# Quarter One
2008

alhambra

# A Message to Shareholders

Alhambra Resources Ltd. ("Alhambra" or the "Corporation") announces its financial and operating results for the quarter ended March 31, 2008.

**All amounts related to the financial results are expressed in United States dollars unless otherwise indicated. Previous quarter financial information has always been expressed in Canadian dollars.**

## BUSINESS SUMMARY

At December 31, 2007, the Corporation changed its reporting currency from Canadian dollars to United States dollars as it believes that the United States dollar is more representative of the industry that it operates within as well as the location where the majority of its assets are located. The change was made retroactive.

## HIGHLIGHTS

- Revenue from gold sales amounted to $2.9 million on the sale of 3,140 ounces
- Generated $0.2 million of funds flow and $0.3 million of net income from mining operations
- The Corporation utilized $0.1 million ($0.00/share) in funds flow and incurred a net loss of $0.8 million ($0.01/share)
- Spent $1.4 million on its mining projects
- Operating costs were $563 per ounce sold
- Completed 7,774 metres of drilling
- Stacked 3,376 ounces of recoverable gold
- The recoverable gold in work in process as of March 31, 2008 was 23,280 ounces

## OVERVIEW

Operations at Alhambra's 100% owned Kazakhstan subsidiary, Saga Creek Gold Company LLP ("Saga Creek") are seasonal such that given no other 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.

In the first quarter of 2008, the amount of gold stacked was in line with what the Corporation had expected and the amount of gold sold was marginally below expectations. While the amount of gold stacked increased by 3% relative to the first quarter of 2007, sales were down by 11% versus the first quarter of 2007. Sales were down due to two reasons. The first reason was due to mining only of the lower average gold grade ore from the Uzboy East zone. In the first quarter of 2007, a large proportion of the ore mined was sourced from the higher average gold grade ore from the Uzboy West zone. As mining in the West zone reached depths where the ore to be mined became harder, using this ore was suspended until such time as a crushing unit could be installed to ensure optimal fragmentation. A crushing unit has arrived in Kazakhstan and Alhambra expects commissioning to commence before the end of June. The second reason was the exceptionally cold weather conditions which occurred in the first quarter of 2008.

## FINANCIAL HIGHLIGHTS

| (in US$ except per share amounts) | Three months ended March 2008 | 2007 |
|---|---|---|
| Revenue from gold sales | **$ 2,899,994** | $ 2,226,779 |
| Net loss | **(815,720)** | (598,877) |
| Per share (basic and diluted) | **(0.01)** | (0.01) |
| Weighted average shares outstanding | | |
| Basic and diluted | **75,578,147** | 69,248,091 |
| Shares outstanding at end of period | **75,578,147** | 69,313,980 |

For the first quarter of 2008, the Corporation recorded a net loss of $0.8 million, or $0.01 per basic and diluted share. This compares to a net loss of $0.6 million or $0.01 per basic and diluted share in 2007. Funds flow utilized in operating activities for the quarter was $0.1 million or $0.00 per share as compared to funds flow provided from operating activities of $0.2 million or $0.01 per share in 2007. This represents a decrease in funds flow of $0.3 million from the first quarter of 2007.

Revenue from the sale of gold amounted to $2.9 million. This was realized from the sale of 3,140 ounces ("ozs") of gold at an average price of $923.56 per ounce ("/oz"). The per oz operating cost for the first quarter of 2008 was $563.37/oz of gold sold. This was higher than the $331.88/oz incurred during the first quarter of 2007. This per unit operating cost increase was due to three reasons: a lower average gold grade ore mined, a decrease in gold sales and a general escalation of costs in Kazakhstan. Alhambra anticipates that as production and sales continue to increase in subsequent quarters, the unit operating costs will decline, however, mining activity is increasing in the mining business in Kazakhstan which has resulted in upward pressure on costs of goods and services.

## OPERATIONS REVIEW

During the first quarter of 2007, a total of 453,798 tonnes of waste was mined and 199,500 tonnes of ore at a grade of 0.75 grams per tonne ("g/t") of gold was stacked on the heap leach pads.

The Corporation began the quarter with 23,044 ozs of recoverable gold in work in progress. After stacking 3,376 ozs of recoverable gold and selling 3,140 ozs, the Corporation exited the quarter with 23,280 ozs of recoverable gold in work in progress.

## EXPLORATION PROGRAM

In the first quarter of 2008, Alhambra spent over $1.2 million on exploring the Uzboy gold deposit and on the Shirotnaia zone. The drilling program consisted of diamond drilling and reverse air blast circulation ("RAB") drilling. A total of 7,774 metres ("m') were drilled, 4,923 m of diamond drilling and 2,851 m of RAB drilling.

The main components of the exploration program conducted during the first quarter are highlighted below.

**Uzboy Gold Deposit**

The Uzboy gold deposit was the primary focus of Alhambra's exploration program during the first quarter of 2008. Six diamond drill holes ("DDH") for a total of 2,726 m were completed to test the strike and dip extensions of the mineralized intervals intersected in 2007.

The results of the drilling show that the gold mineralization remains open to the northeast and at depth in the central part of the West zone, however, the limits of the gold mineralization in the southwest portion of the West zone appear to have been delineated.

A total of three DDH were completed to test oxide and primary gold mineralization on the southwest end of the East zone. DDH 143 on the East zone of the Uzboy gold deposit intersected a thick interval of gold mineralization which represents one of the highest grade intervals recorded from the East zone and is open at depth and along strike to the southwest. This hole contains numerous higher-grade intervals of gold mineralization which is not typical for the East zone. The gold mineralization in the East zone is open to the northeast and the southwest as well at depth.

In addition, six DDH (1,846 m) were completed to collect the samples for metallurgical testing. The objective of this test work is to maximize gold recovery, optimize the reagent consumptions and further define the processing methodology. The test work is to be conducted by SGS Lakefield located in Cornwall, England.

**Shirotnaia**

The 100% Alhambra held Shirotnaia zone is located approximately three kilometers ("kms") north of the KazakhGold Limited ("KazakhGold") Aksu gold and uranium deposits. The Aksu deposits are currently being mined.

The focus of the exploration program completed in the first quarter of 2008 is the result of a deep geochemical survey that was completed in 2007. This survey was completed from the south end of Alhambra's Uzboy Project boundary, which is located beside the mining allotment held by KazakhGold, to the north over an 11 km long trend. The analytical results for the first half of the survey located three large gold anomalies. Two of the large anomalies coincide with the fault system that controls the gold deposit located within the mining allotment held by KazakhGold. These two gold anomalies extend from the Shirotnaia zone onto the mining allotment held by KazakhGold and are interpreted to be extensions of the gold deposit.

This survey also located a third large gold anomaly approximately 800 m northeast of the area of diamond drilling completed in 2007. The analytical results for the northern half of the deep geochemical survey are pending.

Exploration completed in the first quarter of 2008 consisted of RAB drilling on the two gold anomalies that are interpreted to be the extensions of the KazakhGold gold deposit to further define the grade distribution and shape of these anomalies.

The Corporation has temporarily suspended drilling to allow receipt of all outstanding analytical results and to compile the technical information for each of the zones prior to commencement of further drilling activities. In addition, Alhambra is assessing all data received from the geophysical survey. This will allow the Corporation to explore its large license area more cost effectively. Diamond drilling is expected to resume in the third quarter.

## CAPITAL EXPENDITURES

In the first quarter of 2008, $1.4 million was spent on mining projects. Of this amount, 86% or $1.2 million was spent on exploration and 14% or $0.2 million was spent on capital projects.

Respectfully submitted on behalf of the Board of Directors,
John J. Komarnicki
Chairman and Chief Executive Officer
June 2, 2008

# Management's Discussion & Analysis of Financial Condition and Results of Operations

For the Three Months ended March 31, 2008

This management's discussion and analysis ("MD&A") focuses on key items from the unaudited consolidated financial statements of Alhambra Resources Ltd. (also referred to as "Alhambra" or the "Corporation") for the three months ended March 31, 2008 and the factors reasonably expected to impact future operations and results as prepared on May 28, 2008. 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, 2007 and the related notes and the unaudited consolidated financial statements of the Corporation for the three months ended March 31, 2008 and the related notes. The financial statements have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") in Canada.

This MD&A was reviewed and approved by the Corporation's audit committee and board of directors on May 28, 2008. Additional information on the Corporation is available under the Corporation's profile on SEDAR at www.sedar.com

At December 31, 2007 the Corporation changed its reporting currency from Canadian dollars to United States dollars as it believes that the United States dollar is more representative of the industry that it operates within as well as the location where the majority of its assets are located. The change was made retroactively. All dollar amounts are therefore in the currency of the United States dollar unless otherwise stated.

## FORWARD-LOOKING INFORMATION

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

## NON-GAAP MEASURES

This MD&A contains the term "funds flow from operations" which is not recognized under GAAP. Funds flow from operations is defined as net loss adjusted for stock-based compensation, depreciation, depletion and accretion, future income taxes and equity loss. Management believes that in addition to net income (loss), funds flow from operations is a useful measurement that provides an indication of results generated by the Corporation's business activities. It demonstrates the Corporation's ability to generate the cash necessary to fund future growth through capital investment, and allows the Corporation to evaluate operating performance, leverage and liquidity. The following table provides a reconciliation of cash flow provided by (used in) operating activities as defined under GAAP with funds flow from operations as used in this MD&A.

| | Three months ended March | |
|---|---|---|
| (in US$ except per share amounts) | **2008** | 2007 |
| Cash flow provided by (used in) operating activities | **$ (324,447)** | $ 243,313 |
| Add (deduct) change in non-cash working capital | **221,805** | (84,937) |
| Funds flow from operations | **$ (102,642)** | $ 158,376 |

## CRITICAL ACCOUNTING ESTIMATES

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

## BUSINESS OVERVIEW

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

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

Under the Arrangement, which became effective on August 29, 2007, the Corporation divided its mineral assets between two separate publicly traded corporations. The Corporation continues to hold and operate its gold producing assets situated in the Republic of Kazakhstan ("Kazakhstan"), while 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 36% of the 41,500,001 common shares of DOT currently outstanding.

The Corporation is in the business of the exploration for and development of mineral properties and effective May 1, 2006, the commercial production of gold in the Republic of Kazakhstan ("Kazakhstan") as the Corporation commenced commercial operations on that date. The Corporation holds a 100% working interest in two exploration and exploitation licenses totaling approximately 2.7 million acres located in north central Kazakhstan (the "Uzboy Project").

## OPERATING AND FINANCIAL HIGHLIGHTS

| | 2008 | 2007 |
|---|---|---|
| OPERATING (for the three months ended March 31): | | |
| Mining: | | |
| Waste mined (Tonnes ("T")) | **453,798** | 138,430 |
| Ore stacked (T) | **199,500** | 123,250 |
| Grade of ore mined (Grams/T) | **0.75** | 1.19 |
| Recoverable gold mined [1] (Troy ounces (oz)) | **3,376** | 3,286 |
| Gold in work in progress [2] (ozs) | **23,280** | 23,044 |
| FINANCIAL | | |
| Gold sales (ozs) | **3,140** | 3,512 |
| Revenue ($) | **2,899,994** | 2,226,779 |
| Average gold price ($/oz) | **923.56** | 634.05 |
| Operations expenses ($) | **1,768,986** | 1,165,574 |
| Operations expenses ($/oz) | **563.37** | 331.88 |
| Net loss ($) | **815,720** | 598,877 |
| Net loss per share – basic and diluted ($) | **0.01** | 0.01 |
| Capital expenditures ($) | **1,360,896** | 1,571,006 |
| Total assets ($) [2] | **37,944,458** | 36,929,919 |
| Shareholders' equity ($) [2] | **32,243,800** | 32,704,925 |
| Common shares outstanding [2] | **75,578,147** | 75,578,147 |

[1] Recoverable gold is equal to 70% of total gold stacked based on the results of tests performed by the Corporation as confirmed by Alhambra's independent geological and engineering consultants.

[2] The numbers for 2007 are as at December 31, 2007.

During the three months ended March 31, 2008, the Corporation sold a total of 3,140 ozs of gold for total proceeds of nearly $2.9 million. This compares to sales of 3,512 ozs and $2.2 million of sales during the corresponding three month period in 2007. The Corporation began the year with 23,044 ozs of recoverable gold that had been stacked and was in various stages of processing for sale ("work in progress"). An additional 3,376 ozs of gold was stacked during the first three months of 2008 which, after selling the 3,140 ozs, resulted in approximately 23,280 ozs of gold in work in progress at March 31, 2008.

During the three months ended March 31, 2008, the Corporation mined a total of 453,798 T of waste and stacked 199,500 T of ore at an average gold grade of 0.75 grams/T ("g/t"). This compares to 138,430 T of waste mined and 123,250 T of ore at an average gold grade of 1.19 g/t stacked in the comparable three month period in 2007. The Corporation continues to concentrate its mining activities on the East zone of the Uzboy gold deposit which contains a lower average gold grade than in the West zone which was the primary source of gold production during the first quarter of 2007. Mining in the West zone has reached depths where the ore to be mined is harder, making it more difficult to maintain the estimated 70% gold recovery rate. Mining in the West zone has been suspended until a crushing unit can be installed. A crushing unit is required to ensure optimal fragmentation of the ore to ensure that the estimated 70% gold recovery rate is achieved. The crushing unit has arrived in Kazakhstan and the Corporation expects commissioning to commence before the end of the second quarter of 2008.

## EXPLORATION REVIEW

During the first three months of 2008, the Corporation expended over $1.2 million on exploring in its Uzboy gold deposit and the Shirotnaia zone. This included 4,923 metres ("m") of diamond drilling and 2,851 m of reverse air blast ("RAB") circulation drilling. Due to the cold temperatures, only diamond drilling and RAB drilling could be effectively used as an exploration technique. The main components of the exploration program during first quarter of 2008 are highlighted below. As indicated below, certain analytical results related to these activities are currently pending.

**Uzboy Gold Deposit**

The Uzboy gold deposit was the primary focus of the Corporation's exploration program during the first quarter 2008. A total of six diamond drill holes (2,726 m) were completed during the quarter to test the strike and dip extensions of the mineralized intervals intersected in 2007.

The results of the drilling show that the gold mineralization remains open to the northeast and at depth in the central part of the West zone however, the limits of the gold mineralization in the southwest portion of the West zone appear to have been delineated.

A total of three diamond drill holes ("DDH") were completed to test oxide and primary gold mineralization on the southwest end of the East zone. DDH 143 on the East zone of the Uzboy gold deposit intersected a thick interval of gold mineralization which represents one of the highest grade intervals recorded from the East zone and is open at depth and along strike to the southwest. This hole contains numerous higher-grade intervals of gold mineralization which is not typical for the East zone. The gold mineralization in the East zone is open to the northeast and the southwest as well at depth.

**Metallurgical Test Work**

Six DDH (1,846 m) were completed to collect the samples for metallurgical testing to maximize gold recovery, optimize the reagent consumptions and further define the processing methodology. The test work is to be conducted by SGS Lakefield.

**Uzboy Deposit Resource Estimate**

A.C.A. Howe International Limited ("Howe") completed an updated independent National Instrument 43-101 ("NI 43-101") compliant current mineral resource estimate for the Uzboy gold deposit with an effective date of December 31, 2007. The Uzboy gold deposit consists of three distinct styles of gold mineralization, each with different metallurgical characteristics. The current mineral resource estimate for each style of gold mineralization was estimated at various cutoff grades.

Howe has determined that the "natural" boundary of the Uzboy deposit is 0.20 g/t gold. The "natural" boundary is essentially the boundary between mineralized and non-mineralized rock and has been used to model the Uzboy deposit. The current mineral resource categories at three cutoff grades for the Oxide, Transitional and Sulphide portions of the West and East zones of the Uzboy gold deposit are set out on the next page:

| Style of Mineralization | Cut-off grade (g/t) | Measured Resource Tonnes | Measured Resource Gold grade (g/t) | Measured Resource Ounces | Indicated Resource Tonnes | Indicated Resource Gold grade (g/t) | Indicated Resource Ounces | Measured + Indicated Resource Tonnes | Measured + Indicated Resource Gold grade (g/t) | Measured + Indicated Resource Ounces |
|---|---|---|---|---|---|---|---|---|---|---|
| Oxide | 0.20 | 3,733,300 | 0.86 | 103,500 | 1,784,300 | 0.71 | 40,600 | 5,517,600 | 0.81 | 144,100 |
| | 0.40 | 2,310,400 | 1.21 | 90,100 | 997,600 | 1.04 | 33,300 | 3,308,000 | 1.16 | 123,400 |
| | 0.60 | 1,587,600 | 1.54 | 78,700 | 604,200 | 1.40 | 27,100 | 2,191,800 | 1.50 | 105,800 |
| Transitional | 0.20 | 1,102,200 | 1.15 | 40,700 | 1,415,200 | 0.98 | 44,600 | 2,517,400 | 1.05 | 85,300 |
| | 0.40 | 799,900 | 1.47 | 37,800 | 903,100 | 1.36 | 39,600 | 1,703,000 | 1.41 | 77,400 |
| | 0.60 | 599,700 | 1.80 | 34,700 | 638,400 | 1.72 | 35,400 | 1,238,100 | 1.76 | 70,100 |
| Sulphide | 0.20 | 15,626,900 | 1.22 | 614,200 | 7,270,000 | 0.96 | 223,600 | 22,896,900 | 1.14 | 837,800 |
| | 0.40 | 11,206,900 | 1.59 | 572,100 | 5,108,800 | 1.23 | 202,600 | 16,315,700 | 1.48 | 774,700 |
| | 0.60 | 8,186,400 | 2.00 | 526,100 | 3,599,400 | 1.55 | 179,600 | 11,785,800 | 1.86 | 705,700 |

Inferred resources cannot be reported with Measured and Indicated resources and therefore are reported separately as follows:

| Style of Mineralization | Cut-off grade (g/t) | Inferred Resource Tonnes | Inferred Resource Gold grade (g/t) | Inferred Resource Ounces |
|---|---|---|---|---|
| Oxide | 0.20 | 3,141,600 | 0.57 | 57,200 |
| | 0.40 | 1,521,700 | 0.86 | 42,100 |
| | 0.60 | 775,200 | 1.22 | 30,400 |
| Transitional | 0.20 | 3,566,100 | 0.82 | 93,500 |
| | 0.40 | 2,199,300 | 1.14 | 80,500 |
| | 0.60 | 1,497,900 | 1.45 | 69,800 |
| Sulphide | 0.20 | 12,007,100 | 0.88 | 340,500 |
| | 0.40 | 7,537,200 | 1.23 | 299,100 |
| | 0.60 | 5,509,000 | 1.50 | 266,500 |

**Notes:**

(1) Measured and Indicated resources estimated for the oxide gold mineralization include previously reported oxide reserves. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

(2) In compliance with "best practice" principals, rounding differences may occur.

(3) The current mineral resource estimate for the oxide, transitional and sulphide gold mineralization in the Uzboy gold deposit is based on a 3D geologic model and wireframe restricted block model that includes the exploration work on the Uzboy gold deposit up to December 31, 2007. The block model used a cell size of 5 m by 10 m by 5 m (and sub cell to 1 m along each axis where necessary) and Ordinary Kriged interpolation technique was performed at different search radii and ellipsoid orientations.

(4) High-grade outlier values were capped ('top-cut") at 32 g/t for the West zone and 20 g/t for the East zone gold prior to compositing based on a review of distribution table analysis (histograms, cum frequency plots), and data decomposition analysis.

(5) The Measured, Indicated and Inferred mineral resource categories for the Uzboy gold deposit set out in Tables 1 and 2 (at various cutoffs grades) comply with the resource definitions of the Canadian Institute of Mining and Metallurgy ("CIMM") and NI 43-101: Standards of Disclosure for Mineral Projects.

(6) The Uzboy heap leach mine is processing the Proven and Probable oxide reserves contained in the West and East zones of the Uzboy gold deposit.

The Uzboy heap leach mine has been in commercial operations since May 1, 2006. Prior to that date, all environmental, permitting, legal, title and taxation aspects of the Uzboy heap leach mine were established with the various department of the government of the Republic of Kazakhstan prior to commencing commercial operations. Saga Creek Gold Corporation LLP ("Saga Creek"), a 100% owned subsidiary of the Corporation, is responsible for the mining, processing and exploration activities conducted on the Uzboy gold project. Saga Creek employs 319 people in its mining and exploration related activities and contributes significantly to the local economy. Saga Creek produces cathodic sediment as a product that is shipped to Europe for refining and marketing. As such, the estimate of the current mineral resources for the Uzboy gold deposit and the mineral reserve for the oxide portion of the Uzboy gold deposit are not expected to be affected by the above mentioned issues.

The current mineral resource estimate shows that the 2007 exploration program was successful in increasing both the tonnes and average grades of the Measured and Indicated resource categories for the Uzboy gold deposit. The increases in tonnes contained in the Measured and Indicated resource categories were partially offset by a decrease in the tonnes contained in the Inferred resource category. The increase in overall average grade for each of the resource categories is due to intersecting higher-grade gold mineralization and increasing the top-cut for the West zone from 22 g/t gold in 2006 to 32 g/t gold in 2007.

**Shirotnaia Zone**

The Shirotnaia zone, 100% owned by Alhambra, is located in a major flexure of the Aksu-Balusti Mineral Trend approximately three kilometres north of the Aksu gold and uranium deposits. These deposits are currently being mined and are also located within this major flexure. The geology of the Shirotnaia area is comprised of metasomatically altered and sheared middle Ordovician dacite and andesite and their tuff equivalents. These rock units have been intruded by granite dikes that are controlled by the northeast trending Aksuyski fault zone.

The focus of the exploration program completed in the first quarter of 2008 is the result of a deep geochemical survey that was completed in 2007. This survey was completed from the south end of Alhambra's Uzboy Project which is located beside the mining allotment held by KazakhGold Limited to the north over an 11 kilometre long portion of the Aksu-Balusti Mineral Trend to the Zhusaly zone. The analytical results for the first half of the survey located three large gold anomalies. Two of the large anomalies coincide with the fault system that controls the Quartzite Hill gold deposit which is located within the mining allotment held by KazakhGold Limited. These two structurally controlled northwest trending gold anomalies (greater than 0.05 g/t gold) extend from the Shirotnaia zone onto the mining allotment held by KazakhGold Limited and are interpreted to be extensions of the Quartzite Hill gold deposit.

This survey also located a third large gold anomaly approximately 800 m northeast of the area of diamond drilling completed in 2007. The analytical results for the northern half of the deep geochemical survey are pending.

Exploration completed in the first quarter of 2008 consisted of RAB drilling on the two gold anomalies that are interpreted to be the extensions of the Quartzite Hill gold deposit to further define the grade distribution and shape of these anomalies.

The Corporation has temporarily suspended drilling to allow receipt of all outstanding analytical results and to compile the technical information for each of the zones prior to commencement of further drilling activities. In addition the Corporation is assessing all data received from the geophysical survey. This will allow the Corporation to explore its large license area more cost effectively. While not guaranteed, drilling is expected to resume in the third quarter.

## FINANCIAL REVIEW

### Segmented Information

The Corporation and its subsidiaries operate in one reportable segment, the exploration for and development of mineral properties. Identifiable assets, revenues and net loss in each of its geographic are as disclosed in note 14 to the interim unaudited consolidated financial statements.

### Sales Revenue

Revenue is recognized from the sale of gold when the price is determinable, the product has been delivered and title has been transferred to the customer and collection of the sales price is reasonably assured. The Corporation ships cathodic sediment to its agent in Switzerland who supervises the refining and sale of the gold and silver on behalf of the Corporation.

During the three months ended March 31, 2008, the Corporation recognized $2,899,994 in revenue from the sale of 3,140 ozs of gold at an average price of $923.56/oz. This compares with revenue of $2,226,779 from the sale of 3,512 ozs of gold at an average price of $634.05 for the comparable three month period in 2007.

Of the increase in revenue of $673,215 from 2007 to 2008, $909,081 is a result of a 46% increase in the average price received for the sale of gold offset by $235,866 resulting from an 11% decrease in sales volumes. The mining of lower grade ore from the East zone of the Uzboy gold deposit combined with colder weather resulted in the lower sales volumes in the first quarter of 2008 as compared to the first quarter of 2007.

### 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 three months ended March 31, 2008, the Corporation recognized $87,000 in net smelter royalty expenses which is 3% of the revenue recognized in the period. This is an increase of $20,197 over the $66,803 for the comparable three month period in 2007.

### Operating Expenses

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"), transportation and refining of the cathodic sediment and royalties paid to the government of Kazakhstan. All process operating costs are charged to work in progress and are expensed on the basis of the quantity of gold sold as a percentage of total recoverable gold mined.

Operating costs for the three months ended March 31, 2008 totaled $1,768,986 or $563.37/oz of gold sold as compared to $1,165,574 or $331.88/oz of gold sold in the comparable period in 2007.

Of the increase in operating costs of $603,412 from 2007 to 2008, $726,873 is the result of the increase in per unit operating costs. This increase was partially offset by $123,461 resulting from the 11% decrease in gold sales volumes.

The increase in per unit operating costs is primarily the result of the Corporation mining a lower average grade of ore during the three months ended March 31, 2008 (0.75 g/t) as compared to the three months ended March 31, 2007 (1.19 g/t). As the cost of mining relates to the quantity of ore mined rather than the gold content of ore mined, lower grade ore will result in higher per unit operating costs. Mining activities continue to be concentrated on the East zone of the Uzboy gold deposit which contains a lower average gold grade than in the West zone which was the primary source of gold production during the first three months of 2007. Mining in the West zone has reached depths where the ore to be mined is harder and cannot be fragmented to an optimal size by drilling and blasting therefore making it difficult to maintain the estimated 70% gold recovery rate. Mining in the West zone has been suspended until a crushing unit can be installed. A crushing unit is required to ensure optimal fragmentation of the ore to ensure that the estimated 70% gold recovery rate is achieved. The crushing unit has arrived in Kazakhstan and the Corporation expects commissioning to commence before the end of the second quarter of 2008.

Relatively colder average temperatures and inflationary pressures on costs were two other contributing factors to the higher per unit operating costs during the first quarter of 2008 compared to the first quarter of 2007. Activity is increasing in the mining business in Kazakhstan which has resulted in upward pressure on costs of goods and services.

**General and Administrative Expenses**

General and administrative expenses for the three months ended March 31, 2008 increased $106,989 to $832,716 from the $725,727 recorded in the comparable period in 2007. Of the total, $448,166 related to the Saga Creek operations for the three months ended March 31, 2008 compared to $314,948 for the three months ended March 31, 2007. Inflationary pressures in Kazakhstan combined with a 3.5% increase in the value of the Kazakhstan Tenge relative to the US dollar resulted in the higher general and administrative expenses.

The remainder of general and administrative costs relates to corporate activities. For the three months ended March 31, 2008, corporate general and administrative costs totaled $384,550 which was a decrease of $26,229 from the corresponding 2007 amount of $410,779. After adjusting for a effect of a 17% decline in the average value of the US dollar in relation to the CDN dollar and the $59,748 received from DOT under an Administrative and Corporate Services Contract (the "Contract"), the Corporation experienced an overall positive variance in general and administration costs of approximately $30,000.

**Interest Expense**

Interest expense for the three months ended March 31, 2008 totaled $25,499, a decrease of $5,401 over the comparable 2007 amount of $30,902. The variance is due to lower average interest rates in 2008 versus 2007.

**Stock-Based Compensation**

Due primarily to the high volatility of the Corporation's stock price, this calculation gives a significant value to stock options which must be expensed during their vesting period. The amount of this expense for the three months ended March 31, 2008 and 2007 was $675,208 and $409,419, respectively. Stock-based compensation expense for the first quarter of 2008 relates almost in its entirety to the amortization of the value calculated for the 2,550,000 options granted during that quarter. The stock-based compensation expense for the first quarter of 2007 however relates to options that were granted in the last half of 2006.

### Depreciation, Depletion And Accretion

Depreciation, depletion and accretion expense for the three months ended March 31, 2008 was $261,227, an increase of $37,439 over the $223,788 for the comparable three month period during 2007. Substantially all the amounts for both years relate to the Saga Creek operations. The increase from 2007 to 2008 is primarily the result of a higher depreciable asset base.

### Income Tax Expense

As Saga Creek is a profitable entity, it is subject to income tax under Kazakhstan law. Income tax expense for the three months ended March 31, 2008 totaled $137,821 compared to $168,657 for the comparable three month period ending March 31, 2007. In 2008, Saga Creek had a future tax recovery of $274,422 as assets being depreciated for accounting purposes since 2006 began to be depreciated pursuant to Kazakhstan tax legislation in late 2007.

### Funds Flow

Funds flow utilized in operating activities was $102,642 for the three months ended March 31, 2008 as compared to funds flow provided from operating activities in the comparable three month period in 2007 of $158,376, a decrease of $261,018. Mining operations at Saga Creek continued to contribute positive funds flow which totaled $239,012 for the first quarter of 2008. This however was a decrease of $314,634 over the $553,646 contributed for the first quarter of 2007. The decrease was a result of increases in operating, general and administration and current tax expenses offset by an increase in gold sales revenue.

Positive funds flow from mining operations was offset by negative corporate funds flow, which is primarily head office general and administration expense. For the three months periods ended March 31, 2008 and 2007, funds flow utilized in corporate activities was $341,654 and $395,270, respectively.

### Net Loss

The Corporation incurred a net loss of $815,720 for the three months ended March 31, 2008, an increase of $216,843 over the net loss recorded in comparable three month period in 2007 of $598,877. Mining operations continued to be positive with net income totaling $255,780 in the three months ended March 31, 2008, an increase of $46,583 over the $209,197 of net income recorded in the corresponding three month period in 2007. The decrease in funds flow was offset by an future tax recovery thus resulting in the increase in earnings.

Positive net income from mining operations was offset by losses at the corporate level. For the three month periods ending March 31, 2008 and 2007, corporate losses were $1,071,500 and $808,074, respectively. The increase in stock-based compensation of $265,789 accounted for the increased loss.

Based on a weighted average number of common shares of 75,578,147 and 69,248,091, the Corporation's net loss per common share was $0.01 for both the first quarters of 2008 and 2007.

**Liquidity and Capital Resources**

There were no transactions involving the Corporation's common shares during the three months ended March 31, 2008.

At March 31, 2008 the Corporation had $804,360 of cash and cash equivalents and a total of $5,651,484 in other working capital. Included in the other working capital at March 31, 2008, was $6,346,862 in work in progress. This represents the costs incurred to March 31, 2008 in the mining, leaching and smelting of gold that has yet to be sold. The Corporation estimates that the recoverable gold related to this work in progress is 23,280 ozs, which the Corporation expects to sell within the next twelve months. Included as a reduction in other working capital at March 31, 2008 was $744,841 outstanding pursuant to the Pre-Payment Gold Sales Facility Agreement whereby the Corporation has a right to receive up to $750,000 as a pre-payment for gold to be sold to the purchaser (see note 12(b) to interim unaudited consolidated financial statements).

The Corporation's preliminary exploration budget for 2008 is $3.5 million to continue its exploration program on the Uzboy gold deposit as well as the Dombraly and Shirotnaia deposits. A further $2.5 million is planned for capital additions including $1,500,000 for the purchase of a crushing unit to be used in mining operations. Funding of these programs will come from cash and cash equivalents on hand, cash flow generated from the sale of gold as well as equity or debt financings as required.

The Corporation's cash position is currently not sufficient to discharge all of its current liabilities. As indicated in this MD&A, financial results for the first quarter of 2008, while not unexpected due to the quality of the ore being mined during the quarter and cold weather, were lower than in previous periods and therefore primarily responsible for the Corporation's current working capital position. The Corporation's mining operations have historically contributed positive funds flow from operations and with the installation of the crushing unit, it is anticipated, but there is no assurance that they should continue to do so, particularly since it is expected that harder rock from the mine can be processed while maintaining recovery. Historically, this positive funds flow from operations has not been adequate to completely fund the Corporation's capital program nor has it contributed to Corporation's head office expenses. The Corporation's capital program has been historically financed by funds raised from equity financings and is expected to continue to be funded in this manner, although again there is no assurance that this will occur. The Corporation is pursuing funding options to finance its exploration program.

**Related Party Transactions**

During the three months ended March 31, 2008, the Corporation paid $17,849 (2007 – $30,726) in consulting fees to a corporation controlled by a director and former officer of the Corporation. Of this amount, $3,286 (2006 – $9,218) was capitalized to exploration and development costs.

During the three months ended March 31, 2008, the Corporation incurred $16,831 (2007 - $10,864) in costs from a law firm in which an officer of the Corporation is a partner. All of the costs were expensed as legal expenses.

During the three months ended March 31, 2008, the Corporation received CDN$60,000 from DOT pursuant to the Contract. Under the terms of the Contract, DOT agrees to engage the Corporation to provide management administration and corporate services to DOT in exchange for a monthly remuneration of CDN$20,000 plus the reimbursement of all reasonable out of pocket expenses. The Contract is for an indefinite term but may be terminated by either party upon providing thirty (30) days prior written notice. All amounts due under the contract had been received by March 31, 2008.

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

## Subsequent Events

Subsequent to March 31, 2008, 196,000 common shares of the Corporation were issued upon the exercise of stock options for total proceeds of CDN$107,800.

Subsequent to March 31, 2008, the Corporation issued stock options to purchase 200,000 common shares of the Corporation at an exercise price of CDN$1.15 per share. The options expire in three years and vest as to 25% immediately and 25% each six months thereafter.

## Financial Instruments

### (a) Overview

The Corporation has exposure to the following risks from its use of financial instruments:

(i) Credit risk

(ii) Liquidity risk

(iii) Market risk

This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital. Further quantitative disclosures are included throughout these financial statements.

The board of directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. These risks are discussed with management and to the extent the board of directors determines that the risks are of such a nature that they need to be mitigated, procedures are put in place. To date, no specific risk management tools have been put in place to mitigate these risks.

### (b) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its obligation, and arises principally from Saga Creek's receivable from the Government of Kazakhstan owing as a result of refundable Value Added Tax ("VAT") paid on goods and services purchased by Saga Creek. To date, Saga Creek has been able to collect all VAT due and owing. As of March 31, 2008, 64% of the recorded value of accounts receivable relates to VAT.

Cash and cash equivalents consist of bank balances and short-term deposits that are redeemable at any time at the option of the Corporation. The Corporation manages the credit exposure related to short-term investments by depositing the cash equivalents only with large banks within a particular region which management believes the risk of loss to be remote.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Corporation does not have an allowance for doubtful accounts as at March 31, 2008 and December 31, 2007 nor was it required to write-off any receivables during the three months ended March 31, 2008 and 2007.

### (c) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they come due. While the Corporation has operations that generate cash flow to meet such obligations, it remains primarily an exploration and development company. Saga Creek has been able to generate sufficient cash flow to meet its operating obligations and contribute to its capital expenses however the Corporation, on a consolidated basis, has required external financing to ensure that all of its obligations are met on a timely basis. To date the Corporation has been successful in raising the necessary funds to meet its obligations and fund its capital program although there is no assurance that this will continue.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, commodity prices and interest rates will affect the Corporation's net earnings. The objective of market risk management is to manage and control market risks exposures within acceptable limits, while maximizing returns.

(i) Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Corporation's revenue is denominated in United States dollars, its operating costs are primarily denominated in Kazakhstan Tenge while its general and administration costs are denominated in either Canadian dollars or Kazakhstan Tenge. To date, the Corporation has not attempted to mitigate these foreign exchange risks.

(ii) Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. The price of gold is impacted by economic events that dictate the levels of supply and demand for the commodity. To date, the Corporation has not attempted to mitigate this commodity price risk. Based on the level of production achieved in the three months ended March 31, 2008, a $10 change in the price of gold, with all other variables held constant, would have resulted in a corresponding change in net earnings after tax of approximately $21,000.

(iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation has a minor exposure to interest rate fluctuations as a result of its advances (see note 12(b)). To date, the Corporation has chosen not to mitigate this risk. Based on the maximum prepayment available under the Pre-Payment Facility, a 1% change in interest rates would have had a corresponding change in after tax net earnings for the three months ended March 31, 2008 of approximately $1,900.

(e) Capital management

The Corporation's policy is to maintain a strong capital base so as not to expose the Corporation to excess risk and to maintain investor confidence. Despite having positive funds flow from operating activities from its gold producing subsidiary, the Corporation is primarily an exploration and development company in which the cost of its capital program exceeds internally generated cash flow. The Corporation has therefore determined that its capital programs should be funded primarily through equity financing rather than debt financing. To date, it has been management's belief that debt financing with limited cash flow to meet obligations of debt repayment was too risky. The Corporation however does review this policy on a regular basis.

(f) Fair value of financial investments

The Corporation's financial instruments as at March 31, 2008 and December 31, 2007 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and advances. The fair values of these financial instruments approximate their carrying amounts due to their short terms to maturity.

## Contractual Obligations

The Corporation has granted a net smelter royalty with respect to the production of minerals from the properties owned by the Corporation in Kazakhstan. The net smelter royalty ranges from 2.5% to 3.0% (depending on the price of gold) of gross revenue as defined in the Agreement.

Under the terms of a Gold Sales and Marketing Agreement, the purchaser has the right to purchase all the gold produced from the Uzboy Project until December 31, 2008.

The Corporation is committed under a lease on premises for future minimum rental payments, exclusive of occupancy costs, to August 31, 2008 totaling $22,874.

Saga Creek is committed under an exclusive supply agreement to June 1, 2011 whereby a contractor has the exclusive right to supply drill and blast services to Saga Creek at the Uzboy Project at approximately $2.07 per cubic meter of material blasted.

The Corporation has no other off balance sheet financing arrangements.

Saga Creek is committed under an exclusive supply agreement to June 1, 2011 whereby a contractor has the exclusive right to supply drill and blast services to Saga Creek at the Uzboy Project at approximately $2.08 per cubic meter of material blasted.

The Corporation has no other off balance sheet financing arrangements.

## Disclosure of Outstanding Share Data

| | **As of March 31, 2008** | Change in 2008 | Issued in 2008 | As of May 28, 2008 |
|---|---|---|---|---|
| Common shares issued and outstanding | **75,578,147** | – | 196,000 | 75,774,147 |
| Common shares issuable upon exercise of vested stock options | **4,035,000** | (14,000) | (196,000) | 3,825,000 |
| Common shares issuable upon exercise of warrants | **2,333,333** | – | – | 2,333,333 |
| Common shares fully diluted | **81,946,480** | (14,000) | – | 81,932,480 |

At March 31, 2008, there were 75,578,147 common shares issued and outstanding and 81,946,480 fully diluted common shares after giving effect to the exercise of all outstanding vested stock options and warrants. Subsequently, up to May 28, 2008, 196,000 common shares were issued upon the exercise of options while 64,000 options expired unexercised. In addition, options to purchase 200,000 common shares of the Corporation were issued of which 50,000 vested immediately.

## Disclosure of Material Components of Expenditures

During the three months ended March 31, 2008, the Corporation spent approximately $1.4 million in capital expenditures on its mining projects. Of this amount, approximately $1.2 million was spent on exploration with the remaining $0.2 million spent on capital projects. Of the $1.2 million spent on exploration, $0.6 million was paid to contractors for 4,923 m of diamond drilling and 2,851 m of RAB drilling. A further $0.2 million was spent on collecting and doing assays on the cores obtained from the drilling program. The remaining $0.6 million related to costs of operating the Corporation's exploration department. Approximately 84% of the exploration costs were related to the Uzboy gold deposit and 16% related to the Shirotnaia zone.

The $0.2 million spent on capital projects included various equipment utilized in the resin stripping and gold processing operations.

During the three months ended March 31, 2008, general and administrative expenses totaled $832,716. Included in this amount was $448,166 of general and administrative costs directly related to Saga Creek operations. Corporate overhead costs accounted for the remaining $384,550, which compares to the $410,779 of corporate overhead costs incurred in the three months ended March 31, 2007.

Saga Creek general and administrative costs include those costs incurred by the Corporation's Saga Creek subsidiary plus those costs incurred in Canada to provide direct administrative support to the Kazakhstan operations. A 3.5% decline in the value of the US dollar in relationship to the Kazakhstan Tenge was responsible for a portion of the $133,218 in increased general and administration costs incurred by the Saga Creek operations. Employee and consultant compensation costs made up $300,830 (67%) of employee and consultant compensation costs during the three months ended March 31, 2008 compared to $225,992 (72%) during the comparable three month period in 2007. The impact of inflationary pressures on salaries in Kazakhstan was largely responsible for the increase. The remaining $147,336 in general and administration expenses for the three months ended March 31, 2008 include corporate, office and professional expenses. This was an increase of $58,381 over the comparable three month period in 2007. Inflationary pressures together with audit fees billed above that which were accrued at December 31, 2008 were responsible for the increase.

Employee costs incurred during the three months ended March 31, 2008 accounted for 54% ($206,910) of the total corporate general and administration costs as compared to 37% ($152,374) of the total in 2006. The majority of the increase was the result of a 17% decline in the average value of the US dollar in relation to the CDN dollar. The remainder of the increase resulted from increases in employee and consultant remuneration.

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 36% ($137,409) of total general and administrative expenses in the three months ended March 31, 2008 as compared to 43% ($175,546) for the comparable three month period in 2007. Lower costs associated with the Corporation's investor relations program more than offset the increase due to the 17% decline in the average value of the US dollar in relation to the CDN dollar.

Office expenses incurred in the three months ended March 31, 2008 of $74,264 (2007 – $70,340) accounted for a further 19% (2007 – 17%) of general and administrative expenses. The variance resulted entirely from the 17% decline in the average value of the US dollar in relation to the CDN dollar.

Professional costs, which includes legal and auditing and outside consulting fees, totaled $25,715 (7%) for the three months ended March 31, 2008 as compared to $12,519 (3%) in comparable three month period in 2007. The 17% decline in the average value of the US dollar in relation to the CDN dollar accounted for 25% of the variance. The remainder was a result of higher audit and legal fees than that which was accrued at the prior year end.

During the three months ended March 31, 2008, the Corporation billed DOT $59,748 (16%) under the Contract. The Contract went into effect September 1, 2007. These fees were recorded as an offset to general and administration expenses.

## BUSINESS RISKS

### 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 the Corporation may be subject to risks from operations, mining law, environmental regulations, permits and licenses and financing.

The Corporation focuses exploration efforts in areas in which it has existing knowledge and expertise. Exploration activities rely on the exploration results collected at that time and on the professional judgment of people involved in the exploration business. There can be 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 the economic feasibility of the project may change.

The long-term profitability of the Corporation'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 Corporation.

### Operations Risk

Operations risk relates to the ability to recover metal from an established mineral reserve. Using skilled and experienced professional staff reduces this risk. Using the latest technologies and controlling costs to maximize profitability also assists 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. Currently, the Corporation maintains insurance as mandated under Kazakhstan law. Management reviews this insurance on a regular basis to ensure it is adequate for business purposes.

### Country Risk

Alhambra's operations are subject to economic, political and social risks inherent in doing business in Kazakhstan. These risks include matters arising out of the policies of the government, economic conditions, imposition of, or changes to, taxes and regulations, foreign currency exchange fluctuations and the enforceability of contract rights.

### Regulations and Mining Law

Alhambra's mining operations and exploration activities are subject to the laws and regulations of Kazakhstan. There is no assurance that these laws will not change in the future.

### Environmental Factors

All phases of the Corporation's operations are subject to environmental regulation in Kazakhstan. Environmental legislation is evolving in a manner which will require 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. Although Alhambra takes 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 Alhambra's operations or result in substantial costs and liabilities in the future.

### Permits and Licenses

The operations of the Corporation require permits from the government of Kazakhstan. The Corporation has secured the necessary permits for its current exploration and operations programs. There can be no assurance that the Corporation will be able to obtain all necessary permits that may be required to carry out its operations in the future.

### Financing Risks

Continued exploration and development of the Uzboy Project is dependent on Alhambra's ability to obtain the funds necessary to finance these planned activities. While the Corporation is currently producing gold, there is no assurance that sufficient quantities of gold will be recovered to ensure adequate funds will be available to undertake the planned programs. Failure to do so may result in the Corporation seeking additional equity to finance its programs. While the Corporation has been successful in attracting equity financing in the past, there can be no assurance that additional funding will be available in the future. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration plans.

### Income and Other Taxes

The taxation system in Kazakhstan is relatively new and is characterized by numerous taxes and frequent changes in legislation, official pronouncements and court decisions. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Kazakhstan 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 the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

## CHANGES IN ACCOUNTING POLICIES

The following summarizes accounting changes that became relevant to the Corporation's consolidated financial statements, effective January 1, 2008.

### Inventories

This new standard establishes standards for the measurement and disclosure of inventories. The Corporation does not expect its financial statements to be significantly impacted by the application of this standard.

### Goodwill and intangible assets

The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment for preproduction and start-up costs and requires that these costs be expensed as incurred. The Corporation does not expect its financial statements to be significantly impacted by the application of this standard.

### Financial Instruments disclosures and financial instruments presentation

These standards revise and enhance disclosure requirements while carrying forward presentation requirements. These new standards place increased emphasis on disclosure about the nature and extent of risk arising from financial instruments and

how the entity manages those risks. The adoption of these new accounting standards will not impact the amounts reported in the Corporation's consolidated financial statements other than disclosure requirements.

**International financial reporting standards**

In January 2006 the CICA Accounting Standards Board adopted a strategic plan for accounting standards in Canada and under the current plan, accounting standards for public companies in Canada are expected to converge with International Financial Reporting Standards by the end of 2011. The Corporation continues to monitor the developments in regards to the plan and has not yet assessed the impact of these prospective changes.

## DISCLOSURE CONTROLS AND PROCEDURES

The Corporation's CEO and CFO are responsible for establishing and maintaining (i) disclosure controls and procedures in respect of material information and (ii) internal controls over financial reporting. Disclosure controls and procedures should ensure that material information is accumulated and communicated to management to allow timely decisions regarding disclosure. Internal controls over financial reporting should provide reasonable assurance that the Corporation's financial reporting is reliable and in accordance with GAAP.

Because of their inherent limitations, disclosure controls and procedures and internal controls over financial reporting may not prevent or detect omissions, misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met.

## SUMMARY OF QUARTERLY RESULTS

| Three months ended, ($) | June 30 2007 | September 31 2007 | December31 2007 | **March 31 2008** |
|---|---|---|---|---|
| Income (loss) | (871,412) | 67,510 | 89,431 | **(815,720)** |
| Basic and diluted net income (loss) per share | (0.01) | 0.00 | 0.00 | **(0.01)** |

| Three months ended, ($) | June 30 2006 | September 31 2006 | December 31 2006 | **March 31 2007** |
|---|---|---|---|---|
| Income (loss) | (602,592) | 62,277 | (766,892) | **(598,878)** |
| Basic and diluted net income (loss) per share | (0.01) | 0.00 | 0.01 | **(0.01)** |

Operations at Saga Creek are seasonal such that given no other major operational issues, it is expected that the gold sales during the cold weather months will be less than other months. As a result, monthly sales of gold during the months of December through May will be less than during other months of the year. The Corporation does heat the leaching solution to help offset some of the effects of the cold winters. This trend was consistent during the 2006 and 2007 years and continued into the first quarter of 2008. Results are also impacted by stock-based compensation charges which are affected primarily by the timing of the issue of options. The unusually large loss reported for the fourth quarter of 2006 was a result of the high stock-based compensation charge related to options issued during that quarter.

# Interim Consolidated Balance Sheets

(Expressed in U.S. Dollars)

| | March 31, 2008 (unaudited) | December 31, 2007 (audited) |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | **$ 804,360** | $ 3,056,812 |
| Accounts receivable | **1,570,512** | 862,104 |
| Deposits and prepaid expenses | **1,124,614** | 53,750 |
| Supplies inventory | **770,339** | 807,774 |
| Work in progress (note 4) | **6,346,862** | 5,626,570 |
| | **10,616,687** | 10,407,010 |
| Mineral assets (note 5) | **26,528,047** | 25,630,333 |
| Equipment | **52,659** | 57,869 |
| Investment in DOT Resources Ltd. (note1(b)) | **747,065** | 834,707 |
| | **$ 37,944,458** | $ 36,929,919 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current liabilities:** | | |
| Accounts payable and accrued liabilities | **$ 3,416,002** | $ 1,677,645 |
| Advances (note 12(b)) | **744,841** | 744,965 |
| | **4,160,843** | 2,422,610 |
| Asset retirement obligations (note 6) | **386,280** | 374,427 |
| Future income taxes | **1,153,535** | 1,427,957 |
| **Shareholders' equity** | | |
| Share' capital (note 7(b)) | **34,432,307** | 34,432,307 |
| Warrants (note 7(c)) | **675,595** | 675,595 |
| Contributed surplus (note 7(d)) | **3,285,764** | 2,576,263 |
| Accumulated other comprehensive income (note 8) | **605,608** | 960,514 |
| Deficit | **(6,755,474)** | (5,939,754) |
| | **32,243,800** | 32,704,925 |
| Nature of operations and basis of presentation (note 1) | | |
| Commitments (notes 12) | | |
| Subsequent event (note 13) | | |
| Segment information (notes 14) | | |
| | **$ 37,944,458** | $ 36,929,919 |

See accompanying notes to consolidated financial statements.

# Interim Consolidated Statements of Loss and Deficit

Three months ended March 31, 2008 and 2007

(Unaudited)

(Expressed in U.S. Dollars)

| | 2008 | 2007 |
|---|---|---|
| **Revenue:** | | |
| Sales | $ 2,899,994 | $ 2,226,779 |
| Less net smelter royalty | 87,000 | 66,803 |
| | 2,812,994 | 2,159,976 |
| Interest and other | 11,610 | 16,865 |
| | 2,824,604 | 2,176,841 |
| **Expenses:** | | |
| Operations | 1,768,986 | 1,165,574 |
| General and administrative | 832,716 | 725,727 |
| Interest | 25,499 | 30,902 |
| Stock-based compensation (note 7(d)) | 675,208 | 409,419 |
| Depreciation, depletion and accretion | 261,227 | 223,788 |
| Foreign exchange loss (gain) | (112,198) | 51,651 |
| | 3,451,438 | 2,607,061 |
| Loss before the undernoted | (626,834) | (430,220) |
| Income tax expense | | |
| Current | 412,243 | 44,611 |
| Future | (274,422) | 124,046 |
| | 137,821 | 168,657 |
| Loss before equity loss | (764,655) | 598,877 |
| Equity loss | 51,065 | – |
| Net loss | (815,720) | (598,877) |
| Deficit, beginning of period | (5,939,754) | (4,626,405) |
| Deficit, end of period | $ (6,755,474) | $ (5,225,282) |
| Per share (note 11): | | |
| Net loss per share – basic and diluted | $ (0.01) | $ (0.01) |

See accompanying notes to consolidated financial statements.

# Interim Consolidated Statements of Comprehensive Income (Loss)

Three months ended March 31, 2008 and 2007

(Unaudited)

(Expressed in U.S. Dollars)

| | 2008 | 2007 |
|---|---|---|
| Net loss | $ (815,720) | $ (598,877) |
| Translation gains (losses) on self-sustaining operations | 354,906 | 69,955 |
| Total comprehensive loss | $ (460,814) | $ (528,922) |

See accompanying notes to consolidated financial statements.

# Interim Consolidated Statements of Cash Flows

Three months ended March 31, 2008 and 2007

(Unaudited)

(Expressed in U.S. Dollars)

| | 2008 | 2007 |
|---|---|---|
| **Cash provided by (used in):** | | |
| **Operating:** | | |
| Net loss | $ **(815,720)** | $ (598,877) |
| Items not involving cash: | | |
| Stock-based compensation | **675,208** | 409,419 |
| Depreciation, depletion and accretion | **261,227** | 223,788 |
| Future income taxes | **(274,422)** | 124,046 |
| Equity loss | **51,065** | – |
| | **(102,642)** | 158,376 |
| Change in non-cash working capital (note 13) | **(221,805)** | 84,937 |
| | **(324,447)** | 243,313 |
| **Financing:** | | |
| Issuance of common shares and warrants | **–** | 109,315 |
| | **–** | |
| **Investing:** | | |
| Expenditures on mineral assets | **(1,360,363)** | (1,570,628) |
| Acquisition of equipment | **(533)** | (378) |
| Change in non cash working capital (note 10) | **(502,091)** | 126,382 |
| | **(1,862,987)** | (1,444,624) |
| Effect of exchange rate changes on cash and cash equivalents | **(65,018)** | 9,146 |
| Increase in cash and cash equivalents | **(2,252,452)** | (1,082,850) |
| Cash and cash equivalents, beginning of period | **3,056,812** | 2,538,038 |
| Cash and cash equivalents, end of period | $ **804,360** | $ 1,455,188 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | $ **25,499** | $ 30,902 |
| Taxes paid | **81,951** | 51,660 |

See accompanying notes to consolidated financial statements.

# Notes to Interim Consolidated Financial Statements

Three months ended March 31, 2008 and 2007

(Unaudited)

(Expressed in U.S. Dollars, unless otherwise stated)

## 1 NATURE OF OPERATIONS AND BASIS OF PRESENTATION

**(a) Nature of operations:**

The business of Alhambra Resources Ltd. ("Alhambra" or the "Corporation") consists of the exploration for and development of mineral properties in the Republic of Kazakhstan ("Kazakhstan"). The Corporation's operations are subject to economic, political and social risks inherent in doing business in Kazakhstan. 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.

**(b) Corporate reorganization:**

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. The Corporation continues to hold and operate its gold producing assets situated in Kazakhstan, while DOT holds and conducts exploration activities on the Corporation's former Canadian DOT property ("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 common shares of DOT which represents approximately 36% of the outstanding common shares of DOT.

**(c) Basis of presentation:**

The consolidated financial statements of the Corporation have been prepared by management in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure on contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

Due to Alhambra's continued net losses and limited working capital, its ability to continue with its business plan is dependent upon its ability to raise additional capital to fund these activities and on achieving positive earnings and cash flow.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assume that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

If the going concern assumption was not appropriate for these consolidated financial statements, then material adjustments would be necessary to the carrying amounts of the assets and liabilities, the reported revenues and expenses and the balance sheet classifications used.

**(d) Change in reporting currency:**

At December 31, 2007 the Corporation changed its reporting currency from Canadian dollars to United States dollars as it believes that the United States dollar is more representative of the industry that it operates within as well as the location where the majority of its assets are located. The change was made retroactively. Prior to the change in reporting currency the net loss reported for the three months ended March 31, 2007 was CDN$799,291 or CDN$0.01 per basic and diluted share. As a result of the change in reporting currency, the net loss for the three months ended March 31, 2007 is now US$598,877 or US$0.01 per basic and diluted share.

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## SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Alhambra have been prepared by management in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from the estimates.

These interim consolidated financial statements have been prepared by management following the same accounting policies and methods that were used and disclosed in the audited consolidated financial statements for the year ended December 31, 2007, except as disclosed below. These consolidated financial statements include all adjustments necessary to present fairly the results for the interim period ended March 31, 2008. These interim consolidated financial statements should be read in conjunction with the most recent audited consolidated financial statements and notes filed on SEDAR for the year ended December 31, 2007.

**(a) New accounting policies**

The following summarizes accounting changes that became relevant to the Corporation's consolidated financial statements, effective January 1, 2008.

(i) Inventories

This new standard establishes standards for the measurement and disclosure of inventories. The Corporation does not expect its financial statements to be significantly impacted by the application of this standard.

(ii) Goodwill and intangible assets

The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment for preproduction and start-up costs and requires that these costs be expensed as incurred. The Corporation does not expect its financial statements to be significantly impacted by the application of this standard.

(iii) Financial Instruments disclosures and financial instruments presentation

These standards revise and enhance disclosure requirements while carrying forward presentation requirements. These new standards place increased emphasis on disclosure about the nature and extent of risk arising from financial instruments and how the entity manages those risks. The adoption of these new accounting standards will not impact the amounts reported in the Corporation's consolidated financial statements other than disclosure requirements.

(iv) International financial reporting standards

In January 2006 the CICA Accounting Standards Board adopted a strategic plan for accounting standards in Canada and under the current plan, accounting standards for public companies in Canada are expected to converge with International Financial Reporting Standards by the end of 2011. The Corporation continues to monitor the developments in regards to the plan and has not yet assessed the impact of these prospective changes.

## 3 FINANCIAL INSTRUMENTS

**(a) Overview**

The Corporation has exposure to the following risks from its use of financial instruments:

(i) Credit risk

(ii) Liquidity risk

(iii) Market risk

This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital. Further quantitative disclosures are included throughout these financial statements.

The board of directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. These risks are discussed with management and to the extent the board of directors determines that the risks are of such a nature that they need to be mitigated, procedures are put in place. To date, no specific risk management tools have been put in place to mitigate these risks.

**(b) Credit risk**

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its obligation, and arises principally from Saga Creek's receivable from the Government of Kazakhstan owing as a result of refundable Value Added Tax ("VAT") paid on goods and services purchased by Saga Creek. To date, Saga Creek has been able to collect all VAT due and owing. As of March 31, 2008, 64% of the recorded value of accounts receivable relates to VAT.

Cash and cash equivalents consist of bank balances and short-term deposits that are redeemable at any time at the option of the Corporation. The Corporation manages the credit exposure related to short-term investments by depositing the cash equivalents only with large banks within a particular region which management believes the risk of loss to be remote.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Corporation does not have an allowance for doubtful accounts as at March 31, 2008 and December 31, 2007 nor was it required to write-off any receivables during the three months ended March 31, 2008 and 2007.

**(c) Liquidity risk**

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they come due. While the Corporation has operations that generate cash flow to meet such obligations, it remains primarily an exploration and development company. Saga Creek has been able to generate sufficient cash flow to meet its operating obligations and contribute to its capital expenses, however, on a consolidated basis, the Corporation has required external financing to ensure that all of its obligations are met on a timely basis. To date the Corporation has been successful in raising the necessary funds to meet its obligations and fund its capital program although there is no assurance that this will continue.

**(d) Market risk**

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, commodity prices and interest rates will affect the Corporation's net earnings. The objective of market risk management is to manage and control market risks exposures within acceptable limits, while maximizing returns.

(i) Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Corporation's revenue is denominated in United States dollars, its operating costs are primarily denominated in Kazakhstan Tenge while its general and administration costs are denominated in either Canadian dollars or Kazakhstan Tenge. To date the Corporation has not attempted to mitigate these foreign exchange risks.

(ii) Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. The price of gold is impacted by economic events that dictate the levels of supply and demand for the commodity. To date the Corporation has not attempted to mitigate this commodity price risk. Based on the level of production achieved for the three months ended March 31, 2008, a $10 change in the price of gold, with all other variables held constant, would have resulted in a corresponding change in net earnings after tax of approximately $21,000.

(iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation has a minor exposure to interest rate fluctuations as a result of its advances (see note 12(b)). To date, the Corporation has chosen not to mitigate this risk. Based on the maximum prepayment available under the Pre-Payment Facility, a 1% change in interest rates would have had a corresponding change in after tax net earnings for the three months ended March 31, 2008 of approximately $1,900.

**(e) Capital management**

The Corporation's policy is to maintain a strong capital base so as not to expose the Corporation to excess risk and to maintain investor confidence. Despite having positive cash flow from operating activities from its gold producing subsidiary, the Corporation is primarily an exploration and development company in which the cost of its capital program exceeds internally generated cash flow. The Corporation has therefore determined that its capital programs should be funded primarily through equity financing rather than debt financing. To date, it has been management's belief that debt financing with limited cash flow to meet obligations of debt repayment is too risky. The Corporation however does review this policy on a regular basis.

**(f) Fair value of financial investments**

The Corporation's financial instruments as at March 31, 2008 and December 31, 2007 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and advances. The fair values of these financial instruments approximate their carrying amounts due to their short terms to maturity.

## 4 WORK IN PROGRESS

Work in progress consists of the cost of gold in various stages of production as follows:

| | **2008** | 2007 |
|---|---|---|
| Pad | **$ 5,171,043** | $ 4,422,620 |
| Resin | **665,769** | 479,204 |
| Stripping plantry | **510,050** | 724,746 |
| Balance, end of period | **$ 6,346,862** | $ 5,626,570 |

## 5 MINERAL ASSETS

Mining assets consist of the following:

| | **2007** | 2006 |
|---|---|---|
| Exploration and development costs, net of incidental revenue from sales of gold and silver of $ 7,854,536 (2007 - $ 7,854,536) and accumulated amortization of $ 647,566 (2006 - $ 613,923) | **$ 17,899,695** | $ 16,886,923 |
| Equipment, net of accumulated depreciation of $1,896,459 (2007 - $1,625,961) | **8,628,352** | 8,738,130 |
| Construction in progress | **–** | 5,280 |
| | **$ 26,528,047** | $ 25,630,333 |

All expenditures relating to the Uzboy Project were capitalized up to April 30, 2006 being the date of commencement of commercial operations. These expenditures consisted of pre-production costs, property and equipment and construction in progress costs, general and administration costs and interest on the Pre-payment Gold Sales Facility Agreement (note 12(b)). Pre-production costs are expenditures that related to geological exploration, pre-production activities, and directly attributable overhead expenditures.

Costs excluded from costs subject to depletion at March 31, 2008 totaled $16,383,539 (December 31, 2007 - $15,103,567) which represents costs related to the exploration of those portions of the Corporation's Uzboy licenses not currently in production.

During the three months ended March 31, 2008, the Corporation capitalized $33,503 of general and administrative costs to mining assets all of which relates to stock-based compensation expense.

## 6 ASSET RETIREMENT OBLIGATIONS

The following table presents the reconciliation of the asset retirement obligations associated with the retirement of the Uzboy Project in Kazakhstan.

| | **2008** | 2007 |
|---|---|---|
| Balance, beginning of period | **$ 374,427** | $ 311,000 |
| Revisions to previous estimates | **(490)** | 17,547 |
| Accretion expense | **12,343** | 45,880 |
| Balance, end of period | **$ 386,280** | $ 374,427 |

The Corporation estimates that the total undiscounted cash flows required to settle its asset retirement obligations at March 31, 2008 is approximately $1,500,000, and estimated to be incurred starting in 2020. A credit adjusted risk free rate of 14% and an inflation rate of 9% were used to calculate the fair value of the asset retirement obligations.

## 7 SHARE CAPITAL

**(a) Authorized**

Unlimited voting common shares
Unlimited non-voting preferred shares, of which none have been issued

**(b) Issued and outstanding**

| | **Three months ended March 31, 2008** | | **Year ended December 31, 2007** | |
|---|---|---|---|---|
| **Common shares** | Number | Amount | Number | Amount |
| Balance, beginning of period | **75,578,147** | **$ 34,432,307** | 69,061,480 | $26,919,818 |
| Pursuant to private placements | – | – | 4,666,667 | 7,011,921 |
| Share issuance costs | **-** | **-** | – | (143,594) |
| Amount ascribed to warrants | **-** | **-** | – | (675,595) |
| Exercise of stock options | **-** | **-** | 1,850,000 | 915,636 |
| Transfer from contributed surplus | **-** | **-** | – | 404,121 |
| Balance, end of period | **75,578,147$** | **34,432,307** | 75,578,147 | $34,432,307 |

**(c) Warrants:**

| | **Three months ended March 31, 2008** | | **Year ended December 31, 2007** | |
|---|---|---|---|---|
| | Number | Amount | Number | Amount |
| Balance, beginning of period | **2,333,333** | **$ 675,595** | – | $ – |
| Pursuant to private placements | **-** | **-** | 2,333,333 | 675,595 |
| Balance, end of period | **2,333,333** | **$ 675,595** | 2,333,333 | $ 675,595 |

| | Three months ended March 31, 2008 | | | Year ended December 31, 2007 | | |
|---|---|---|---|---|---|---|
| | Number of warrants | | Weighted average exercise price | Number of warrants | | Weighted average exercise price |
| Outstanding, beginning of period | **2,333,333** | **$** | **2.00** | – | $ | – |
| Issued | **–** | | **–** | 2,333,333 | | 2.00 |
| Exercised | **–** | | **–** | – | | – |
| Expired | **–** | | **–** | – | | – |
| Outstanding, end of period | **2,333,333** | **$** | **2.00** | 2,333,333 | $ | 2.00 |
| Exercisable, end of period | **2,333,333** | **$** | **2.00** | 2,333,333 | $ | 2.00 |

**(d) Options:**

The Corporation has a stock option plan under which directors, officers, employees and consultants of the Corporation are eligable to receive stock options. The aggregate number of common shares to be issued upon the exercise of all options granted under the plan shall not exceed 10% of the issued common shares of the Corporation at the time of granting of the options. Options granted under the plan generally have a term of three years but may not exceed five years and vest at terms to be determined by the directors at the time of grant. The exercise price of each option shall be determined by the directors at the time of grant but shall not be less than the price permitted by the policies of the stock exchanges on which the Corporation's common shares are then listed.

A summary of the status of the Corporation's stock options is as follows:

| | Three months ended March 31, 2008 | | | Year ended December 31, 2007 | | |
|---|---|---|---|---|---|---|
| | Number of options | | Weighted average exercise price | Number of options | | Weighted average exercise price |
| Outstanding, beginning of period | **3,905,000** | **$** | **1.18** | 5,555,000 | $ | 0.81 |
| Granted | **2,550,000** | | **1.12** | 200,000 | | 1.45 |
| Exercised | **–** | | **–** | (1,850,000) | | 0.50 |
| Outstanding, end of period | **6,455,000** | **$** | **1.13** | 3,905,000 | $ | 1.18 |
| Exercisable, end of period | **4,035,000** | **$** | **1.08** | 3,397,500 | $ | 1.12 |

The following table summarizes information about stock options outstanding and exercisable at March 31, 2008.

| | Outstanding | | Exercisable | |
|---|---|---|---|---|
| Exercise price | Number | Weighted average remaining contractual life (years) | Number | Weighted average remaining contractual life (years) |
| CDN $0.55 | 1,060,000 | 1.64 | 1,060,000 | 1.64 |
| CDN $0.76 | 75,000 | 0.73 | 75,000 | 0.73 |
| CDN $1.06 | 940,000 | 0.79 | 940,000 | 0.79 |
| CDN $1.15 | 2,550,000 | 2.82 | 637,500 | 2.82 |
| CDN $1.60 | 1,830,000 | 1.77 | 1,322,500 | 1.57 |
| | 6,445,000 | 2.01 | 4,035,000 | 1.59 |

The fair value of the options granted is estimated on the date of grant using the Black-Scholes option-pricing model. The fair value of the options was calculated to be $1,524,541 using the following weighted-average assumptions:

| | **2008** |
|---|---|
| Expected dividend yield (%) | **–** |
| Expected life (years) | **3.00** |
| Risk-free interest rate (%) | **3.19** |
| Expected volatility (%) | **80** |
| Fair value of options granted ($/share) | **0.60** |

A reconciliation of contributed surplus is provided below:

| | **Three months ended March 31, 2008** | Year ended December 31, 2007 |
|---|---|---|
| Balance, beginning of period | **$ 2,576,263** | $ 1,913,473 |
| Stock-based compensation expense | **675,208** | 979,119 |
| Stock-based compensation capitalized | **34,293** | 87,792 |
| Transfer to share capital on the exercise of stock options | **–** | (404,121) |
| Balance, end of period | **$ 3,285,764** | $ 2,576,263 |

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## ACCUMULATED OTHER COMPREHENSIVE INCOME

| | **Three months ended March 31, 2008** | Year ended December 31, 2007 |
|---|---|---|
| Balance, beginning of period | **$ 960,514** | $ (223,791) |
| Translation gains (losses) on self-sustaining operations | **(354,906)** | 1,184,305 |
| Balance, end of year | **$ 605,608** | $ 960,514 |

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## RELATED PARTY TRANSACTIONS

(a) During the three months ended March 31, 2008, the Corporation paid $17,849 (2007 – $30,726) in consulting fees to a corporation controlled by a director and former officer of the Corporation. Of this amount, $3,286 (2007 – $9,218) was capitalized to exploration and development costs.

(b) During the three months ended March 31, 2008, the Corporation incurred $16,831 (2007 - $10,864) in costs from a law firm in which an officer of the Corporation is a partner. All of the costs were expensed as legal expenses.

(c) On August 29, 2007, the Corporation and DOT entered into an Administrative and Corporate Services Contract (the "Contract") whereby DOT agrees to engage the Corporation to provide management, administration and corporate services to DOT. The Contract provides for a monthly remuneration of CDN$20,000 plus all reasonable out of pocket expenses and is for an indefinite term but may be terminated by either party upon providing thirty (30) days prior written notice. The Corporation billed DOT CDN$60,000 under the Contract. The amount uncollected as of March 31, 2008 was $nil.

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

## 10 SUPPLEMENTARY CASH FLOW INFORMATION

Changes in non-cash working capital are as follows:

| | Three months ended March 31 | |
|---|---|---|
| | **2008** | 2007 |
| Accounts receivable | **$ (708,408)** | $ (220,442) |
| Deposits and prepaid expenses | **(1,070,864)** | 10,304 |
| Supplies inventory | **37,435** | 33,603 |
| Work in progress | **(720,292)** | (253,885) |
| Accounts payable and accrued liabilities | **1,738,357** | 668,113 |
| Advances | **(124)** | (26,374) |
| | **$ (723,896)** | $ 211,319 |
| Relating to: | | |
| Operating activities | **$ (221,805)** | $ 84,937 |
| Investing activities | **(502,091)** | 126,382 |
| | **$ (723,896)** | $ 211,319 |

## 11 LOSS PER SHARE

Basic loss per share is calculated using the weighted average number of shares outstanding during the period. .

| | **2008** | 2007 |
|---|---|---|
| Basic and diluted weighted average shares outstanding | **75,578,147** | 69,248,091 |

No options or warrants have been included in the calculation of per share amounts as their effect would have been anti-dilutive.

## 12 COMMITMENTS

**(a)** The Corporation has granted a net smelter royalty with respect to the production of minerals from the properties owned by the Corporation in Kazakhstan. The net smelter royalty ranges from 2.5% to 3.0% (dependent on the price of gold) of gross revenue as defined in the Agreement, and amounted to $87,655 for the three months ended March 31, 2008 (2007 - $67,376).

**(b) Gold Sales and Marketing Agreement:**

On December 14, 2004 the Corporation entered into a Gold Sales and Marketing Agreement (the "Sales Agreement") and a $780,000 Pre-Payment Gold Sales Facility Agreement (the "Pre-Payment Facility"). Under the Sales Agreement, the purchaser has the right to purchase all the gold produced from the Uzboy Project until December 31, 2007. Effective January 1, 2008, the Sales Agreement was extended to December 31, 2008. The Corporation is responsible for all costs related to transportation and refining and pays a marketing fee of 0.50% (0.95% prior to January 1, 2008) of gross revenue. Under the Pre-Payment Facility, the Corporation has the right to receive up to $750,000 as a pre-payment for gold to be sold to the vendor under the Sales Agreement. Amounts drawn under the Pre-Payment Agreement bear interest at LIBOR plus 8% and are secured by pledge of future deliveries of gold up to a maximum value of $1,000,000 and a corporate guarantee by the Corporation. Any unused portion under the Pre-Payment Facility bears interest at LIBOR plus 3%.

At March 31, 2008, advances received from the vendor were $744,841 (December 31, 2007 – $744,965).

**(c) Lease Agreement on Premises:**

The Corporation is committed under a lease on premises for future minimum rental payments, exclusive of occupancy costs, as follows:

| | |
|---|---|
| 2008 | $ 22,874 |

**(d)** Effective June 1, 2006, Saga Creek entered into an exclusive supply agreement according to which a contractor has the exclusive right to supply drill and blast services to Saga Creek at the Uzboy gold deposit for five years. Under the terms of the contract, Saga Creek is required to pay to the Contractor a fixed monthly amount of approximately $54,000 plus approximately $0.89 per cubic meter of material blasted. The pricing terms of the contract are reviewed on an annual basis. The contract can be terminated without penalty after three years under certain conditions. The terms of the Contract were renegotiated such that effective March 1, 2008, the cost of drill and blast services was changed to be approximately $2.07 per cubic meter of material blasted.

## 13 SUBSEQUENT EVENT

**(a)** Subsequent to March 31, 2008, 196,000 common shares were used upon the exercise of stock options for total proceeds of CDN$107,800.

**(b)** Subsequent to March 31, 2008, the Corporation issued stock options to purchase 200,000 common shares of the Corporation at an exercise price of CDN$1.15 per share. The options expire in three years and vest as to 25% immediately and 25% each six months thereafter.

## 14 SEGMENT INFORMATION

As at March 31, 2008, the Corporation and its subsidiaries operate in one reportable segment, the exploration for and the development of mineral properties. Identifiable assets, revenues, and net income (loss) in each of its geographic areas are as follows:

| **Three months end March 31, 2008** | **Kazakhstan** | **Corporate** | **Total** |
|---|---|---|---|
| Sales of gold | **$ 2,899,994** | **$ –** | **$ 2,899,994** |
| Net income (loss) | **255,780** | **(1,071,500)** | **(815,720)** |
| Depreciation, depletion and accretion | **257,654** | **3,573** | **261,227** |
| Assets | **35,047,574** | **2,896,884** | **37,944,458** |
| Capital expenditures | **1,360,363** | **533** | **1,360,896** |

| Three months ended March 31, 2007 | Kazakhstan | Corporate | Total |
|---|---|---|---|
| Sales of gold | $ 2,226,779 | $ – | $ 2,226,779 |
| Net income (loss) | 209,197 | (808,074) | (598,877) |
| Depreciation, depletion and accretion | 220,402 | 3,386 | 223,788 |
| Assets as of December 31, 2007 | 32,848,070 | 4,081,849 | 36,929,919 |
| Capital expenditures | 1,570,628 | 378 | 1,571,006 |

# Corporate Information

## DIRECTORS

**John J. Komarnicki**
Chairman and Chief Executive Officer
Alhambra Resources Ltd.
Calgary, Alberta, Canada

**James S. Bunyan** (2) (3)
Financial Consultant
London, England

**Richard K. Gorton** (2) (4)
Technical Consultant
Tanja, New South Wales, Australia

**Michael E. Hriskevich** (1) (4)
Businessman
Calgary, Alberta, Canada

**Graham A. Karklin** (3) (4)
Consulting Metallurgist
Vancouver, B.C., Canada

**Gordon L. Levang** (1) (3)
Businessman
Calgary, Alberta, Canada

**Elmer B. Stewart** (4)
Professional Geologist
Calgary, Alberta, Canada

**Clarence K. Wagenaar** (1) (2)
Businessman
Calgary, Alberta, Canada

(1) Audit Committee
(2) Corporate Governance
(3) Compensation Committee
(4) Technical Committee

## OFFICERS

**John J. Komarnicki**
Chairman and Chief Executive Officer

**Donald D. McKechnie**
Vice President Finance and
Chief Financial Officer

**Ihor P. Wasylkiw**
Vice President and Chief Information Officer

**Michael J. Perkins**
Corporate Secretary

## REGISTRAR AND TRANSFER AGENT

**Olympia Trust Company**
Calgary, Alberta, Canada

## AUDITORS

**KPMG LLP**
Calgary, Alberta, Canada

## BANKERS

**Royal Bank of Canada**
Calgary, Alberta, Canada

## LEGAL COUNSEL

**Borden Ladner Gervais LLP**
Calgary, Alberta, Canada

**Aequitas Law Firm**
Almaty, Kazakhstan

## INDEPENDENT GEOLOGICAL CONSULTANTS

**ACA Howe International Limited**
Toronto, Ontario, Canada

## OFFICE ADDRESS

Corporate Office

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## INVESTOR RELATIONS

Email: ir@alhambraresources.com

## CONTACTS

**Ihor P. Wasylkiw**
Vice President and Chief Information Officer

Tel: (403) 508-4953
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**Jim M. Clarke**
Tel: (888) 290-1335 (toll free)

## SHARE LISTINGS

**The Toronto Venture Stock Exchange**
Trading Symbol - ALH

**Frankfurt Stock Exchange, Open Market**
Trading Symbol – A4Y

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## COMPANY OVERVIEW

Alhambra Resources Ltd. (“Alhambra” or the “Corporation”) is a Canadian based international exploration and production corporation, celebrating its sixth year of operations in the Republic of Kazakhstan. It is exploring its 2.7 million acre property in a prolific gold belt which currently hosts numerous world-class gold deposits. Alhambra’s shares are listed in Canada and Germany.

## FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that involve risks and uncertainties. These statements relate to the Corporation’s future plans, objectives, expectations and intentions. These statements are identified by the use of words such as “may”, “will”, “expect”, “anticipate”, “intend”, “plan”, “estimate”, “believe”, “continue” or other similar expressions. These forward-looking statements reflect management’s current expectations and assumptions as to future events that may not prove to be accurate. Actual results are subject to a number of risks and uncertainties and could differ materially from those discussed in these statements. In light of the many risks and uncertainties surrounding our business and operations, you should keep in mind that the forward-looking statements described in this document may not transpire. The Corporation undertakes no obligation, and does not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required under applicable securities laws.

**Alhambra Resources Ltd.**
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