities measured at amortized costs relates to the amortization of the value assigned to the 2,500,450 warrants that were issued to the Debenture holders together with the value assigned to the conversion feature

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. The Corporation recorded an income tax expense of \$1,564 for the year ended December 31, 2011 as compared to \$1,443 in 2010. Saga Creek incurred a current tax expense of \$560 in 2011 as compared to \$901 reported in 2010.

The remaining \$1,004 of income tax expense for the 2011 year is deferred income tax which compares to \$542 in 2010.

Effective January 1, 2009 the corporate tax rate in Kazakhstan was reduced to 20% from the previous rate of 30%. Also effective January 1, 2009 the Government of Kazakhstan introduced an excess profits tax. This tax is a progressive tax in that as profits increase, the rate of tax on the increment in excess profits, as defined, also increases. The Corporation has not yet been subject to any excess profits tax.

The Corporation has Canadian non-capital losses, for which no benefit has been recognized in the financial statements, of approximately CDN\$10.7 million at December 31, 2011, which commence expiring in 2014.

Equity loss

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 ownership to 27% from the 36% owned prior to the DOT issue. For the year ended December 31, 2011, the Corporation recorded an equity loss of \$21 compared to the \$55 recorded for the 2010 year. This is primarily the result of a lower loss reported by DOT in 2011 than in 2010.

Net loss

The Corporation recorded a net loss of \$3,779 for the year ended December 31, 2011 compared to a net loss recorded in 2010 of \$5,042.

Kazakhstan mining operations for the year ended December 31, 2011 reported net earnings of \$2,219 as compared to a net loss totaling \$2,191 in 2010. The \$4,260 improvement in results from

2010 to 2011 is primarily the result of lower operating expenses due to the decrease in sales volumes and the interest and penalties accrued in 2010 which were reversed in 2011 as a result of the positive decision of the Cassation Chamber to reverse the assessment of Historical costs.

For the year ended December 31, 2011, Canadian corporate losses totaled \$5,998, an increase of \$3,147 over the \$2,851 recorded in 2010. Higher general and administration costs caused principally by substantial increase in share-based payment expense together with increases in employee and professional costs accounted for the larger loss.

Based on a weighted average number of common shares of 104,103,679 and 88,710,746 for 2011 and 2010, respectively, the Corporation's basic and diluted net loss per common share was \$0.04 for 2011 and \$0.06 for 2010.

For both the 2011 and 2010 years, options and warrants representing all the options and warrants outstanding were excluded from the dilutive earnings per share calculation as they would be considered anti-dilutive.

Summarized Cash Flows

		2011		2010
Net cash provided from (used in) operating activities	\$	4,758	\$	(2,071)
Net cash provided from financing activities		31		7,431
Net cash (used in) investing activities		(7,288)		(2,443)

Operating cash flow

For the year ended December 31, 2011, net cash used in operating activities was \$4,758 which was primarily attributed to a positive cash flow from operating activities before working capital of \$3,680. Changes in various working capital items added a further \$1,078 of cash flow which came primarily from an increase in accounts payable.

For the year ended December 31, 2010, net cash used in operating activities was \$2,071 which was primarily attributed to a net loss for the year of \$5,042 and a change in inventories for \$1,580 offset by \$2,028 for depletion and depreciation and a \$2,895 increase in trade and other payables.

Financing cash flow

For the year ended December 31, 2011, net cash flow provided from financing activities was \$31 which was the result of the exercise of 137,750 stock options.

For the year ended December 31, 2010, net cash flow provided from financing activities was \$7,431 which was the net cash received from the issue of 18,604,650 units of which each unit consisted of one common share of the Corporation and one-half (1/2) of a common share purchase warrant.

Investing cash flow

For the year ended December 31, 2011, net cash flow used in investing activities was \$7,288, primarily as a result of the acquisition of property, plant and equipment of \$3,979 plus a decrease in related trade and other payables of \$3,309.

For the year ended December 31, 2010, net cash flow used in investing activities was \$2,443 of property, plant and equipment.

Selected Balance Sheet Items

Trade and other receivables

Accounts receivable primarily represents 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 December 31, 2011 the balance outstanding on account of VAT was \$624 (December 31, 2010 - \$1,335). The Corporation applies for a refund of VAT in the first quarter following the end year for which the VAT had been paid. The refund claim is subject to audit by the tax authorities in Kazakhstan with the refund due at the end of the second quarter. Historically, the Corporation has been successful in collecting all amounts due.

Amounts outstanding for the sale of gold were \$nil at December 31, 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

Prepaid expenses arise in Kazakhstan as the Corporation is often required to place a deposit down upon signing of a contract. The larger than normal balance at December 31, 2010 is due to the Corporation having recorded approximately \$2,130 (December 31, 2010 - \$618) in connection of costs incurred to December 31, 2010 in its advancement of a potential listing on an Asian stock exchange. Once the Corporation completes the financing associated with the listing, these costs will be charged to share capital. If the listing is abandoned, these costs will be charged to administrative expense.

Inventories

The Corporation's inventory comprises mostly 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 portion of depreciation of equipment used in each process, and depletion on mineral assets, are charged to work in progress inventory and expensed based on the quantity of gold sold as a percentage of gold mined. At December 31, 2011 the Corporation estimated that there was approximately 41,224 ozs of gold in work in progress (December 31, 2010 – 36,623 ozs) at a carrying cost of \$30,910 (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 December 31, 2011, the Corporation classified 31,224 ozs (\$17,704) (December 31, 2010 – 21,623 ozs and \$13,110) as non-current.

At December 31, 2011, the Corporation also had \$1,074 (December 31, 2010 - \$1,247) of raw materials and supplies inventory which is used in its operations and \$654 (December 31, 2010 - \$nil) which represents the cost of 615 ozs of gold that was in transit to the refinery for final processing and sale at December 31, 2011.

Trade and other payables

At December 31, 2011 the Corporation had outstanding \$7,670 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 the majority of all amounts outstanding are due within one month.

Provisions

At December 31, 2011 the Corporation had outstanding provisions for future liabilities of \$283 (December 31, 2010 - \$14,093). Of the total, \$283 (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 Uzboy. A discount rate of 7.5% (December 31, 2010 – 7%) was used. The undiscounted value of the liability is approximately \$352 (2010 - \$316).

In 2010 the Corporation recorded a provision related to the acquisition of geological information from the government of Kazakhstan (“Historical Data”). This Historical Data was acquired by a previous owner of the Saga Creek licenses for a cost of \$95. The indicative cost incurred by the Government of Kazakhstan at that time was \$15,833. Effective January 1, 2009 the Government of Kazakhstan enacted legislation that required those companies that had acquired the Historical Data begin paying to the Government of Kazakhstan the unpaid amounts beginning on January 1, 2009 in equal quarterly installments over ten (10) years. It was the opinion of the Corporation that it was not liable for the liability as the obligation is not recorded in the contract governing foreign investment which details the Corporation’s rights and obligations associated with its licenses.

In late 2010, as the result of an audit of Saga Creek by the Kazakhstan tax authorities, the Government of Kazakhstan assessed Saga Creek for the liability rejecting the Corporation’s appeal of the assessment. The Corporation filed a claim in the economic court in Kazakhstan seeking to have the decision of the tax authorities reversed together with the obligation and related interest and penalties. On September 27, 2011 courts of Kazakhstan ruled in Saga Creek’s favor and the Corporation reversed all amounts accrued relating to the Historical cost provision penalties and interest. (see note 25 ‘*Legal challenge of tax assessment*’ to the audited consolidated financial statements for the year ended December 31, 2011 and the Legal challenge of tax assessment section of this MD&A).

Deferred tax liabilities

At December 31, 2011 the Corporation has \$32,390 (December 31, 2010 – \$31,597) in deferred tax liabilities that relate primarily to the fair value assigned to Uzboy on the re-acquisition of control of Saga Creek.

2011 Capital Expenditure Activity

During the year ended December 31, 2011 the Corporation recorded capital expenditures of \$3,979 of which \$3,976 related to activities in Kazakhstan. Of that total approximately \$175 relates to buildings, machinery and equipment used in the operations in Kazakhstan. The remaining \$3,801 relates to the Corporation’s 2011 exploration program which is detailed below.

In 2011, Alhambra completed its exploration program that included additional oxide and sulphide resource delineation on the flanks and at depth in Uzboy. Core drilling to delineate additional gold resources at two advanced projects (Shirotnaia and Dombraly) and at four early stage projects (Zhanatobe, Vasilkovskoe East, Zhusaly and Kontaktovy) was completed. In addition, a remote sensing study was conducted over the entire license area and 1,360 square kilometres (“km²”) of gravity and magnetic surveys were completed on the eastern side of the license area. The results of the exploration program have been released in various news releases made by Alhambra during 2011 and to date in 2012, except as noted otherwise.

Alhambra completed 21,957 metres (“m”) of exploration drilling of which approximately 76% was core drilling and the remaining 24% was rotary air-blast (“RAB”) drilling. Approximately 76% of this total was completed for “resource definition” purposes at Uzboy, Shirotnaia and Dombraly. The remaining 24% was drilled on Alhambra’s early stage exploration project area of Zhanatobe.

Assaying of the samples from the 2011 drill program was pushed into 2012 due to a significant amount of drilling which was conducted throughout and late into the fourth quarter of 2011. As of December 31, 2011, more than 10,300 drill core samples were awaiting assaying at the Stewart Labs in Kyrgyzstan.

Due to the large number of drill samples that had yet to be assayed and interpreted as of year-end 2011, the maiden National Instrument (“NI”) 43-101 technical reports setting out resource estimations for both Dombraly and Shirotnaia as well as the updated Uzboy NI 43-101 resource report and updated Uzboy Preliminary Economic Assessment (i.e. Scoping Study) were pushed into 2012.

Uzboy Gold Deposit

During 2011, sixteen core holes (4,325 m) were completed.

The objectives of this drilling program were to test the strike extensions of several zones of oxide gold mineralization (mostly at East Uzboy), to upgrade the current sulphide resource estimate and to locate deeper sulphide resources at the West Uzboy gold deposit. All three objectives were successfully achieved. Assay results received from the 2011 Uzboy core holes were positive. For example, hole 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, hole P734 intersected 1.53 g/t Au over 41.90 m and hole P792 intersected 0.95 g/t Au over 46.00 m. Drilling successfully extended the strike length of four zones of gold mineralization located on the southwest flank of both the West and East Uzboy gold deposits from 50 to 160 m. Also, the southern zone of West Uzboy gold deposit was expanded by 225 m along the dip and 60 m along strike. The mineralization in all these zones is open along strike and down dip.

Shirotnaia

The 2011 drilling program consisted of 49 core holes (6,834 m).

Of the 49 holes drilled, assay results from 46 holes (6,344 m) were received, interpreted and reported. The remaining 3 holes were not assayed prior to year end 2011. Of the 46 holes assayed and reported, 136 mineralized intervals ranged in width from 0.9 to 52.8 m and had grades higher than 0.2 g/t Au, which included 65 mineralized intervals ranging from 0.9 to 31.5 m having an average grade equal to or higher than 1.0 g/t Au and 22 mineralized intervals had average grades of +1.0 g/t Au and widths ranging from 3.0 to 31.5 m. Five significant mineralized zones carrying oxide, transitional and sulphide gold mineralization were outlined. The most important drill intercepts were returned by hole DDH 03-02 – 28.00 m at 1.19 g/t Au and 13.00 m at 2.33 g/t Au in Zone #1 (Main Zone), DDH 28-07 – 31.50 m at 1.35 g/t Au and 20.40 m at 1.02 g/t Au in Zone #2 (Southern Zone), DDH 96-01 – 18.00 m at 1.10 g/t Au and 8.00 m at 2.01 g/t Au in Zone #4 (Northern Zone) and DDH 80-03 – 9.00 m at 4.83 g/t Au in Zone #5 (Central Zone). The gold mineralization area proven by core drilling was expanded by about 570 m to the NE and by 200 m to the SW to an area of 1,800 by 750 m which is open to the NE, SW along strike as well as to the N.

The drill results demonstrated that higher-grade intercepts were distributed consistently along the main structure indicating that a very large area of mineralization may have been discovered.

Dombraly

The 2011 drilling program consisted of 32 core holes (5,528 m).

The objectives of this program were to trace the possible extension of the known zones of gold mineralization to the north and south, to check for parallel zones of gold mineralization south of the low grade stock pile, to collect data to prepare an updated resource estimate and to verify the historical drill data with respect to the width and grades of the mineralization under and around the open pit.

Numerous zones of hydrothermal alteration, quartz veins and sulphide mineralization, all indicators of gold mineralization were observed in the core suggesting the possible extension of the known mineralization zones to the north and south. The assay results for the 2011 drilling program were released in late April 2012.

Zhanatobe

An RAB drilling program of 922 holes (5,270 m) was completed during the year of which 916 holes (5,160 m) were completed in the fourth quarter.

The objective of the RAB drilling program was to take samples from the bedrock immediately below the overburden, which was achieved. Twenty one lines of RAB holes were drilled at the five most prospective areas delineated by the 2009 rock chip sampling program and 922 samples were

taken. Four areas returned data that suggests that these areas could be prospective for epithermal carbonate hosted or orogenic volcano sediment hosted gold mineralization while one area (Western), where the geological features are very similar to those at the Vasilkovskoe deposit, has potential for intrusion related gold mineralization. The samples have been assayed. The results have been interpreted and are now being released.

Positive results were realized in the Northern area. The previously established gold anomaly was extended 200 m to the north, and after a 200 m interruption, the anomaly was also extended about 750 m to the south. The Northern anomalous area, where RAB holes returning +0.10 g/t Au are concentrated (although not forming a continuous anomaly) has been expanded to dimensions of 1,250 m by 480 m. The individual anomalies are of different orientations and have a maximum length of 450 m and a maximum width of 90 m. The peak grade is 0.52 g/t Au. All the anomalies could be interpreted as a leakage along permeable zones from a significant bulk gold mineralization at the contact with an intrusion which is probably situated underneath. The other areas of RAB drilling didn't return significant results.

Vasilkovskoe East

Vasilkovskoe East is a 500 km² project area located on the western section of Alhambra's license area. The 2011 exploration program for Vasilkovskoe East included soil sampling of two areas (Western and Aleksandrovsky) which have been interpreted and are now being released.

In the Western area, 10 NE orientated lines each 4 kilometres ("kms") long were sampled. The distance between the lines was 500 m and between samples along the line at 50 m. A total of 807 soil samples were taken. In the Aleksandrovsky area, 4 N-S orientated 6 kms long and 1,000 m apart soil sampling lines were completed. Samples were taken each 100 m along the line. A total of 234 samples were taken. In the Western area, several gold anomalies ranging from 20 to 55 parts per billion ("ppb") as well as Pb, Zn, Cu and Bi anomalies were established. In the Aleksandrovsky area the gold anomalism ranged from 20-33 ppb but the supporting elements (Sb and Te) suggest a higher level of a hydrothermal system and hence, less eroded mineralization. These anomalies could be very important, marking possible mineralization of significant size, but the anomalies need to be checked in detail by sampling on denser soil grids.

Zhusaly

In 2011, soil sampling along 16 lines was conducted at Zhusaly which is situated about 6 km NE along the main mineralization trend from Shirotnaia. Zhusaly has very similar geological settings to that of Shirotnaia.

The goal of the soil sampling program was to check for possible continuity of the mineralization from Shirotnaia as well as to establish the exact size of the Zhusaly mineralization. A total of 576 samples were taken. The assay results were received in January 2012, have been interpreted and are now being released.

At least two very interesting gold soil anomalies have been established. The first one grading from 20 to 505 ppb gold extended the known Zhusaly vein mineralization by about 500 m to the SE. It is supported by elevated grades of Ba, Hg and Sb which suggest just slightly eroded gold mineralization (or the upper levels of the mineralized system). The second soil anomaly, developed on the contact between the granitoid intrusion and the volcano-sediment sequence is elongated in a NE direction and ranges from 20 to 351 ppb gold over an area of 2.0 by 0.35 kms and remains open to the NE and NW. This anomaly suggests a new zone of gold mineralization of significant size.

Kontaktovy

A 28 line soil sampling program was completed at two areas at Kontaktovy.

The Northern grid and the Southern grid included 14 E-W orientated lines from 900 to 2,200 m long. The distance between the lines was 200 m and between samples along the line, was 50 m. A total of 865 soil samples were taken. The results were received in January 2012, have been

interpreted and are now being released. The results are very promising. Fifty eight samples returned gold grades of +20 ppb with the peak grade of 0.291 g/t Au. Two gold anomalies of +20 ppb Au were established in the Northern grid. The first anomaly is interpreted to be the extension of the Balusty gold deposit. The second anomaly is much more interesting. The anomalous contour of +20 ppb Au has dimensions of about 1.3 by 0.6 kms and covers an area of 0.78 km². It is elongated in a north-south direction and it is anticipated that this anomaly indicates the presence of new mesothermal intrusion related gold mineralization of orogenic style and significant size.

Remote Sensing

A remote sensing analysis for the entire Alhambra license block (9,800 km²) was completed in 2011 by David W. Coulter, Ph.D. Advanced Spaceborne Thermal Emission and Reflection Radiometer (ASTER) data was used for this study. The objective of the study was to map zones of surface hydrothermal alteration via a variety of ASTER analysis methods. A total of 83 zones of hydrothermal alteration which are conjecturally associated with gold mineralization as well as potentially mineralization controlling structures were generated. Some anomalies were checked in the field and it was confirmed that almost all areas outlined by the remote sensing methods correspond with zones of hydrothermal (mostly argillic) alteration, quartz veining and gossanous float. The ASTER anomaly maps will be used in 2012 as a basis for the generation of new exploration targets different from those known previously.

Gravity and Magnetic Surveys

A gravity and magnetic survey of the south-eastern part of Alhambra's license was completed in the fourth quarter of 2011. The gravity survey was conducted over an area of 1,360 km² along a 1,000 by 1,000 m grid. The grid was established using a differential GPS unit. Measurements were provided in 1,371 stations distributed along 58 lines. The magnetic survey was carried out along a 1,000 by 100 m grid with 10,821 measuring points. Data processing and interpretation continued into 2012.

Capital Expenditure Activity Subsequent to December 31, 2011

Zhanatobe

In January 2012, Alhambra began a core drilling program at Zhanatobe. The objective of this program was to check the gold anomalies established by RAB drilling in 2010. Nine core holes (1,449 m) were drilled. Numerous intervals of intensive hydrothermal alteration, bulk silicification, quartz veinlets and sulfide mineralization were intercepted. Samples have been sent to the Kyrgyzstan Stewart Group laboratory for assaying and the results are pending.

Dombraly

Alhambra received the results of an initial independent NI 43-101 gold resource estimate (the "Dombraly Estimate") for Dombraly in early February 2012. The resources identified in the initial Dombraly Estimate were 301,000 ounces ("ozs") of Inferred current mineral resources contained in 9.3 million tonnes grading 1.01 g/t Au and an additional 22,000 ozs of Indicated current mineral resources contained in 0.60 million tonnes grading 1.22 g/t Au using natural cut-off grades of 0.13 g/t Au, 0.10 g/t Au and 0.20 g/t Au for the low grade stockpile, pit infill and in-situ mineralized zones respectively.

The Dombraly Estimate, included the results of 23 core holes (5,835 m) and 37 reverse circulation ("RC") holes (880 m). Due to the timing of the Estimate, the Dombraly Estimate did not incorporate the analytical results for the 32 core hole (5,528 m) drilling program which was completed at the end of October 2011. These drill samples were assayed in January 2012 and the results have been received, interpreted and released in late April 2012. Two new zones (i.e. lenses) of gold mineralization were discovered and at least five known zones – significantly extended and upgraded. A northern extension of the mineralized lens 1 was identified as being about 120 m long. The intercepts in this part of the lens range from 0.77 g/t Au over 20.8 m to 9.95 g/t Au over 1.5 m. Drilling of the southern part of the same lens discovered 14.7 m of oxide mineralization grading 3.57 g/t Au. Three of four mineralized zones located on the southern edge of the deposit were

extended by at least 60 m and remain open to the south. The best result returned here by one of the zones was 1.52 g/t Au over 3.0 m of oxide mineralization. Several new parts of mineralized lens 2 were discovered which have extended the mineralization by at least 240 m along strike and by 65 to 140 m along the dip. The best intercepts were 4.40 g/t Au over 14.1 m and 2.01 g/t Au over 9.0 m. Two new mineralized lenses have been discovered returning intercepts of 4.0 m at 1.18 g/t Au and 8.2 m at 1.66 g/t Au and remaining open along strike in the northerly direction.

Shirotnaia

Alhambra also received the results of an initial independent NI 43-101 gold resource estimate (the "Shirotnaia Estimate") for Shirotnaia in late February 2012. The resources identified in the initial Shirotnaia Estimate were 645,000 ozs of Inferred mineral resources contained in 34.6 million tonnes grading 0.58 g/t Au and an additional 71,000 ozs of Indicated mineral resources contained in 2.9 million tonnes grading 0.76 g/t Au were identified using natural cut-off grades of 0.1 g/t Au for oxide material and 0.2 g/t Au for transitional and primary mineralized zones respectively.

The Shirotnaia Estimate included the results of 73 core holes (9,597 m) and 43 RC holes (2,249 m). Due to the timing of the Estimate, it does not incorporate the analytical results for three core holes (489 m) from the 2011 drilling program as these drill samples were still in the process of being assayed. The assay results for the three core holes were received in January 2012, have been interpreted and are now being released. These three holes returned 12 mineralized intervals ranging in width from 1.0 to 29.5 m that had grades higher than 0.2 g/t Au. The best intercepts were 2.44 g/t Au over 3.0 m and 1.11 g/t Au over 2.7 m. The results will be included in the current geological model and in the next Shirotnaia resource estimate.

Uzboy

In 2012, Alhambra's independent consultants continued to work on updating the Uzboy NI 43-101 resource estimate and Preliminary Economic Assessment. It is anticipated that both of these updates will be completed and reported on prior to mid year 2012.

Remote Sensing and Gravity and Magnetic Survey

In mid April 2012, the interpretation of the 1,360 km² (Phase one) ground gravity and magnetic surveys over the Dombraly-Shirotnaia gold trend was completed and resulted in outlining numerous oriented lineaments and areas of low magnetic signature leading to the identification of 18 new primary exploration targets which were juxtaposed with the results of an ASTER satellite imagery analysis.

These 18 new primary targets were prioritized, with five of them deemed as being high priority. It is anticipated that a soil sampling program followed by a reverse circulation drilling program will be implemented in 2012 to further test the gold potential of these five high priority targets.

Corporate Resources

As of March 1, 2012, Alhambra's total corporate NI 43-101 resources were as noted below:

Project	Measured (M)			Indicated (I)			M + I			Inferred		
		Grade			Grade			Grade			Grade	
	Tonnes	(g/t)	Ounces	Tonnes	(g/t)	Ounces	Tonnes	(g/t)	Ounces	Tonnes	(g/t)	Ounces
Uzboy (1)	14,317,200	1.52	700,000	7,009,500	1.22	275,500	21,326,700	1.42	975,500	11,258,200	1.17	421,700
Dombraly (2)	-		-	559,000	1.22	22,000	559,000	1.22	22,000	9,317,000	1.01	301,000
Shirotnaia (3)	-		-	2,900,000	0.76	71,000	2,900,000	0.76	71,000	34,577,000	0.58	645,000
TOTAL	14,317,200	1.52	700,000	10,468,500	1.09	368,500	24,785,700	1.34	1,068,500	55,152,200	0.77	1,367,700

(1) Effective as of Dec 31/07 as per ACA Howe per news release dated Apr 8/08 at a 0.40 g/t cut-off.

(2) Effective as of Nov 27/11 as per ACA Howe per news release dated Feb 7/12 using natural cut-off grades of 0.13 g/t, 0.1 g/t and 0.2 g/t for the low grade stockpile, pit infill and in-situ mineralized zones respectively.

- (3) Effective as of Jan 9/12 as per ACA Howe per news release dated Feb 28/12 using cut-off grades of 0.1 g/t for oxide material and 0.2 g/t for transitional and primary mineralized zones respectively.

Administrative expenditures

For the year ended December 31, 2011, administrative expenses totaled \$6,986, an increase of \$964 over the comparable 2010 amount of \$6,022. Included in these totals are \$1,219 and \$3,707 of administrative expenses related to Saga Creek operations for 2011 and 2010, respectively. The substantial decrease of \$2,488 from 2010 to 2011 is primarily the result of the reversal in 2011 of amounts accrued in 2010 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.

The remaining \$5,767 of administrative expenses for the year ended December 31, 2011 relates to corporate overhead costs which was an increase of \$3,452 over the corporate overhead costs for the year ended December 31, 2010 of \$2,315. Included in these amounts were share-based compensation expenses of \$2,903 and \$908 for the years ended December 31, 2011 and 2010, respectively and \$747 in allowance for the non-collectability of an account receivable for the year ended December 31, 2011 (2010 - \$nil). The remaining \$2,117 and \$1,407 for the year ended December 31, 2011 and 2010, respectively relate to corporate cash overhead expenses as detailed below.

Employee costs accounted for \$1,057 (50%) of the total corporate administrative costs for the year ended December 31, 2011 as compared to \$860 (61%) for the 2010 year. 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 a dual listing on an Asian stock exchange.

Corporate professional costs, which include legal, auditing and outside consulting fees, totaled \$573 (27%) for the year ended December 31, 2011 as compared to \$354 (25%) for the 2010 year. 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 listing on an Asian stock exchange.

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 \$326 (15%) of total corporate administrative expenses for the year ended December 31, 2011 as compared to \$249 (18%) for the 2010 year. 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.

Office expenses for the year ended December 31, 2011 totaled \$161 (8%) as compared to \$177 (13%) for the 2010 year.

The Corporation billed DOT \$nil (nil %) during the year ended December 31, 2011 under its agreement to provide management services under the Contract. This compares to \$233 (17%) billed during the 2010 year.

Liquidity and capital resources

Alhambra operates in a capital intensive industry in which the demands for capital to finance exploration and development of its properties as well as its corporate overheads generally occur

far in advance of projects being put on production and generating cash flow. While the Corporation generates cash flow from the operations of the oxide zone of the Uzboy gold deposit, additional funds are required to enable Alhambra to add shareholder value through exploration and development and fund some of its working capital requirements. As a result, the Corporation depends on the capital markets to fund these activities. If the Corporation is unable to raise additional funds through these capital markets, the Corporation's ability to continue as a going concern is extremely doubtful. However, in order for the Corporation to raise funds through the issue of common shares, it must first get approval from the government of Kazakhstan to issue common shares (see note 26 ('*Government of Kazakhstan pre-emptive right*') to the December 31, 2011 audited consolidated financial statements and the Government of Kazakhstan pre-emptive right section of this MD&A). The Corporation has filed an application with the Kazakhstan Ministry of Industry and New Technology ("MINT") to obtain approval to proceed at its discretion with the issue of common shares.

At December 31, 2011 the Corporation had \$873 (2010 – \$3,375) in cash and \$11,333 (2010 – \$7,785) in positive working capital. The \$3,548 increase in working capital is principally the result of the reversal of the provision related to Historical costs as a result of the positive decision by the Kazakhstan courts reversing the assessment of the tax authorities (see notes 15 ('*Provisions*') and 25 ('*Legal challenge of tax assessment*') to the December 31, 2011 audited consolidated financial statements and the Legal challenge of tax assessment section of the MD&A). Included in other working capital is \$13,206 (December 31, 2010 - \$11,209) in work in progress related to 10,000 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.

(a) Compensation of key management personnel:

The remuneration of directors and other members of key management personnel during the years ended December 31, 2011 and 2010 were as follows:

For the years ended December 31,	2011	2010
Short-term employee benefits	\$ 862	\$ 816
Share-based payments	2,122	664
Director fees	-	-
	\$ 2,984	\$ 1,480

In addition to their salaries, executive officers also participate in the Group's share option program.

(b) Other transactions:

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. For the year ended December 31, 2011, the Corporation billed DOT CDN\$nil (2010 - CDN\$240) under the Contract. The amount uncollected as of December 31, 2011 was CDN\$359 (2010 - CDN\$359). 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. In 2011, the Corporation determined that there is a high probability that the \$747 amount owing from DOT

is non-collectable and as such has expensed that amount in administrative expenses as corporate maintenance costs.

Financial instruments

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

Commitments

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

The Corporation is anticipating spending approximately \$3,000 on exploration activities during 2012, subject to suitable financing.

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

The Corporation has no other off balance sheet financing arrangements

Share data

The Corporation is authorized to issue an unlimited number of common shares of which 104,132,059 were outstanding as of December 31, 2011. The following table shows the detailed number of shares, options and warrants outstanding as of December 31, 2011 and changes that have occurred up to the date of this MD&A.

	As of December 31, 2011	Change in 2012	Issued in 2012	As of April 26, 2012
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

The 11,802,775 warrants include 2,500,450 warrants, which are exercisable into common shares of the Corporation at a price of CDN\$0.45 per common share, were originally scheduled to expire on August 11, 2011 however the Corporation sought and obtained approval from the TSX Venture Exchange Inc. (the "Exchange") to extend the expiry date to December 9, 2011 ("First Extension") and then to February 8, 2012 ("Second Extension"). The Corporation calculated the fair value of the two extensions to be \$146. The fair value of the First Extension was calculated to be \$0.04 per share based on an expected life of 120 days, a risk free interest rate of 1%, an expected volatility of 53% and an expected dividend yield of 0%. The fair value of the Second Extension was calculated to be \$0.02 per share based on an expected life of 61 days, a risk free interest rate of 1%, an expected volatility of 34% and an expected dividend yield of 0%. Subsequent to the year end the Corporation sought and obtained approval from the Exchange to extend the expiry date of these warrants to the earlier of February 11, 2013 and a date which is sixty (60) days after receipt

of a waiver of right of first refusal from the Government of Kazakhstan and the receipt of consent of MINT, in respect of the issuance of common shares upon exercise of Warrants.

The remaining 9,302,325 warrants, which are exercisable at a price of \$0.72 per share were originally scheduled to expire on or before February 19, 2012 for 5,388,690 warrants and March 28, 2012 for 3,913,635 warrants. Subsequent to the year end, the Corporation sought and obtained approval from the Exchange to extend the expiry date of the warrants to February 19, 2013 for 5,388,690 warrants and March 28, 2013 for 3,913,635 warrants and a date which is 60 days from the sixty days after receipt of a waiver of right of first refusal from the Government of Kazakhstan and the receipt of consent of MINT, in respect of the issuance of common shares upon exercise of Warrants.

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 \$15.8 million be paid in equal quarterly installments over ten (10) years. As a result the Corporation reversed the full provision of \$13.8 million (see note 16 (*Provisions*) to the December 31, 2011 audited consolidated financial statements) and an accrual of approximately \$2.5 million in interest and penalties to June 30, 2011 (\$1.9 million 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. The court subsequently ordered a review of the issues by a court appointed expert. The expert has yet to issue its decision regarding the validity of the Corporation's claim. 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 December 31, 2011 the Corporation has accrued a total of \$0.6 million (December 31, 2010 - \$0.5 million) 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 \$1.6 million related to the MET, interest and penalty has been paid by the Corporation of which approximately \$0.7 million relates to interest and penalties.

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 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 as at September 30, 2011 would be to increase Intangible Assets by \$13.8 million, to increase Trade and Other Payables by \$3.3 million, to increase Provisions by \$15.3 million, and to decrease profit and loss by \$4.8 million. The decrease in profit and loss would result from a charge to administration expenses for penalties of \$2.2 million and a charge to finance costs of \$2.6 million for interest and unwinding of the discount on the Historical Cost provision year ended December 31, 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 April 21, 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 August 16 and 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.

Commercial discovery bonus

On February 22, 2102 Saga Creek was given notice by Kazakhstan tax authorities that it was required to pay a Commercial Discovery Bonus (the "Bonus") based on the approved commercial reserves for Uzboy. According to the notification, Saga Creek is required by law to pay an amount equal to 0.1% of the commercial value of the 14,455.8 kg of gold and 48,100 kg of silver of reserves approved for Uzboy. In addition, Saga Creek will be required to pay a 50% penalty plus interest at the prescribed rate which is approximately 17.5%. Payment was due on May 24, 2011. Saga Creek has filed a notice of objection with the tax authorities on the basis that Clause 6.2 (b) of the Subsoil use contract explicitly defines that Saga Creek "*pays a commercial discovery bonus at a zero rate*" which in effect means that Saga Creek is not obliged to pay this bonus at all.

The Corporation anticipates that the tax authorities will reject Saga Creek's appeal which will then require Saga Creek to appeal that decision to the Kazakhstan courts. The Corporation also anticipates that the lower courts in Kazakhstan will uphold the tax authorities' assessment which will necessitate Saga Creek filing its appeal to the Supreme Court of Kazakhstan. As the Corporation is uncertain at this time how the Kazakhstan courts will ultimately decide on Saga's obligation regarding the Commercial Discovery Bonus, the Corporation has recorded the Bonus and related interest and penalties as of December 31, 2011. Saga Creek has estimated the amount of the Bonus to be \$0.7 million and has charged this amount to intangible assets. In

addition Saga Creek has recorded \$0.5 million in interest and penalties related to the unpaid amount of the Bonus.

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 Uncertainty

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 can neither predict the impact how this uncertainty will have 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 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.

Kazakhstan 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.

The audited consolidated financial statements and MD&A reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Corporation. The future business environment may differ from management's assessment.

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, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. 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 generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However the interpretations of relevant authorities could differ and the effect the 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 significantly reduced Alhambra's going concern risk. These funds however, are not sufficient to enable the Corporation to meet all its obligations and carry out significant exploration and development programs. During the year ended December 31, 2011, the Corporation incurred a net loss of \$3,929 and the Corporation is not generating a sufficient amount of cash flow from operations to cover its commitments. 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. However, in order for the Corporation to raise funds through the issue of common shares, it must first get approval from the government of Kazakhstan to issue common shares (see note 26 '*Government of Kazakhstan pre-emptive right*' to the audited consolidated financial statements and the Government of Kazakhstan pre-emptive right in this MD&A).

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 control of the Kazakhstan Subsidiaries. Upon re-gaining control 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 of the 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 the Kazakhstan Subsidiaries' assets, the Corporation made assumptions about reserves, recovery rates, prices, operating, general and administration costs and capital costs and deferred 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.

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 payments

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.

Accounting standards issued but not yet effective

The Corporation has not early-adopted these revised standards and it currently assessing the impact that these standards will have on the financial statements.

(i) New accounting standards impacting on or after January 1, 2012:

IFRS 7 Financial Instruments: Disclosures (Amendment)

The amendment, effective for annual periods beginning on or after July 1, 2011, with early application permitted, requires additional quantitative and qualitative disclosures relating to transfers of financial assets where: financial assets are derecognized in their entirety, but where the entity has a continuing involvement in them; financial assets that are not derecognized in their entirety.

International Accounting Standards ("IAS") 12 Income Taxes (Amendment)

IAS 12 amendments regarding Deferred Tax: Recovery of Underlying Assets introduces an exception to the existing principle for the measurement of deferred tax assets and liabilities arising on investment property measured at fair value, and the requirement that deferred tax on non-depreciable assets measured at fair value measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after January 1, 2012.

(ii) New accounting standards impacting on or after July 1, 2012

IAS 1 Presentation of Financial Statements (Amendment)

The amendments to IAS 1 require companies preparing financial statements in accordance with IFRS to group together items within other comprehensive income ("OCI") that may be reclassified to the profit or loss section of the income statement. The amendments retain the "one or two statement" approach at the option of the entity and only revise the way OCI is presented: requiring separate subtotals for those elements that may be recycled (e.g., cash flow hedging, foreign currency translation), and those elements that will not (e.g., fair value through OCI items under IFRS 9). In addition, the tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax). The amendment is effective for annual periods beginning on or after July 1, 2012.

(iii) New accounting standards impacting on or after January 1, 2013

IFRS 7 Financial Instruments: Disclosures in Respect of Offsetting (Amendment)

At its meeting December 13 to 15, 2011, the International Accounting Standards Board ("IASB") approved amendments to IFRS 7 *Financial Instruments: Disclosures* with respect to offsetting financial assets and financial liabilities. The common disclosure requirements issued by the IASB and the Financial Accounting Standards Board in December 2011 are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. Companies and other entities are required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The required disclosures should be provided retrospectively.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and SIC 12 *Consolidation – Special Purpose Entities*. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control and establishes control as a basis for consolidation; (iii) sets out how to apply the principle of control whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements.

IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 10 may be adopted to an earlier accounting period, but in doing so, an entity must disclose that fact that it has early-adopted the standard and apply IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements* (as amended in 2011) and IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2011).

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 combines the disclosure requirements for an entity's interest in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure standard. This standard requires the disclosure of information that enable users of financial statements to evaluate the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, and entities are permitted to incorporate any of the new disclosures into their financial statements before that date.

IFRS 13 Fair Value Measurement

IFRS 13 provides guidance on how to measure fair value, but does not change when fair value is required or permitted under IFRS. IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 *Share-based Payment*; leasing transactions within the scope of IAS 17 *Leases*; measurements that have some similarities to fair value that are not fair value, such as net realizable value in IAS 2 *Inventories*; or value in use IAS 36 *Impairment of Assets*. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IAS 27 Separate Financial Statements

IAS 27 has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly controlled entities and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. This standard will not have an impact on the consolidated financial statements.

IAS 28 Investments in Associates and Joint Ventures

IAS 28 prescribes the accounting for investments in associates and to set the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

(iv) New accounting standards impacting on or after January 1, 2014

IAS 32 Financial Instruments – Presentation in Respect of Offsetting (Amendment)

As its meeting December 13 to 15, 2011, the IASB approved amendments to IFRS 7 *Financial Instruments: Disclosures* with respect to offsetting financial assets and financial liabilities. As part of this project, the IASB also clarified aspects of IAS 32 *Financial Instruments: Presentation*. The amendments to IAS 32 address inconsistencies in current practice when applying the requirements. The amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively.

(v) New accounting standards impacting on or after January 1, 2015

IFRS 9 Financial Instruments (2009)

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a “business model” test and a “cash flow characteristics” test are measured at amortized cost (the use of fair value is optional in some limited circumstances).
- Investments in equity instruments can be designated as “fair value through other comprehensive income” with only dividends being recognized in profit or loss.
- All other instruments (including all derivatives) are measured at fair value with changes recognized in the profit or loss.
- The concept of “embedded derivatives” does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

This standard is only applicable if it is optionally adopted for annual periods beginning before January 1, 2015. For annual periods beginning on or after January 1, 2015, the Company must adopt IFRS 9 (2010).

IFRS 9 Financial Instruments (2010)

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirement from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity’s own credit risk is presented in other comprehensive income rather than within profit or loss.

This standard applies to annual periods to annual periods beginning on or after January 1, 2015 and supersedes IFRS 9 (2009). However, for annual reporting periods beginning before January 1, 2015, the Company may early adopt IFRS 9 (2009) instead of applying this standard.

Selected Quarterly Data

	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Gold sales (ozs)	1,526	3,858	2,033	1,770
Average gold price (\$/oz)	\$ 1,773	\$ 1,817	\$ 1,514	\$ 1,392
Revenue (\$000's)	\$ 2,705	\$ 7,012	\$ 3,077	\$ 2,466
Net profit (loss) (\$000's)	\$ (2,578)	\$ 2,550	\$ (2,065)	\$ (1,686)
Basic earnings (loss) per share	\$ (0.03)	\$ 0.02	\$ (0.02)	\$ (0.01)
Diluted earnings (loss) per share	\$ (0.03)	\$ 0.02	\$ (0.02)	\$ (0.01)
	Q4 2010	Q3 2010	Q2 2010	Q1 2010

Gold sales (ozs)	2,870	4,378	3,523	1,892
Average gold price (\$/oz)	\$ 1,404	\$ 1,277	\$ 1,206	\$ 1,122
Revenue (\$000's)	\$ 4,030	\$ 5,590	\$ 4,247	\$ 2,124
Net profit (loss) (\$000's)	\$ (4,005)	\$ (289)	\$ 19	\$ (767)
Basic earnings (loss) per share	\$ (0.05)	\$ (0.00)	\$ 0.00	\$ (0.01)
Diluted earnings (loss) per share	\$ (0.05)	\$ (0.00)	\$ 0.00	\$ (0.01)

The net profit recorded in the third quarter of 2011 is primarily the result of the reversal of interest and penalties accrued in the fourth quarter of 2010 related to the assessment by the Kazakhstan tax authorities for Historical Costs. The loss recorded in the fourth quarter of 2010 is due to lower gold sales revenue plus penalties and interest accrued as a result of the assessment by the tax authorities in Kazakhstan (see notes 16 (*'Provisions'*) and 25 (*"Legal challenge of tax assessment"*) to the December 31, 2011 audited consolidated financial statements and the Legal challenge of tax assessment of this MD&A.

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.

2012 Objectives

During 2012, Alhambra is planning to accelerate the development of its advanced "resource definition" exploration projects of Uzboy, Shirotnaia and Dombraly. The Corporation also anticipates advancing numerous early stage exploration projects and assessing a number of other gold targets of anticipated high potential over its vast mineral license area. These projects include Vasilkovskoe East, Zhanatobe, and targets along the 60 km Dombraly-Shirotnaia trend, located on the eastern flank of the Uzboy Project exploration license.

Alhambra is anticipating spending approximately \$3.0 million on exploration activities in 2012, subject to sufficient cash flow and suitable financing. The main focus will continue to be on Uzboy, Dombraly and Shirotnaia with continuing resource development drilling and production development assessments, including metallurgical and gold recovery tests. In the second half of 2012 the Pre-Feasibility Study for the Uzboy primary gold (sulphide gold) production development project will be initiated. Utilizing the existing oxide heap leach production infrastructure should enhance the overall primary gold production economics while potentially reducing project start up time.

Alhambra will continue to position itself for ongoing growth and to create growing wealth for its shareholders through the ongoing exploitation of its vast exploration and development license. In addition, the Corporation will continue developing and upgrading its staff to meet its future challenges and objectives.

Alhambra will continue to work towards a dual listing of its common shares on an Asian stock exchange. The expected benefits of the dual listing are increased market liquidity and access to capital markets, 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. The pursuit of the dual listing was halted in 2011 due to the delays incurred in generating and analyzing drill results, and in generating the new and updated NI 43-101 resource reports and Preliminary Economic Assessment (Scoping Study).

The Corporation has filed an application with MINT to obtain approval to proceed at its discretion with equity financing 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 and other corporate objectives. While Alhambra anticipates spending approximately \$3 million on exploration activities during 2012, given early approval from MINT and additional financing, Alhambra could expand this program up to \$7.5 million.

