Quarter Two
2008

alhambra

A Message to Shareholders

Alhambra Resources Ltd. ("Alhambra" or the "Corporation") announces its financial and operating results for the quarter ended June 30, 2008.

All amounts related to the financial results are expressed in United States dollars unless otherwise indicated.

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 based on the sale of 3,272 ounces
- Generated $0.7 million of positive funds flow and marginal net income from mining operations
- The Corporation recorded funds flow provided from operating activities of $0.2 million ($0.00/share) and a net loss of $1.0 million ($0.01/share)
- Received an updated National Instrument 43-101 reserve estimate
- Spent $2.0 million on capital expenditures of which $0.7 million was on exploration
- Cash operating costs were $589.86 per ounce of gold sold
- Completed 15,306 metres of Reverse Air Blast drilling
- Stacked 4,116 ounces of recoverable gold
- The recoverable gold in work in process as of June 30, 2008 was 24,124 ounces
- $0.7 million in exploration capital planned for second half of 2008

OVERVIEW

The crushing unit was commissioned at the Uzboy gold deposit in the second quarter of 2008. This unit is being used to crush the higher grade oxide gold ore from the West zone of the Uzboy gold deposit. It will ensure optimal crushing and it is expected that blending of the ore from both the West and East zones will lead to an overall higher average gold grade.

FINANCIAL HIGHLIGHTS

(in US$ except per share amounts)	Three months ended June 30 2008	2007	Six Months ended June 30 2008	2007
Revenue from gold sales	**$ 2,927,788**	$ 3,215,853	**$ 5,827,782**	$ 5,442,632
Net loss	**(973,943)**	(871,412)	**(1,789,663)**	(1,470,289)
Per share (basic and diluted)	**(0.01)**	(0.01)	**(0.02)**	(0.02)
Weighted average shares outstanding				
Basic and diluted	**75,676,609**	69,771,837	**75,627,378**	69,511,411
Shares outstanding at end of period	**75,774,147**	70,408,980	**75,774,147**	70,408,980

For the second quarter of 2008, the Corporation recorded a net loss of $1.0 million, or $0.01 per basic and diluted share. This compares to a loss of $0.9 million or $0.01 per basic and diluted share in 2007. Funds flow provided from operating activities for the quarter was $0.2 million or $0.00 per basic and diluted share as compared to funds flow utilized in operations of $0.1 million or $0.00 per basic and diluted share in 2007. This represents a positive increase of just over $0.2 million.

Revenue from the sale of gold amounted to $2.9 million. This was realized from the sale of 3,272 ounces ("ozs") of gold at an average price of $894.80 per ounce ("/oz"). The per oz operating cost for the second quarter of 2008 was $589.86/oz sold. This was higher than the $339.81/oz incurred during the second 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. As mentioned in the first quarter 2008, Alhambra anticipates that as production and sales continue to increase in the third and fourth quarters of 2008, 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 second quarter of 2008, a total of 510,128 tonnes of waste was mined and 212,250 tonnes of ore at a grade of 0.86 grams per tonne ("g/t") of gold was stacked on the heap leach pads. This gold grade is 21% lower than that achieved in the second quarter of 2007, but is 6% higher than that achieved in the first quarter of 2008.

Alhambra began the quarter with 23,280 ozs of recoverable gold in work in progress and exited the quarter with 24,124 ozs after selling 3,272 ozs. Production for the quarter (defined as gold sales plus or minus the change in work in progress) totaled 4,116 ozs.

For the six months ended June 30, 2008, the Company produced 7,492 ozs of gold and sold 6,412 ozs of gold.

UPDATED RESERVE ESTIMATE

In the second quarter of 2008, the Corporation received an updated independent National Instrument 43-101 compliant reserve estimate from ACA Howe International Ltd. ("Howe"). This estimate is for the oxide and transitional zones of the Uzboy gold deposit with an effective date of December 31, 2007. The Uzboy gold deposit consists of three distinct styles of gold mineralization, being the upper oxide zone, a transitional zone and a lower primary zone for the West and East zones. This updated reserve estimate was filed on Sedar and can be accessed at www.sedar.com.

EXPLORATION PREVIEW

In the second quarter, Alhambra spent $0.7 million exploring the Uzboy gold deposit and the Shirotnaia zone. At the end of the first quarter, Alhambra shifted the focus of its exploration program to allow geophysical exploration of the main target areas prior to testing by diamond drilling. Yet, in the second quarter, Alhambra's drilling program consisted of 15,306 metres ("m") of Reverse Air Blast ("RAB") drilling.

Certain results related to the activities discussed below have been previously released by way of news releases made by the Corporation.

Uzboy Gold Deposit

Diamond Drilling
The logging and sampling of 11 diamond drill holes (2,553 m) completed during the first quarter of 2008 was completed in the second quarter of 2008. The analytical results for these samples are expected shortly.

Geophysical Surveys
The Uzboy gold deposit is characterized by sericite-pyrite-carbonate alteration and exhibits a strong structural control (faulting and shearing). These features are being used to guide the exploration for other zones of gold mineralization within the area surrounding the Uzboy gold deposit. During the quarter, a total field magnetometer survey was completed over a 132 square kilometre ("km (s)") area (approximately 17 kms long by 8 kms wide) that extended from the Uzboy gold deposit southwest towards the Aygabak zone. The objective of this work was to outline zones of metasomatic alteration, faulting and shearing and andesite that could host additional zones of gold mineralization. The preliminary results of the total field magnetometer survey are being compiled and are expected to be received in September. Based on the interpretation of this work, additional geophysical surveys consisting of Induced Polarization/Resistivity ("IP") are planned over areas interpreted to be underlain by andesite that demonstrate alteration and faulting/shearing.

At the end of March, 2008 the diamond drilling program on the Uzboy Project was suspended to allow receipt of all outstanding analytical results, compile the technical information for the Uzboy, Dombraly and Shirotnaia areas and completion of geophysical surveys prior to commencement of further diamond drilling activities.

Metallurgical Test Work
The work program related to the metallurgical test work to be completed on the primary gold mineralization of the Uzboy gold deposit was finalized during the second quarter. The metallurgical test work will be completed by SGS Lakefield located in Cornwall, UK and Kazmechanobr, a certified metallurgical laboratory in the Republic of Kazakhstan. The regulatory process related to mineral project development in Kazakhstan requires certification by geological engineering and metallurgical companies that are approved by the Government of Kazakhstan. The metallurgical test work program consists of the collection of three representative samples of the primary gold mineralization. The samples will cover a grade range from 1.0 to 5.0 g/t gold to reflect the open pit and underground development potential of the Uzboy gold deposit.

RAB Drilling
During the quarter, a total of 2,522 m in 416 holes of RAB drilling was completed in an area located approximately 450 m northeast of the East zone of the Uzboy gold deposit. This work was completed to test the interpreted strike extension of several narrow intervals of low-grade oxide gold mineralization located in 2007. Analytical results for these RAB holes are pending.

Shirotnaia Zone

Bedrock Geochemical Survey
During the second quarter, a total of 10,758 m in 1,850 holes of RAB drilling was completed to delineate the dimensions of three bedrock gold anomalies discovered in late 2007 and in the first quarter of 2008 and to explore the eastern portion of the Shirotnaia zone.

The Shirotnaia zone covers a 20 km strike length of a major flexure in the Aksu-Balusti Mineral Trend that hosts the gold and uranium deposits currently being mined at Aksu.

The bedrock geochemical survey completed during the quarter located three new gold anomalies and has delineated the dimensions of several other previously discovered anomalies. These anomalies were outlined using a 0.05 g/t gold cut-off.

The centres of the three new bedrock geochemical gold anomalies are located approximately 6 kms east of the Shirotnaia diamond drilling discovery announced in 2007. These anomalies cover a 6 km strike length of the northwest trending Atansorsky Fault zone. The maximum width of the largest anomaly is approximately 1.5 kms. Two shorter and narrower parallel gold anomalies occur to the north and south of the larger anomaly. Gold values within these anomalies range from 0.05 g/t to a maximum of 1.65 g/t.

The surface dimensions of the two bedrock geochemical gold anomalies discovered during the first quarter of 2008 located northwest of the Quartzite Hills gold deposit were further defined during the quarter. Gold values within these two anomalies range from 0.05 to 1.45 g/t. These anomalies are interpreted to be located along the same faults that host the Quartzite Hills gold deposit.

The analytical results for the bedrock geochemical sampling program for the northern portion of the Shirotnaia zone failed to locate anomalous concentrations of gold.

Geophysical Surveys
The gold mineralization intersected by diamond drilling at Shirotnaia in 2007 exhibits a strong structural control (faulting and shearing) and is hosted in andesite that exhibits intense pyrite-sericite-carbonate alteration. These characteristics of the gold mineralization are being used to guide the future exploration for other zones of gold mineralization that could occur within the Shirotnaia zone. A total field magnetometer survey was commenced during the quarter to outline zones of metasomatic alteration, faulting and shearing and andesite that could host additional zones of gold mineralization. The area surveyed covers a 287 square kms (approximately 20 kms long by 14 kms wide) area of the major flexure in the Aksu-Balusti Mineral Trend. The preliminary results of the total field magnetometer survey are expected in the third quarter of 2008.

Topographic Survey
During the quarter, a detailed topographic survey was completed over a portion of the Shirotnaia zone. This survey is required to comply with the regulations related to mineral exploration in Kazakhstan.

Aygabak and Kirtoge

A limited RAB drilling program was completed on both zones to test the results of a limited geophysical exploration program completed in late 2007. A total of 2,026 m were completed in 295 holes on both zones. Analytical results for these samples are pending.

CAPITAL EXPENDITURES

Expenditures on mining assets for the three months ended June 30, 2008 totaled $2.0 million. Of this total, $0.7 million was spent on exploration with the remaining $1.3 million spent on capital projects. The majority of the $1.3 million spent on capital projects was for the acquisition of the crushing unit.

EXPLORATION PROGRAM FOR REMAINDER OF 2008

Subsequent to the end of the second quarter, Alhambra modified its 2008 exploration to reflect a change in exploration techniques and methodologies to be used on the Uzboy Project. During the balance of 2008, Alhambra plans to focus its exploration efforts on completion of geophysical surveys, delineation of bedrock geochemical anomalies at Shirotnaia, additional RAB drilling at Dombraly and additional metallurgical test work on the primary (sulphide) gold mineralization from the East and West zones of the Uzboy gold deposit.

It is expected that the above planned activities should be completed by the end of 2008 at an estimated cost of approximately $0.7 million. The results and interpretation of this work should form the basis for the 2009 exploration budget for the Uzboy Project.

Respectfully submitted on behalf of the Board of Directors,
John J. Komarnicki
Chairman and Chief Executive Officer
August 29, 2008

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

For the Three and Six Months ended June 30, 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 six months ended June 30, 2008 and the factors reasonably expected to impact future operations and results as prepared on August 27, 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 six months ended June 30, 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 August 27, 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 June 30		Six Months ended June 30	
(in US$)	**2008**	2007	**2008**	2007
Cash flow provided by (used in) operating activities	**$ 20,782**	$ 684,263	**$ (303,665)**	$ 927,576
Add (deduct) change in non-cash working capital	**132,735**	(755,410)	**354,540**	(840,347)
Funds flow provided by (used in) operating activities	**$ 153,517**	$ (71,147)	**$ 50,875**	$ 87,229

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

	Three months ended June 30		Six Months ended June 30	
	2008	2007	**2008**	2007
OPERATING:				
Mining:				
Waste mined (Tonnes ("T"))	**510,128**	432,620	**963,925**	571,050
Ore stacked (Tonnes ("T"))	**212,250**	209,500	**411,750**	332,750
Grade of ore mined (Grams/T ("g")/t)	**0.86**	1.09	**0.81**	1.12
Recoverable gold mined (Troy ounces (oz)) (1)	**4,116**	5,142	**7,492**	8,428
Gold in work in progress (ozs) (2)	**24,124**	23,044	**24,124**	23,044
FINANCIAL				
Gold sales (ozs)	**3,272**	4,838	**6,412**	8,350
Revenue ($)	**2,927,788**	3,215,853	**5,827,782**	5,442,632
Average gold price ($/oz)	**894.80**	664.71	**908.89**	651.81
Operations expenses ($)	**1,930,029**	1,643,990	**3,699,015**	2,809,564
Operations expenses ($/oz)	**589.86**	339.81	**576.89**	336.47
Net loss ($)	**973,943**	871,412	**1,789,663**	1,470,289
Net loss per share – basic and diluted ($)	**0.01**	0.01	**0.02**	0.02
Capital expenditures ($)	**1,979,844**	1,594,797	**3,340,740**	3,165,803
Total assets ($) (2)	**38,245,394**	36,929,919	**38,245,394**	36,929,919
Shareholders' equity ($) (2)	**31,897,952**	32,704,925	**31,897,952**	32,704,925
Common shares outstanding (2)	**75,774,147**	75,578,147	**75,774,147**	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 six months ended June 30, 2008, the Corporation sold a total of 6,412 ozs of gold for total proceeds of $5,827,782. This compares to sales of 8,350 ozs and $5,442,632 of sales during the corresponding six 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 7,492 ozs of gold was stacked during the first six months of 2008 which, after selling the 6,412 ozs, resulted in approximately 24,124 ozs of gold in work in progress at June 30, 2008.

During the six months ended June 30, 2008, the Corporation mined a total of 963,925 T of waste and stacked 411,750 T of ore at an average gold grade of 0.81 g/t. This compares to 571,050 T of waste mined and 332,750 T of ore at an average gold grade of 1.12 g/t stacked in the comparable six 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 half 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 was suspended until a crushing unit could 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 commenced operation in July, 2008.

EXPLORATION REVIEW

During the second quarter, the Corporation expended $0.7 million exploring the Uzboy gold deposit and the Shirotnaia zone. At the end of the first quarter, Alhambra shifted the focus of its exploration program to allow geophysical exploration of the main target areas prior to testing by diamond drilling. Certain results related to the activities discussed below have been previously released by way of news releases made by the Corporation.

Uzboy Gold Deposit

Diamond Drilling

The logging and sampling of 11 diamond drill holes (2,553 metres ("m")) completed during the first quarter was completed in the second quarter. The analytical results for these samples are expected shortly.

Geophysical Surveys

The Uzboy gold deposit shows a strong structural control (faulting and shearing) and is hosted in andesite exhibiting intense pyrite-sericite-carbonate alteration. These features are being used to guide the exploration for other zones of gold mineralization within the area surrounding the Uzboy gold deposit. During the quarter, a total field magnetometer survey was completed over a 132 square kilometre ("km(s)") area (approximately 17 kms long by 8 kms wide) that extended from the Uzboy gold deposit southwest towards the Aygabak zone. The objective of this work was to outline zones of metasomatic alteration (pyrite-sericite), faulting and shearing and andesite that could host additional zones of gold mineralization. The preliminary results of the total field magnetometer survey are being compiled and are expected to be received in September. Based on the interpretation of this work, additional geophysical surveys consisting of Induced Polarization/Resistivity ("IP") are planned over areas interpreted to be underlain by andesite that demonstrate alteration and faulting/shearing.

At the end of March, 2008 the diamond drilling program on the Uzboy Project was suspended to allow receipt of all outstanding analytical results, compile the technical information for the Uzboy, Dombraly and Shirotnaia areas and completion of geophysical surveys prior to commencement of further diamond drilling activities.

Metallurgical Test Work

The work program related to the metallurgical test work to be completed on the primary gold mineralization of the Uzboy gold deposit was finalized during the second quarter. The metallurgical test work will be completed by SGS Lakefield located in Cornwall, United Kingdom and Kazmechanobr, a certified metallurgical laboratory in the Republic of Kazakhstan. The regulatory process related to mineral project development in Kazakhstan requires certification by geological engineering and metallurgical companies that are approved by the Government of Kazakhstan. The metallurgical test work program consists of the collection of three representative samples of the primary gold mineralization. The samples will cover a grade range from 1.0 to 5.0 g/t gold to reflect the open pit and underground development potential of the Uzboy gold deposit.

Reverse Air Blast Drilling

During the quarter, a total of 2,522 m in 416 holes of Reverse Air Blast ("RAB") drilling was completed in an area located approximately 450 m northeast of the East zone of the Uzboy gold deposit. This work was completed to test the interpreted strike extension of several narrow intervals of low-grade oxide gold mineralization located in 2007. Analytical results for these RAB holes are pending.

Uzboy Deposit Oxide Reserves Estimate

A.C.A. Howe International Limited ("Howe") completed an updated independent National Instrument 43-101 ("NI 43-101") compliant current reserve estimate for the oxide and transitional zones of the Uzboy gold deposit with an effective date of December 31, 2007. The Uzboy gold deposit consists of three distinct styles of gold mineralization, being an upper oxide zone, a transitional zone and a lower primary zone. The mineral resources (Measured and Indicated categories) contained in the oxide and transitional zones make up approximately 27% of the total mineral resource contained in the Measured and Indicated resource categories of the Uzboy gold deposit. These zones each have different metallurgical characteristics and cannot be combined for reporting purposes. The current mineral resource estimate with an effective date of December 31, 2007 was used by Howe to estimate the Proven and Probable mineral reserves in the oxide and transitional zones.

The current Reserve estimate for the Proven and Probable categories in the oxide and transitional portions of the West and East zones of the Uzboy gold deposit show:

- Proven and Probable ore reserves increased by 16% to 168,000 ozs
- The Proven and Probable recoverable reserves total 95,500 ozs at a 0.20 g/t cut-off
- The average gold grade for the Proven and Probable reserves is unchanged at 1.12 g/t

A total of 41 pit optimizations were completed on the oxide and transitional resource blocks for the West and East zones of the Uzboy gold deposit using Micromine Pit Optimization Module software to generate the optimal pit to identify which blocks should be mined and for reserve reporting.

The Micromine Open Pit Optimiser is based on the Lerchs Grossman algorithim and 3D graph theory and relies on the following input parameters: an ore body block model, cut off grades, metal prices and cost parameters to determine the proportion of ore to waste in each block and the value of each block. Based on the pit optimization study, the optimal pit was case #41 which was selected for reporting purposes. Pit #41 yielded an estimated strip ratio of 1.26, total waste material of: 5.90 million T, total ore of: 4.60 million T and an average grade of: 1.12 g/t gold.

The following table summarizes the mineable ore reserves in pit #41 (using a 0.20 g/t cutoff) estimated by Howe as at December 31, 2007.

Zone	Reserve Category	Mineralization	Tonnes	Grade (g/t)	Ounces (gold)
West	Proven	Oxide	1,749,000	1.17	65,800
	Probable	Oxide	215,000	1.65	11,400
East	Proven	Oxide	1,268,000	0.72	29,200
	Probable	Oxide	501,000	0.77	12,400
Total Oxide			3,733,000	0.99	118,800
West	Proven	Transitional	574,000	1.45	26,700
	Probable	Transitional	242,000	2.01	15,600
East	Proven	Transitional	51,000	1.66	2,700
	Probable	Transitional	93,000	1.41	4,200
Total Transitional			960,000	1.59	49,200

Keeping with best practice principles, rounding errors may occur

Only the Measured and Indicated resource categories for the oxide and transitional portions of the West and East zones of the Uzboy gold deposit were used to estimate the Proven and Probable Mineral Reserves.

Recoverable gold after taking into account estimated life of mine percentage gold recovery, mining losses and dilution are estimated to be 71,000 ozs for the oxide zone and 24,500 ozs for the transitional zone for a total of 95,500 ozs. In 2006, the transitional zone was included in the oxide category.

Howe used the following parameters to estimate reserves:

Parameter	Oxide	Transitional
Mining method	Open pit	Open pit
Processing method	Heap leaching	Heap leaching
Mining cost/tonne	US$1.95	US$2.01
Mining losses (%)	6.2	6.2
Mining dilution (%)	8.4	8.4
Processing costs/tonne	US$3.85	US$4.17
Processing recovery (%)	70	58
Gold price/ounce (US$/oz)	850	850
Payment (%)	99.05	99.05
Royalty (%)	3.5	3.5
Pit slope (degrees)	45	45

After selecting the optimal pit, actual pit design for the West and East zones of the Uzboy gold deposit was completed by Howe using the following parameters: pit slope 45 degrees, bench height 5 m, bench width 3.2 m, ramp width 15 m, and ramp slope 8 degrees. The pit design using the above parameter inputs, the optimum pit outlines and optimum pit shell wireframes was completed in Micromine v.11 Opencut Pit Design function.

Based on the reserve estimate, the minimum processing grades for oxide ore was found to be 0.22 g/t gold and 0.29 g/t gold for transitional ore.

The sensitivity study shows that mining and processing of the oxide and transitional ores in pit #41 would yield a net present value ("NPV") of approximately US$42 million, net of mining and processing costs, over a four year period using a discount rate of 10%.

The Measured and Indicated mineral resource categories for the Uzboy gold deposit used by Howe to estimate the Proven and Probable Mineral Reserves comply with the resource definitions of the Canadian Institute of Mining and Metallurgy ("CIMM") and NI 43-101: Standards of Disclosure for Mineral Projects.

Shirotnaia Zone

Bedrock Geochemical Survey

During the second quarter, a total of 10,758 m in 1,850 holes of RAB drilling was completed to delineate the dimensions of three bedrock gold anomalies discovered in late 2007 and in the first quarter of 2008 and to explore the eastern portion of the Shirotnaia zone.

The Shirotnaia zone covers a 20 km strike length of a major flexure in the Aksu-Balusti Mineral Trend that hosts the gold and uranium deposits currently being mined at Aksu.

The bedrock geochemical survey completed during the quarter located three new gold anomalies and has delineated the dimensions of several other previously discovered anomalies. These anomalies were outlined using a 0.05 g/t gold cutoff.

The centres of the three new bedrock geochemical gold anomalies are located approximately 6 kms east of the Shirotnaia diamond drilling discovery announced in 2007. These anomalies cover a 6 km strike length of the northwest trending Atansorsky Fault zone. The maximum width of the largest anomaly is approximately 1.5 kms. Two shorter and narrower parallel gold anomalies occur to the north and south of the larger anomaly. Gold values within these anomalies range from 0.05 g/t to a maximum of 1.65 g/t.

The surface dimensions of the two bedrock geochemical gold anomalies discovered during the first quarter of 2008 located northwest of the Quartzite Hills gold deposit were further defined during the quarter. Gold values within these two anomalies range from 0.05 to 1.45 g/t. These anomalies are interpreted to be located along the same faults that host the Quartzite Hills gold deposit.

The analytical results for the bedrock geochemical sampling program for the northern portion of the Shirotnaia zone failed to located anomalous concentrations of gold.

Geophysical Surveys

The gold mineralization intersected by diamond drilling at Shirotnaia in 2007 exhibits a strong structural control (faulting and shearing) and is hosted in andesite that exhibits intense pyrite-sericite-carbonate alteration. These characteristics of the gold mineralization are being used to guide the future exploration for other zones of gold mineralization that could occur within the Shirotnaia zone. An electromagnetic and total field magnetometer survey was commenced during the quarter to outline zones of metasomatic alteration (pyrite-sericite), faulting and shearing and andesite that could hosts additional zones of gold mineralization. The area surveyed covers a 287 square kms (approximately 20 kms long by 14 kms wide) area of the major flexure in the Aksu-Balusti Mineral Trend. The preliminary results of the total field magnetometer survey are expected to be received in the third quarter of 2008.

Topographic Survey

During the quarter, a detailed topographic survey was completed over a portion of the Shirotnaia zone. This survey is required to comply with the regulations related to mineral exploration in Kazakhstan.

Aygabak and Kirtoge

A limited RAB drilling program was completed on both zones to test the results of a limited geophysical exploration program completed in late 2007. A total of 2,026 m were completed in 295 holes on both zones. Analytical results for these samples are pending.

EXPLORATION PROGRAM FOR REMAINDER OF 2008

Subsequent to the end of the second quarter, Alhambra modified its 2008 exploration to reflect a change in exploration techniques and methodologies to be used on the Uzboy Project. During the balance of 2008, Alhambra plans to focus its exploration efforts on completion of geophysical surveys, delineation of bedrock geochemical anomalies at Shirotnaia, additional RAB drilling at Dombraly and additional metallurgical test work on the primary (sulphide) gold mineralization from the East and West zones of the Uzboy gold deposit.

It is expected that the above planned activities should be completed by the end of 2008 at an estimated cost of approximately $0.7 million. This will bring the total 2008 exploration program completed by Alhambra on the Uzboy Project to approximately $2.5 million. The results and interpretation of this work should form the basis for the 2009 exploration budget for the Uzboy Project.

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 15 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 six months ended June 30, 2008, the Corporation recognized $5,827,782 in revenue from the sale of 6,412 ozs of gold at an average price of $908.89/oz. This compares with revenue of $5,442,632 from the sale of 8,350 ozs of gold at an average price of $651.81 for the comparable six month period in 2007.

Of the increase in revenue of $385,150 from 2007 to 2008, $1,648,362 is a result of a 39% increase in the average price received for the sale of gold offset by $1,263,212 resulting from a 23% decrease in sales volumes. The mining of lower grade ore from the East zone of the Uzboy gold deposit combined with colder weather in the first quarter of 2008 resulted in the lower sales volumes in the first half of 2008 as compared to the first half of 2007.

During the three months ended June 30, 2008, the Corporation recognized $2,927,788 in revenue from the sale of 3,272 ozs of gold at an average price of $894.80/oz. This compares to $3,215,853 in revenue from the sale of 4,838 ozs of gold at an average price of $664.71/oz for the three months ended June 30, 2007.

Of the decrease in revenue of $288,065 from 2007 to 2008, $1,040,931 is a result of a 32% decrease in sales volumes offset by $752,866 resulting from a 35% increase in the average price received for the sale of gold. The mining of lower grade ore from the East zone of the Uzboy gold deposit resulted in the lower sales volumes in the second quarter of 2008 as compared to the second quarter of 2007.

With the start up of the crushing unit in July, 2008, the Corporation will begin to mine more ore from the higher grade west zone which should improve gold production and sales in the second half of 2008.

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 six months and three months ended June 30, 2008, the Corporation recognized $174,833 and $87,833, respectively in net smelter royalty expenses which is 3% of the revenue recognized in the period. This is an increase of $11,554 and a decrease of $8,643 over the $163,279 and $96,476, respectively for the comparable six and three month periods 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 six months ended June 30, 2008 totaled $3,699,015 or $576.89/oz of gold sold as compared to $2,809,564 or $336.47/oz of gold sold in the comparable period in 2007.

Of the increase in operating costs of $889,451 from 2007 to 2008, $1,541,539 is the result of the increase in per unit operating costs. This increase was partially offset by $652,088 resulting from the 23% decrease in gold sales volumes.

Operating costs for the three months ended June 30, 2008 totaled $1,930,029 or $589.86/oz of gold sold as compared to $1,643,990 or $339.81/oz of gold sold in the comparable period in 2007.

Of the increase in operating costs of $286,039 from 2007 to 2008, $818,178 is the result of the increase in per unit operating costs. This increase was partially offset by $532,139 resulting from the 32% decrease in gold sales volumes.

These increases in per unit operating costs are primarily the result of the Corporation mining a lower average grade of ore during the six months ended June 30, 2008 (0.81 g/t) as compared to the six months ended June 30, 2007 (1.12 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 during the first half of 2008 were 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 half 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 had been suspended until a crushing unit could 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 commenced operations in July of 2008.

Relatively colder average temperatures in the first quarter of 2008 and inflationary pressures on costs were two other contributing factors to the higher per unit operating costs during the first half of 2008 compared to the first half 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 six months ended June 30, 2008 decreased $142,180 to $1,839,313 from the $1,981,493 recorded in the comparable period in 2007. Of the total, $905,914 related to the Saga Creek operations for the six months ended June 30, 2008 compared to $925,661 for the six months ended June 30, 2007. The reduction in Saga Creek general and administration costs were achieved despite inflationary pressures in Kazakhstan and a 2% increase in the value of the Kazakhstan Tenge relative to the US dollar.

The remainder of general and administrative costs relates to corporate activities. For the six months ended June 30, 2008, corporate general and administrative costs totaled $933,399 which was a decrease of $122,433 from the corresponding 2007 amount of $1,055,832. After adjusting for the effect of an 11% decline in the average value of the US dollar in relation to the CDN dollar and the $119,088 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 $114,000.

General and administrative expenses for the three months ended June 30, 2008 decreased $249,169 to $1,006,597 from the $1,255,766 recorded in the comparable period in 2007. Of the total, $457,748 related to the Saga Creek operations for the three months ended June 30, 2008 compared to $610,713 for the three months ended June 30, 2007. The reduction in Saga Creek general and administration costs were achieved despite Inflationary pressures in Kazakhstan and a 2% increase in the value of the Kazakhstan Tenge relative to the US dollar.

The remainder of general and administrative costs relates to corporate activities. For the three months ended June 30, 2008, corporate general and administrative costs totaled $548,849 which was a decrease of $96,204 from the corresponding 2007 amount of $645,053. After adjusting for the effect of a 8% decline in the average value of the US dollar in relation to the CDN dollar and the $59,340 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 $84,000.

Interest Expense

Interest expense for the six months ended June 30, 2008 totaled $50,574, a decrease of $15,335 over the comparable 2007 amount of $65,909. For the three months ended June 30, 2008, interest expense was $25,075 or $9,932 lower than the $35,007 reported in the same three month period in 2007. These variances are 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. In addition, expense is calculated for each vesting period separately which results in stock based compensation expense being the largest during the earlier vesting term of each option. The amount of this expense for the six months and three months ended June 30, 2008 was $1,109,648 and $434,440, respectively. For the six months and three months ended June 30, 2007, stock-based compensation expense was $783,330 and $373,911, respectively. Stock-based compensation expense for 2008 relates almost in its entirety to the amortization of the value calculated for the 2,750,000 options granted in 2008. The stock-based compensation expense for 2007 however relates to options that were granted in the last half of 2006 in which a large portion of stock based compensation calculated was expensed during the 2006 vesting periods.

Depreciation, Depletion And Accretion

Depreciation, depletion and accretion expense for the six months ended June 30, 2008 was $623,874, an increase of $91,689 over the $532,185 for the comparable six month period during 2007. Depreciation, depletion and accretion expense for the three months ended June 30, 2008 was $362,647, an increase of $54,250 over the $308,397 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 six months and three months ended June 30, 2008 totaled $233,342 and $95,521 respectively compared to $329,036 and $160,379, respectively for the comparable six month and three month periods ending June 30, 2007.

Funds Flow

Funds flow provided from operating activities was $50,875 for the six months ended June 30, 2008 as compared to funds flow provided from operating activities in the comparable six month period in 2007 of $87,229, a decrease of $36,354. Mining operations at Saga Creek continued to contribute positive funds flow which totaled $946,396 for the six months ended June 30, 2008. This however was a decrease of $206,103 from the $1,152,499 contributed during the comparable six month period in 2007. The decrease was primarily a result of increases in operating and current tax expenses offset by increases in gold sales revenues and foreign exchange gains.

Positive funds flow from mining operations was offset by funds flow utilized in corporate activities, which is primarily head office general and administration expense. The decrease in general and administration expense for the six month period ended June 30, 2008 relative to the comparable 2007 period resulted in an improvement in funds flow utilized in corporate activities of $169,749 to $895,521 as compared to the $1,065,270 utilized in the comparable period of 2007.

For the three months ended June 30, 2008, funds flow provided from operating activities was $153,517 as compared to funds flow utilized in operations in the comparable three month period in 2007 of $71,147, a positive increase of $224,664. Mining operations at Saga Creek continued to contribute positive funds flow which totaled $707,384 for the three months ended June 30, 2008. This was an increase of $108,530 over the $598,854 contributed during the comparable three month period in 2007. The increase in operating expense and decrease in gold sale revenue was more than offset by decreases in general and administration and income tax expenses and an increase in foreign exchange gains.

Positive funds flow from mining operations was offset by funds flow utilized in corporate activities, which is primarily head office general and administration expense. The decrease in general administration expense for the three month period ended June 30, 2008 relative to the comparable period in 2007 resulted in an improvement of $116,134 in funds flow utilized in corporate activities to $553,867 as compared to the $670,001 utilized in the comparable period in 2007.

Net Loss

The Corporation incurred a net loss of $1,789,663 for the six months ended June 30, 2008, an increase of $319,374 over the net loss recorded in comparable six month period in 2007 of $1,470,289. Mining operations continued to contribute positive net income totaling $301,618 in the six months ended June 30, 2008, a decrease of $84,127 over the $385,745 of net income recorded in the corresponding six month period in 2007. The decrease in funds flow combined with higher depreciation, depletion and accretion was partially offset by a decrease in future tax expense thus resulting in the decrease in earnings.

Positive net income from mining operations was offset by losses at the corporate level. For the six month periods ending June 30, 2008 and 2007, corporate losses were $2,091,281 and $1,856,034, respectively. The decrease in funds flow utilized in operating activities was more than offset by the increase in stock-based compensation and the recognition of the Corporation's proportionate share in the loss of DOT of $78,913.

Based on a weighted average number of common shares of 75,627,378 and 69,511,411, the Corporation's net loss per common share was $0.02 for six month periods ended June 30, 2008 and 2007.

For the three months ended June 30, 2008, the Corporation incurred a net loss of $973,943, an increase of $102,531 over the net loss recorded in comparable three month period in 2007 of $871,412. Mining operations contributed positive net income of $45,838 in the six months ended June 30, 2008, a decrease of $130,710 from the $176,548 of net income recorded in the corresponding six month period in 2007. The increase in funds flow was offset by increases in depreciation, depletion and accretion and future income taxes resulting in the decrease in earnings.

Positive net income from mining operations was offset by losses at the corporate level. For the three month periods ending June 30, 2008 and 2007, corporate losses were $1,019,781 and $1,047,960, respectively. The decrease in funds flow utilized in operating activities was only partially than offset by the increase in stock-based compensation and the recognition of the Corporation's share in the loss of DOT of $27,848.

Based on a weighted average number of common shares of 75,676,609 and 69,771,837, the Corporation's net loss per common share was $0.01 for three month periods ended June 30, 2008 and 2007.

Liquidity and Capital Resources

During the six months ended June 30, 2008, the Corporation received $108,009 upon the issue of 196,000 common shares upon the exercise of stock options. All of these options were exercised during the second quarter of 2008.

At June 30, 2008 the Corporation had $362,027 of cash and cash equivalents and a total of $4,374,829 in other working capital. Included in the other working capital at June 30, 2008, was $7,132,257 in work in progress. This represents the costs incurred to June 30, 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 24,124 ozs, which the Corporation expects to sell within the next twelve months. Included as a reduction in other working capital at June 30, 2008 was $744,564 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 13(b) to interim unaudited consolidated financial statements).

The Corporation's capital budget for the last half of 2008 is expected to be approximately $0.7 million which will be focused on completion of geophysical surveys, delineation of bedrock geochemical anomalies at Shirotnaia, additional RAB drilling at Dombraly and additional metallurgical test work on the primary (sulphide) gold mineralization from the East and West zones of the Uzboy gold deposit. 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 half of 2008, while not unexpected due to the quality of the ore being mined during the first six months of 2008 and cold weather experienced during the first quarter, 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 the 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 six months ended June 30, 2008, the Corporation paid $32,165 (2007 – $63,529) in consulting fees to a corporation controlled by a director and former officer of the Corporation. Of this amount, $3,286 (2006 – $19,059) was capitalized to exploration and development costs.

During the six months ended June 30, 2008, the Corporation incurred $55,931 (2007 – $114,301) 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 six months ended June 30, 2008, the Corporation received CDN$120,000 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 June 30, 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 June 30, 2008, the Corporation issued a series of twelve (12%) percent secured debentures due August 11, 2009 in the aggregate principal amount of CDN$1,000,000 (the "Debentures"). The Debentures bear interest at a simple rate of twelve (12%) percent per annum calculated annually, not in advance. The Debentures are secured by way of a first floating charge against all of the assets, property and undertakings of the Corporation. The entire amount of the Debentures was subscribed for by officers and directors of the Corporation.

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. 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 June 30, 2008, 92% 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 June 30, 2008 and December 31, 2007 nor was it required to write-off any receivables during the six months ended June 30, 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 six months ended June 30, 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 $42,000.

(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 13(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 six months ended June 30, 2008 of approximately $3,800.

(e) Fair value of financial investments

The Corporation's financial instruments as at June 30, 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, 2013 totaling $724,809.

The Corporation has no other off balance sheet financing arrangements.

Disclosure of Outstanding Share Data

	As of June 30, 2008	Change in 2008	Issued in 2008	As of August 27, 2008
Common shares issued and outstanding	**75,774,147**	–	–	75,774,147
Common shares issuable upon exercise of vested stock options	**4,282,500**	637,500	–	4,920,000
Common shares issuable upon exercise of warrants	**2,333,333**	–	–	2,333,333
Common shares fully diluted	**82,389,980**	637,500	–	83,027,480

At June 30, 2008, there were 75,774,147 common shares issued and outstanding and 82,389,980 fully diluted common shares after giving effect to the exercise of all outstanding vested stock options and warrants. Subsequently, up to August 27, 2008, an additional 637,500 options vested.

Disclosure of Material Components of Expenditures

During the three months ended June 30, 2008, the Corporation spent approximately $2.0 million in capital expenditures on its mining projects. Of this amount, approximately $0.7 million was spent on exploration with the remaining $1.3 million spent on capital projects. Of the $0.7 million spent on exploration, $0.3 million was paid to contractors for 15,306 m of RAB drilling. A further $0.1 million was spent on collecting and doing assays on the cores obtained from the drilling program. The remaining $0.3 million related to costs of operating the Corporation's exploration department. Approximately 75% of the exploration costs were related to the Shirotnaia prospect with the remainder related to the Uzboy gold deposit (13%), Aygabak (10%) and 2% related to the Dombraly gold deposit.

The majority of the $1.3 million spent on capital projects was for the acquisition of the crushing unit.

During the three months ended June 30, 2008, general and administrative expenses totaled $1,006,597, a $249,169 improvement over the $1,255,766 reported for the same three month period in 2007. Included in this amount was $457,748 of general and administrative costs directly related to Saga Creek operations which compares to the $610,713 recorded in the comparable three month period in 2007. Corporate overhead costs accounted for the remaining $548,849, which compares to the $645,053 of corporate overhead costs incurred in the three months ended June 30, 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 2% decline in the average value of the US dollar in relationship to the Kazakhstan Tenge offset a portion of the $152,965 in decreased general and administration costs incurred by the Saga Creek operations. Employee and consultant compensation costs made up $287,870 (63%) of employee and consultant compensation costs during the three months ended June 30, 2008 compared to $313,841 (51%) during the comparable three month period in 2007. The decrease in employee and consulting costs in the second quarter of 2008 was primarily due to a reduction in the amount of Canadian overhead expenses charged to Saga Creek. The remaining $169,878 in general and administration expenses for the three months ended June 30, 2008 include corporate, office and professional expenses. This was a decrease of $126,994 over the comparable three month period in 2007 total of $296,872. Professional fees charged in the second quarter of 2007 associated primarily with accounting and audit services were primarily responsible for the favorable variance. In 2008 these expenses were recognized in the first quarter.

Corporate employee costs incurred during the three months ended June 30, 2008 accounted for 38% ($211,494) of the total corporate general and administration costs as compared to 26% ($163,937) of the total in 2007. Approximately 45% of the increase was the result of an 8% 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 34% ($186,532) of total general and administrative expenses in the three months ended June 30, 2008 as compared to 19% ($123,927) for the comparable three month period in 2007. Approximately 31% of the increase was the result of the 8% decline in the average value of the US dollar in relation to the CDN dollar. The remaining 69% was due to higher investor relations and annual meeting costs. In 2008 the annual meeting was held during the second quarter while in 2007 the annual meeting was held during the third quarter.

Office expenses incurred in the three months ended June 30, 2008 of $113,058 (2007 – $85,874) accounted for a further 21% (2007 – 13%) of general and administrative expenses. Approximately 43% of the increase was the result of the 8% decline in the average value of the US dollar in relation to the CDN dollar. The remainder of the increase is due to a general increase in all components of office expenses.

Professional costs, which include legal and auditing and outside consulting fees, totaled $97,105 (18%) for the three months ended June 30, 2008 as compared to $271,315 (42%) in comparable three month period in 2007. In 2007, the Corporation was preparing the documentation for shareholders relative to the Arrangement. A significant portion of this activity was carried out during the second quarter of 2007 and accounted for the increase in costs compared to those professional costs incurred in the second quarter of 2008.

During the three months ended June 30, 2008, the Corporation billed DOT $59,340 (11%) 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.

Capital disclosures

This new standard requires disclosure of information that enables users of the Corporation's financial statements to evaluate the entity's objectives, policies and processes for managing capital. The disclosures required by adoption of this section are presented in note 12 to the unaudited interim consolidated financial statements.

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 ("AcSB") adopted a strategic plan for accounting standards in Canada. As part of the plan, accounting standards for public companies in Canada are expected to converge with International Financial Reporting Standards ("IFRS"). In March 2007, the AcSB released an "Implementation Plan for Incorporating IFRS into Canadian GAAP", which assumed a convergence date of January 1, 2011. Following a progress review on February 13, 2008, the AcSB confirmed this changeover date. 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, ($)	September 30 2007	December 31 2007	March 31 2008	**June 30 2008**
Income (loss)	67,510	89,431	(815,720)	**(973,943)**
Basic and diluted net income (loss) per share	0.00	0.00	(0.01)	**(0.01)**

Three months ended, ($)	September 30 2006	December 31 2006	March 31 2007	**June 30 2007**
Income (loss)	62,277	(766,892)	(598,878)	**(871,412)**
Basic and diluted net income (loss) per share	0.00	(0.01)	(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 half 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

(Unaudited)

(Expressed in U.S. Dollars)

	June 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 362,027	$ 3,056,812
Accounts receivable	803,461	862,104
Deposits and prepaid expenses	180,669	53,750
Supplies inventory	750,223	807,774
Work in progress (note 4)	7,132,257	5,626,570
	9,228,637	10,407,010
Mineral assets (note 5)	28,238,212	25,630,333
Equipment	51,037	57,869
Investment in DOT Resources Ltd. (note1(b))	727,508	834,707
	$ 38,245,394	$ 36,929,919
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 3,747,217	$ 1,677,645
Advances (note 13(b))	744,564	744,965
	4,491,781	2,422,610
Asset retirement obligations (note 6)	399,601	374,427
Future income taxes	1,456,060	1,427,957
Shareholders' equity:		
Share' capital (note 7(b))	34,585,094	34,432,307
Warrants (note 7(c))	675,595	675,595
Contributed surplus (note 7(d))	3,677,442	2,576,263
Accumulated other comprehensive income (note 8)	689,238	960,514
Deficit	(7,729,417)	(5,939,754)
	31,897,952	32,704,925
Nature of operations and basis of presentation (note 1)		
Commitments (notes 13)		
Subsequent event (note 14)		
Segment information (notes 15)		
	$ 38,245,394	$ 36,929,919

See accompanying notes to consolidated financial statements.

Interim Consolidated Statements of Loss and Deficit

Three and six months ended June 30, 2008 and 2007

(Unaudited)

(Expressed in U.S. Dollars)

	Three months ended June 30		Six months ended June 30	
	2008	2007	**2008**	2007
Revenue:				
Sales	**$ 2,927,788**	$ 3,215,853	**$ 5,827,782**	$5,442,632
Less net smelter royalty	**87,833**	96,476	**174,833**	163,279
	2,839,955	3,119,377	**5,652,949**	5,279,353
Interest and other	**1,397**	6,588	**13,007**	23,453
	2,841,352	3,125,965	**5,665,956**	5,302,806
Expenses:				
Operations	**1,930,029**	1,643,990	**3,699,015**	2,809,564
General and administrative	**1,006,597**	1,255,766	**1,839,313**	1,981,493
Interest	**25,075**	35,007	**50,574**	65,909
Stock-based compensation (note 7(d))	**434,440**	373,911	**1,109,648**	783,330
Depreciation, depletion and accretion	**362,647**	308,397	**623,874**	532,185
Foreign exchange loss (gain)	**(66,862)**	219,927	**(179,060)**	271,578
	3,691,926	3,836,998	**7,143,364**	6,444,059
Loss before the undernoted	**(850,574)**	(711,033)	**(1,477,408)**	(1,141,253)
Income tax expense:				
Current	**(207,004)**	42,422	**205,239**	87,033
Future	**302,525**	117,957	**28,103**	242,003
	95,521	160,379	**233,342**	329,036
Loss before equity loss	**(946,095)**	(871,412)	**(1,710,750)**	(1,470,289)
Equity loss	**27,848**	–	**78,913**	–
Net loss	**(973,943)**	(871,412)	**(1,789,663)**	(1,470,289)
Deficit, beginning of period	**(6,755,474)**	(5,225,282)	**(5,939,754)**	(4,626,405)
Deficit, end of period	**$ (7,729,417)**	$(6,096,694)	**$ (7,729,417)**	$(6,096,694)
Per share (note 11):				
Net loss per share – basic and diluted	**$ (0.01)**	$ (0.01)	**$ (0.02)**	$ (0.02)

See accompanying notes to consolidated financial statements.

Interim Consolidated Statements of Comprehensive Income (Loss)

Six months ended June 30, 2008 and 2007

(Unaudited)

(Expressed in U.S. Dollars)

	Three months ended June 30		Six months ended June 30	
	2008	2007	**2008**	2007
Net loss	**$ (973,943)**	$ (871,412)	**$ (1,789,663)**	$(1,470,289)
Translation gains (losses) on self-sustaining operations	**83,630**	562,245	**(271,276)**	632,200
Total comprehensive loss	**$ (890,313)**	$ (309,167)	**$ (2,060,939)**	$ (838,089)

See accompanying notes to consolidated financial statements.

Interim Consolidated Statements of Cash Flows

Three and six months ended June 30, 2008 and 2007

(Unaudited)

(Expressed in U.S. Dollars)

	Three months ended June 30		Six months ended June 30	
	2008	2007	**2008**	2007
Cash provided by (used in):				
Operating:				
Net loss	**$ (973,943)**	$ (871,412)	**$ (1,789,663)**	$(1,470,289)
Items not involving cash:				
Stock-based compensation	**434,440**	373,911	**1,109,648**	783,330
Depreciation, depletion and accretion	**362,647**	308,397	**623,874**	532,185
Future income taxes	**302,525**	117,957	**28,103**	242,003
Equity loss	**27,848**	–	**78,913**	–
	153,517	(71,147)	**50,875**	87,229
Change in non-cash working capital (note 10)	**(132,735)**	755,410	**(354,540)**	840,347
	20,782	684,263	**(303,665)**	927,576
Financing:				
Issuance of common shares	**108,009**	465,943	**108,009**	575,258
	108,009	465,943	**108,009**	575,258
Investing:				
Expenditures on mineral assets	**(1,978,342)**	(1,587,115)	**(3,338,705)**	(3,157,743)
Acquisition of equipment	**(1,502)**	(7,682)	**(2,035)**	(8,060)
Change in non cash working capital (note 10)	**1,409,390**	466,768	**907,299**	593,150
	(570,454)	(1,128,029)	**(2,433,441)**	(2,572,653)
Effect of exchange rate changes on cash and cash equivalents	**(670)**	117,826	**(65,688)**	126,972
Increase (decrease) in cash and cash equivalents	**(442,333)**	140,003	**(2,694,785)**	(942,847)
Cash and cash equivalents, beginning of period	**804,360**	1,455,188	**3,056,812**	2,538,038
Cash and cash equivalents, end of period	**$ 362,027**	$1,591,191	**$ 362,027**	$1,591,191
Supplemental disclosure of cash flow information:				
Interest paid	**$ 25,075**	$ 35,007	**$ 50,574**	$ 65,909
Taxes paid	**81,764**	17,689	**163,715**	69,349

See accompanying notes to consolidated financial statements.

Notes to Interim Consolidated Financial Statements

Six months ended June 30, 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 of the majority of its assets. The change was made retroactively. Prior to the change in reporting currency the net loss reported for the six months ended June 30, 2007 was CDN$1,872,784 or CDN$0.03 per basic and diluted share. As a result of the change in reporting currency, the net loss for the six months ended June 30, 2007 is now US$1,470,289 or US$0.02 per basic and diluted share.

2 SIGNIFICANT ACCOUNTING POLICIES

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 June 30, 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) Capital disclosures

This new standard requires disclosure of information that enables users of the Corporation's financial statements to evaluate its objectives, policies and processes for managing capital. The disclosures required by adoption of this section are presented in note 12.

(ii) 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.

(iii) 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.

(iv) 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.

(v) International financial reporting standards

In January 2006 the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for accounting standards in Canada. As part of the plan, accounting standards for public companies in Canada are expected to converge with International Financial Reporting Standards ("IFRS"). In March 2007, the AcSB released an "Implementation Plan for Incorporating IFRS into Canadian GAAP", which assumed a convergence date of January 1, 2011. Following a progress review on February 13, 2008, the AcSB confirmed this changeover date. 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.

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 June 30, 2008, 92% 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 June 30, 2008 and December 31, 2007 nor was it required to write-off any receivables during the six months ended June 30, 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 six months ended June 30, 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 $42,000.

(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 13(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 six months ended June 30, 2008 of approximately $3,800.

(e) Fair value of financial investments

The Corporation's financial instruments as at June 30, 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:

	June 30, 2008	December 31, 2007
Pad	**$ 6,336,950**	$ 4,422,620
Resin	**363,259**	479,204
Stripping plant	**432,048**	724,746
	$ 7,132,257	$ 5,626,570

5 MINERAL ASSETS

Mining assets consist of the following:

	June 30, 2008	December 31, 2007
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 $664,112 (2007 – $613,923)	**$ 18,718,436**	$ 16,886,923
Equipment, net of accumulated depreciation of $2,236,286 (2007 – $1,625,961)	**9,519,776**	8,738,130
Construction in progress	**–**	5,280
	$ 28,238,212	$ 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 13(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 June 30, 2008 totaled $17,024,166 (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 six months ended June 30, 2008, the Corporation capitalized $36,309 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.

	Six months ended June 30, 2008	Year ended December 31, 2007
Balance, beginning of period	**$ 374,427**	$ 311,000
Revisions to previous estimates	**(1,237)**	17,547
Accretion expense	**26,411**	45,880
Balance, end of period	**$ 399,601**	$ 374,427

The Corporation estimates that the total undiscounted cash flows required to settle its asset retirement obligations at June 30, 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

	Six months ended June 30, 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	**196,000**	**108,009**	1,850,000	915,636
Transfer from contributed surplus	**–**	**44,778**	–	404,121
Balance, end of period	**75,774,147**	**$ 34,585,094**	75,578,147	$ 34,432,307

(c) Warrants:

	Six months ended June 30, 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

	Six months ended June 30, 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 eligible 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:

	Six months ended June 30, 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	**2,750,000**		**1.15**	200,000		1.45
Exercised	**(196,000)**		**0.55**	(1,850,000)		0.50
Expired	**(64,000)**		**0.55**	–		–
Outstanding, end of period	**6,395,000**	**$**	**1.16**	3,905,000	$	1.18
Exercisable, end of period	**4,282,500**	**$**	**1.18**	3,397,500	$	1.12

The following table summarizes information about stock options outstanding and exercisable at June 30, 2008.

	Outstanding		Exercisable	
Exercise price	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
CDN $0.55	800,000	1.88	800,000	1.88
CDN $0.76	75,000	0.48	75,000	0.48
CDN $1.06	940,000	0.54	940,000	0.54
CDN $1.15	2,750,000	2.59	687,500	2.59
CDN $1.60	1,830,000	1.52	1,780,000	1.51
	6,395,000	1.87	4,282,500	1.52

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 $1,613,715 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)	0.59

A reconciliation of contributed surplus is provided below:

	Six months ended June 30, 2008	Year ended December 31, 2007
Balance, beginning of period	$ 2,576,263	$ 1,913,473
Stock-based compensation expense	1,109,648	979,119
Stock-based compensation capitalized	36,309	87,792
Transfer to share capital on the exercise of stock options	(44,778)	(404,121)
Balance, end of period	$ 3,677,442	$ 2,576,263

8 ACCUMULATED OTHER COMPREHENSIVE INCOME

	Six months ended June 30, 2008	Year ended December 31, 2007
Balance, beginning of period	$ 960,514	$ (223,791)
Translation gains (losses) on self-sustaining operations	(271,276)	1,184,305
Balance, end of period	$ 689,238	$ 960,514

9 RELATED PARTY TRANSACTIONS

(a) During the six months ended June 30, 2008, the Corporation paid $32,165 (2007 – $63,529) in consulting fees to a corporation controlled by a director and former officer of the Corporation. Of this amount, $3,286 (2007 – $19,059) was capitalized to exploration and development costs.

(b) During the six months ended June 30, 2008, the Corporation incurred $ 55,931 (2007 - $114,301) 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. During the six months ended June 30, 2008, Alhambra billed DOT CDN$120,000 under the Contract. The amount uncollected as of June 30, 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 June 30		Six Months ended June 30	
	2008	2007	**2008**	2007
Accounts receivable	**$ 767,051**	$ 793,208	**$ 58,643**	$ 572,766
Deposits and prepaid expenses	**943,945**	70,452	**(126,919)**	80,756
Supplies inventory	**20,116**	(110,921)	**57,551**	(77,318)
Work in progress	**(785,395)**	(403,758)	**(1,505,687)**	(657,643)
Accounts payable and accrued liabilities	**331,215**	873,245	**2,069,572**	1,541,358
Advances	**(277)**	(48)	**(401)**	(26,422)
	$ 1,276,655	$ 1,221,178	**$ 552,759**	$ 1,433,497
Relating to:				
Operating activities	**$ (132,735)**	$ 755,410	**$ (354,540)**	$ 840,347
Investing activities	**1,409,390**	466,768	**907,299**	593,150
	$ 1,276,655	$ 1,222,178	**$ 552,759**	$ 1,433,497

11 LOSS PER SHARE

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

	Three months ended June 30		Six Months ended June 30	
	2008	2007	**2008**	2007
Basic and diluted weighted average shares outstanding	**75,676,609**	69,771,837	**75,627,378**	69,511,411

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

12 MANAGEMENT OF CAPITAL

The Corporation defines capital that it manages as its shareholders' equity. The Corporation's objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to maintain investor confidence and to not expose the Corporation to excess risk. The Corporation manages its capital structure and makes adjustments to it based on the level of funds available to support the exploration and development of its mineral properties. While Alhambra generates positive cash flow from its operating subsidiary, these current operations were never intended to be of the magnitude necessary to completely fund an active, growth orientated, exploration program. As such, the Corporation is dependent on external financing to fund its exploration and development activities.

To date, external financing has been limited to issuing common shares however the Corporation will consider debt if the terms and conditions related to the debt are considered advantageous. To the extent that market conditions are not believed to be positive for raising equity or debt, adjustments may be made to the timing of planned exploration and development projects until those market conditions become acceptable.

Management reviews its capital management approach on an ongoing basis. There were no changes to this approach during the six months ended June 30, 2008. The Corporation is not subject to externally imposed capital requirements.

13 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 $175,999 for the six months ended June 30, 2008 (2007 - $164,620).

(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 June 30, 2008, advances received from the vendor were $744,564 (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	$ 113,737
2009	$ 130,944
2010	$ 130,944
2011	$ 130,944
2012	$ 130,944
2013	$ 87,296

14 SUBSEQUENT EVENT

Subsequent to June 30, 2008, the Corporation issued a series of twelve (12%) percent secured debentures due August 11, 2009 in the aggregate principal amount of CDN$1,000,000 (the "Debentures"). The Debentures bear interest at a simple rate of twelve (12%) percent per annum calculated annually, not in advance. The Debentures are secured by way of a first floating charge against all of the assets, property and undertakings of the Corporation. The entire amount of the Debentures was subscribed for by officers and directors of the Corporation.

15 SEGMENT INFORMATION

As at June 30 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:

Six months ended June 30, 2008	**Kazakhstan**	**Corporate**	**Total**
Sales of gold	**$ 5,827,782**	**$ –**	**$ 5,827,782**
Net income (loss)	**301,618**	**(2,091,281)**	**(1,789,663)**
Depreciation, depletion and accretion	**616,654**	**7,220**	**623,874**
Assets	**37,025,940**	**1,219,454**	**38,245,394**
Capital expenditures	**3,338,705**	**2,035**	**3,340,740**

Six months ended June 30, 2007	Kazakhstan	Corporate	Total
Sales of gold	$ 5,442,632	$ –	$ 5,442,632
Net income (loss)	385,745	(1,856,034)	(1,470,289)
Depreciation, depletion and accretion	524,751	7,434	532,185
Assets as of December 31, 2007	32,848,070	4,081,849	36,929,919
Capital expenditures	3,157,743	8,060	3,165,803

Three months ended June 30, 2008	**Kazakhstan**	**Corporate**	**Total**
Sales of gold	**$ 2,927,788**	**$ –**	**$ 2,927,788**
Net income (loss)	**45,838**	**(1,019,781)**	**(973,943)**
Depreciation, depletion and accretion	**359,000**	**3,647**	**362,647**
Assets	**37,025,940**	**1,219,454**	**38,245,394**
Capital expenditures	**1,978,342**	**1,502**	**1,979,844**

Three months ended June 30, 2007	Kazakhstan	Corporate	Total
Sales of gold	$ 3,215,853	$ –	$ 3,215,853
Net income (loss)	176,548	(1,047,960)	(871,412)
Depreciation, depletion and accretion	304,349	4,048	308,397
Assets as of December 31, 2007	32,848,070	4,081,849	36,929,919
Capital expenditures	1,587,115	7,682	1,594,797

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

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SHARE LISTINGS

The Toronto Venture Stock Exchange
Trading Symbol - ALH

Frankfurt Stock Exchange, Open Market
Trading Symbol – A4Y

COMPANY OVERVIEW

Alhambra Resources Ltd. ("Alhambra" or the "Corporation") is a Canadian based international exploration and production corporation, celebrating its seventh 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.

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