Quarter Three
2008

alhambra

A Message to Shareholders

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

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

HIGHLIGHTS

- Stacking operations – up in the 3rd quarter and ahead of 2007 levels
- Production – 3rd quarter production up 141% to 9,905 ounces from 4,116 ounces in the 2nd quarter of 2008
- Sales – 3rd quarter sales up 51% to 4,952 ounces from 3,272 ounces in the 2nd quarter of 2008
- Crushing unit – fully operational and allowing stacking of higher gold grade oxide ore
- Revenue from gold sales amounted to $4.3 million based on the sale of 4,952 ounces
- Generated $1.2 million of positive funds flow and $0.3 million of net income from mining operations
- The Corporation recorded funds flow from operating activities of $0.8 million ($0.01/share) and a net loss of $0.2 million ($0.01/share)
- Spent $0.9 million on capital expenditures of which $0.8 million was on exploration
- Cash operating costs were $542.53 per ounce of gold sold
- Completed 23,297 metres of Reverse Air Blast drilling and 287 square kms of geophysical surveys
- The recoverable gold in work in process as of September 30, 2008 was 29,077 ounces
- Two legal disputes arose in the quarter

OVERVIEW

The 3rd quarter of 2008 was the first quarter in which the recently commissioned crushing unit was operational at the Uzboy gold deposit. This unit is successfully being used to crush the higher grade oxide gold ore from the West zone of the Uzboy gold deposit. The crushing unit provides two benefits to the mining operations being; i) crushing the oxide ore to a finer size prior to stacking which is expected to improve over all gold recovery and ii) mine and stack the harder and higher-grade oxide ore from the West pit which has yielded a higher average gold grade to the heaps.

FINANCIAL HIGHLIGHTS

(in US$ except per share amounts)	Three months ended September 30 **2008**	2007	Nine Months ended September 30 **2008**	2007
Revenue from gold sales	**$ 4,251,565**	$ 3,955,211	**$ 10,079,347**	$ 9,397,843
Net income (loss)	**(196,476)**	67,509	**(1,986,139)**	(1,402,750)
Per share – basic	**(0.01)**	0.00	**(0.03)**	(0.02)
Weighted average shares outstanding				
Basic	**75,774,147**	70,739,415	**75,676,658**	69,925,244
Shares outstanding at end of period	**75,774,147**	70,911,480	**75,774,147**	70,911,480

For the 3rd quarter of 2008, the Corporation recorded a net loss of $0.2 million, or $0.01 per basic share. This compares to net income of $0.1 million or $0.00 per basic share in 2007. Funds flow from operating activities for the 3rd quarters of 2008 and 2007 were basically unchanged at $0.8 million or $0.01 per basic share.

Revenue from the sale of gold amounted to $4.3 million. This was realized from the sale of 4,952 ounces ("ozs") of gold at an average price of $858.56 per ounce ("/oz"). The per oz operating cost for the 3rd quarter of 2008 was $542.53/oz sold as compared to $376.64/oz sold in the 3rd quarter of 2007. This per unit operating cost increase was mainly due to inflation on major components of Alhambra's operating costs in Kazakhstan such as salaries, fuel, transportation of ore, and blasting of material for stacking, and a 15% decrease in gold sales. Since over 50% of Alhambra's operating expenses are fixed in nature, increased mining activities result in lower per unit operating costs.

OPERATIONS REVIEW

1. Mining and Stacking Operations

With the delivery and commissioning of the crushing unit in the 3rd quarter of 2008, mining activities returned to the higher-grade West pit of the Uzboy gold deposit. During the quarter, mining operations were conducted in both the West and East pit of the Uzboy gold deposit. Mining and stacking parameters for the 3rd quarter of 2008 along with comparative information for 2007 are set out in the table below.

Mining & Stacking Operations	**Q3/08**	Q3/07	**Nine Months YTD 2008**	Nine Months YTD 2007
Waste Mined (t)	**578,118**	566,945	**1,542,043**	1,137,995
Waste to Ore Ratio	**1.67**	1.73	**2.04**	1.72
Ore Stacked (t)	**345,500**	328,000	**757,250**	660,750
Grade of Ore Stacked (g/t)	**1.27**	0.84	**1.02**	0.98
Gold Stacked on Heaps (ozs)	**14,150**	8,829	**24,854**	20,869
Recoverable Gold Stacked (ozs)	**9,905**	6,180	**17,397**	14,608

Recoverable gold estimated to be 70% over life of mine

Convert ozs to grams by multiplying ozs by 31.104

In the 3rd quarter 2008, Alhambra stacked 345,500 tonnes of oxide ore ("ore") on its heaps compared to 328,000 tonnes of ore stacked in the 3rd quarter 2007. Of the total amount of ore stacked in the quarter, 62% (212,737 tonnes) came from the East pit, 34% (118,013 tonnes) came from the West pit and 4% (14,750 tonnes) came from the low-grade stockpile. Stacking operations for the nine months ended September 30, 2008 was 15% higher than that achieved in the corresponding period 2007.

Waste mined during the 3rd quarter of 2008 increased by 2% to 578,118 tonnes compared to 566,945 tonnes in the corresponding quarter of 2007. The amount of waste mined during the 9 months ended September 30, 2008 totalled 1,542,043 tonnes, an increase of 404,048 over the 1,137,995 tonnes in the corresponding period in 2007. The increase in waste mined was due to the pre-stripping of waste on the East zone in the 1st quarter of 2008 and pushing back the pit wall in the West zone during the 2nd quarter to access higher-grade oxide ore. As a result of the installation of the crushing unit, Alhambra was able to mine the higher-grade oxide ore exposed in the floor of the West pit that was prepared for mining prior to suspension of mining activities in the 3rd quarter of 2007. The ability to access the oxide ore prepared in 2007 in the West pit resulted in a reduction of the waste mined during the 3rd quarter. As a result, the waste to ore ratio for the 3rd quarter of 2008 of 1.67 was 29% lower than that experienced in the 1st half of 2008 and 3% lower than in the 3rd quarter of 2007.

The gold grade of ore stacked in the 3rd quarter of 2008 averaged 1.27 grams per tonne ("g/t"), a 57% increase over that of the 1st half of 2008 when the gold grade of the ore averaged 0.81 g/t. The commencement of mining and crushing prior to stacking of a 150,000 tonne block of higher-grade oxide ore exposed in the floor of the West pit was the primary reason for the increase in the average grade of the ore stacking in the 3rd quarter. The average grade of oxide ore stacked in the 3rd quarter of 2007 was 0.84 g/t gold. Alhambra plans to continue mining and stacking oxide ore from both the West and East pit during the 4th quarter of 2008.

During the 3rd quarter of 2008, Alhambra stacked 345,500 tonnes at an average grade of 1.27 g/t gold from the West and East pits which was an increase of 5% over the tonnes of ore stacked and 51% over the grade achieved during the comparable quarter in 2007.

For the 9 months ended September 30, 2008, the amount and grade of ore stacked from the West and East pits were up 15% and 4%, respectively, versus the comparable period in 2007.

2. Production and Sales

A table summarizing production and sales follows:

Production and Sales	**Q3/08**	Q3/07	**Nine Months YTD 2008**	Nine Months YTD 2007
Gold Sales (ozs)	**4,952**	5,843	**11,364**	14,193
Change in Work in Progress (ozs)	**4,953**	337	**6,033**	415
Gold Production (ozs)	**9,905**	6,180	**17,397**	14,608

Gold production is defined as sales + the change in Work in Progress

During the 3rd quarter of 2008, gold sales amounted to 4,952 ounces ("ozs"). Gold sales during the 3rd quarter of 2008 increased by 1,680 ozs or 51% when compared to the 2nd quarter 2008, however, gold sales decreased by 891 ozs when compared to that sold in the 3rd quarter 2007.

In addition to the 4,952 ozs of gold sold in the quarter an additional 1,095 ozs of gold produced in the 3rd quarter was shipped to the refinery on September 30, 2008 and sold early in October, 2008. The Corporation's accounting policy for revenue recognition requires this sale to be recorded in the 4th quarter. If the 1,095 oz shipment had been recorded in the 3rd quarter, actual sales would have been higher than that recorded in the 3rd quarter of 2007.

During the 3rd quarter of 2008, Alhambra stacked an estimated 9,905 ounces of recoverable gold compared to 6,180 ounces in the corresponding period in 2007. After gold sales of 4,952 ounces during the quarter, the estimated recoverable gold classified as work in progress increased from 24,124 ozs of recoverable gold at the end of the 2nd quarter to 29,077 ounces at the end of the 3rd quarter 2008, an increase of 4,953 ounces.

The addition of an estimated 4,953 ounces in recoverable gold classified as work in progress during the 3rd quarter 2008, exceeded the estimated 4,116 ozs produced in the 2nd quarter of 2008. This increase in estimated gold production can be directly attributable to crushing and stacking higher-grade oxide ore from the West pit and a modest increase in the tonne of oxide ore stacked during the quarter.

3. Exploration Program Overview

In line with Alhambra's shift in exploration focus in the 1st quarter 2008, exploration activities completed during the 3rd quarter consisted of geophysical surveys and Reverse Air Blast drilling ("RAB"). Certain results related to the exploration activities completed by Alhambra during the 3rd quarter were previously released by way of news releases made by the Corporation. A full exploration program overview of the Third Quarter of 2008 is as contained in Management's Discussion and Analysis of Financial Conditions and Results of Operations.

CAPITAL EXPENDITURES

Expenditures on mining assets for the three months ended September 30, 2008 totaled approximately $0.9 million. Of this total, $0.8 million was spent on exploration with the remaining $0.1 million spent on capital projects.

LEGAL DISPUTES

a) Victoria Oil and Gas PLC ("Victoria")

As a result of litigation in the Republic of Kazakhstan ("Kazakhstan") to which Alhambra was not a named party, legal title to an oil and natural gas license (the "Kemerkol License") was reinstated in the name of Saga Creek Gold Company LLP ("Saga Creek"), the Corporation's wholly-owned subsidiary in Kazakhstan. Prior to the litigation, the Kemerkol License was owned by a subsidiary of Victoria but title thereto was reinstated in the name of Saga Creek as a result of this litigation. Consequently Victoria commenced legal proceedings in the Court of Queen's Bench of Alberta (the "Alberta Court") on September 26, 2008 against Alhambra and others to prevent Saga Creek from disposing of the Kemerkol License until entitlement thereto has been determined by the Alberta Court. The Alberta Court granted a temporary injunction in that regard on September 26, 2008, which decision Alhambra has appealed to the Alberta Court of Appeal. The Alberta Court action alleges that the vendor who had previously sold the Kemerkol License to Victoria had acted fraudulently in bringing about the result of the Kazakhstan litigation and that Alhambra helped facilitate this outcome. Alhambra denies these allegations and believes they have no merit. The Alberta Court action seeks reinstatement of the Kemerkol License and punitive damages of $5,000,000 from the defendants. Alhambra believes the Alberta Court action is unfounded because ownership of the Kemerkol License is not within the jurisdiction of the Alberta Court. Alhambra believes there is no prospect of its being held liable for such damages.

b) Marsa Aktiengesellschaft and Teragol Investments Limited (the "Plaintiffs")

On October 3, 2008, the Corporation was served with a legal claim filed by the Plaintiffs in the Specialized Interdistrict Economic Court in East Kazakhstan (the "Lower Court") on September 25, 2008 seeking to invalidate the original Partnership Unit Purchase and Exchange Agreement (the "Agreement"), dated March 21, 2002, as amended, whereby Alhambra purchased Saga Creek from the Plaintiffs. The basis for the claim is that the Corporation's 100% owned subsidiary, Alhambra Overseas Limited, incorporated to hold Alhambra's interest in Saga Creek, was not incorporated at the time the Agreement was initially entered into and despite the fact that such incorporation was subsequently completed soon thereafter. Alhambra applied to the Lower Court to have the litigation dismissed for the lack of jurisdiction, however, such application was denied as was the appeal to the Civil Cases Review Board, East Kazakhstan Oblast Court. As a result, hearings in the Lower Court on the merits of the case began on November 17, 2008 and were completed on November 24, 2008. On November 25, 2008 the Lower Court rendered its decision in favour of the Plaintiffs. In addition, the Lower Court has issued an injunction that prohibits Saga Creek from transferring the subsoil use rights related to Saga Creek's mineral licenses and the Kemerkol license to any third party and from transferring any funds of Saga Creek to the accounts of Alhambra. Alhambra believes the Lower Court erred in its judgment and intends to appeal the Lower Court decision within the fifteen calendar day time limit as required under Kazakhstan law. While Alhambra will continue to seek remedies under Kazakhstan law should the appeal be unsuccessful, the Plaintiffs would have the right at that time to begin the process to enforce the decision.

To September 30, 2008 Alhambra has advanced Saga Creek approximately $21.5 million to fund its operations and capital expenditure programs. This amount is evidenced by a loan agreement that has been registered with the Central Bank of Kazakhstan. As this loan is separate and distinct from the Agreement, Alhambra believes this would be an enforceable obligation of Saga Creek for which Alhambra would demand repayment should its appeals prove unsuccessful.

Respectfully submitted on behalf of the Board of Directors,
John J. Komarnicki
Chairman and Chief Executive Officer
November 26, 2008

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

For the Three and Nine Months Ended September 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 nine months ended September 30, 2008 and the factors reasonably expected to impact future operations and results as prepared on November 26, 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 nine months ended September 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 November 26, 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.

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To September 30, 2008 Alhambra has advanced Saga Creek approximately $21.5 million to fund Saga Creek's operations and capital expenditure programs. This amount is evidenced by a loan agreement that has been registered with the Central Bank of Kazakhstan. As this loan is separate and distinct from the Agreement, Alhambra believes this would be an enforceable obligation of Saga Creek for which Alhambra would demand repayment should its appeals prove unsuccessful.

NON-GAAP MEASURES

This MD&A contains the term "funds flow provided by (used in) operating activities" which is not recognized under GAAP. Funds flow provided by (used in) operating activities is defined as cash flow provided by (used in) operating activities adjusted for non-cash working capital. As a non-GAAP financial measure, funds flow does not have any standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by others. Management believes that in addition to net income (loss), funds flow provided by (used in) operating activities 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 funds 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 provided by (used in) operating activities as used in this MD&A.

	Three months ended September 30		Nine Months ended September 30	
(in US$)	**2008**	2007	**2008**	2007
Cash flow provided by operating activities	**$2,469,794**	$ 562,939	**$ 2,166,129**	$1,490,515
Add (deduct) change in non-cash working capital	**(1,655,541)**	260,150	**(1,301,001)**	(580,197)
Funds flow provided by (used in) operating activities	**$ 814,253**	$ 823,089	**$ 865,128**	$ 910,318

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 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 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 September 30		Nine Months ended September 30	
	2008	2007	**2008**	2007
OPERATING:				
Mining:				
Waste mined (Tonnes ("T"))	**578,118**	566,945	**1,542,043**	1,137,995
Ore stacked ("T")	**345,500**	328,000	**757,250**	660,750
Grade of ore mined (Grams/T ("g/t"))	**1.27**	0.84	**1.02**	0.98
Recoverable gold mined (Troy ounces (oz)) [(1)]	**9,905**	6,180	**17,397**	14,608
Gold in work in progress (ozs) [(2)]	**29,077**	23,044	**29,077**	23,044
FINANCIAL				
Gold sales (ozs)	**4,952**	5,843	**11,364**	14,193
Revenue ($)	**4,251,565**	3,955,211	**10,079,347**	9,397,843
Average gold price ($/oz)	**858.56**	676.91	**886.95**	662.15
Operations expenses ($)	**2,686,603**	2,200,693	**6,385,618**	5,010,257
Operations expenses ($/oz)	**542.53**	376.64	**561.92**	353.01
Net income (loss) ($)	**(196,476)**	67,509	**(1,986,139)**	(1,402,780)
Net loss (loss) per share				
Basic ($)	**(0.01)**	0.00	**(0.03)**	(0.02)
Diluted ($)	**N/A**	0.00	**N/A**	N/A
Capital expenditures ($)	**849,569**	1,749,268	**4,190,309**	4,915,071
Total assets ($) [(2)]	**40,130,912**	36,929,919	**40,130,912**	36,929,919
Shareholders' equity ($) [(2)]	**31,597,221**	32,704,925	**31,597,221**	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 nine months ended September 30, 2008, the Corporation sold a total of 11,364 ozs of gold for total proceeds of $10,079,347. This compares to sales of 14,193 ozs and $9,397,843 of sales during the corresponding nine 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 17,397 ozs of gold was stacked during the first nine months of 2008 which, after selling the 11,364 ozs, resulted in approximately 29,077 ozs of gold in work in progress at September 30, 2008.

During the nine months ended September 30, 2008, the Corporation mined a total of 1,542,043 T of waste and stacked 757,250 T of ore at an average gold grade of 1.02 g/t. This compares to 1,137,995 T of waste mined and 660,750 T of ore at an average gold grade of 0.98 g/t stacked in the comparable nine month period in 2007.

Beginning in July of 2007, the Corporation concentrated its mining operations in the lower grade east zone of the Uzboy gold deposit. Prior to that date, mining operations had been concentrated in the higher grade west zone, however, depths had been reached where the ore to be mined was harder, making it more difficult to maintain the estimated 70% recovery factor. In July, 2008 the Corporation installed and began operating a crushing unit. The crushing unit allows the Corporation to mine the harder material from the high grade west zone and blend it with material from the east zone. As a result, the grade of the material mined during the third quarter of 2008 average 1.27 g/t as compared to 0.81 g/t in the first half of 2008 and 0.84 g/t during the third quarter of 2007.

EXPLORATION REVIEW

Exploration was conducted at five areas during the quarter. In line with Alhambra's shift in exploration focus in the first quarter, 2008, exploration during the quarter consisted of geophysical surveys and Reverse Airblast drilling ("RAB"). The RAB drilling discovered two, potentially large, new zones of oxide gold mineralization on surface located approximately 750 metres northeast of the West zone of the Uzboy gold deposit. The geophysical survey completed over the southwestern portion of the Uzboy Trend also yielded positive results by outlining four target areas that exhibit the same structural and magnetic signatures as the Uzboy gold deposit. These geophysical targets warrant additional exploration utilizing electromagnetic geophysical methods. A substantial portion of the analytical results from the other four areas explored during the quarter have not been received.

Uzboy Gold Deposit

Diamond Drilling
During the third quarter, the analytical results for 2,553 metres ("m") from 11 diamond drill holes ("DDH") completed on the West and East zones of the Uzboy gold deposit during the first quarter of 2008 were received. The diamond drilling extended the limits of the gold mineralization in both the West and East zones. The drilling results from the East zone were considered very positive due to the number of mineralized intervals intersected in several of the drill holes.

West Zone
Four DDH tested the strike extension of previously reported mineralized intervals on Profiles 69 and 73 and intersected multiple intervals of lower-grade gold mineralization in sheared and altered andesitic volcanics. The gold mineralization on these profiles has been extended to a depth of 375 m below surface and is open at depth. One hole located at the north end of the West zone is interpreted to have been drilled over the top of the mineralized zone.

East Zone
These seven DDH tested the continuity of the oxide gold mineralization along strike and down dip in the southwest portion of the East zone. Due to the shallow nature of the diamond drilling, multiple intervals of oxide and several intervals of transitional and primary gold mineralization were intersected on Profiles 14, 18 and 22. The mineralized intervals intersected by the diamond

drilling remain open at depth and along strike. Several of the DDH intersected multiple stacked intervals (to a maximum of six intervals) of gold mineralization which is not typical of the mineralization intersected to date on the East zone.

Geophysical Survey

During the third quarter, the results of the magnetometer ("magnetic") survey completed around the Uzboy gold mine were received. The purpose of the magnetic survey was to locate additional zones that exhibit structural and alteration signatures similar to that which hosts the Uzboy gold deposit. The magnetic survey was completed over an area that measured approximately 17 kilometres ('kms") long by 8 kms wide (approximately 132 square kms) that extended from the Uzboy gold deposit southwest to the Aygabak zone.

The interpretation of the magnetic data has defined three areas in proximity to the Uzboy gold mine that exhibit a similar structural and alteration signature as that which hosts the Uzboy gold deposit. Within these three areas, a total of five targets have been selected for additional geophysical surveying using Induced Polarization/Resistivity methods to detect zones of sulphide mineralization. This survey is expected to be incorporated in the 2009 exploration program.

A brief discussion of the results of the three areas defined by the magnetic survey is outlined below.

Area #1

This area is located immediately southeast of the Uzboy gold mine and is characterized by a strong partially defined northeast trending negative magnetic feature ("magnetic low"). The structural trends and magnetic signature of this area are similar to that which hosts the Uzboy gold deposit. This area is bordered by a large semi-circular positive magnetic feature ("magnetic high") which is interpreted to be a mafic intrusive, possibly a diorite.

Area #2

This area exhibits an intense low magnetic signature and extends for a distance of approximately 10 kms southwest of the Uzboy gold deposit. Two areas within the intense magnetic low exhibit a similar structural setting to that which hosts the Uzboy gold deposit. Area #2 is cross-cut by a prominent southeast trending magnetic feature that is interpreted to be a fault that exhibits the same strike direction as the fault that occurs along the southwest end of the West zone of the Uzboy gold deposit. Area #2 covers the southwest extension of the main shear zone which hosts the Uzboy gold deposit. This area is bordered by the same large semi-circular positive magnetic feature as Area #1.

Area #3

This area is located approximately 3.0 kms southwest of the Aygabak zone and is characterized by a northeast trending low magnetic signature. Area #3 exhibits cross-cutting magnetic features that are interpreted to be either faults or shear zones which have the same strike directions as the faults/shears that control the gold mineralization in the Uzboy gold deposit.

Metallurgical Test Work

Although the work program related to the metallurgical test work to be completed on the primary gold mineralization of the Uzboy gold deposit was completed during the second quarter of 2008, the representative samples required for the test work were not selected during this quarter. SGS Lakefield located in Cornwall, UK and Kazmechanobr, a certified metallurgical laboratory in Kazakhstan have been retained to complete the work when the representative samples have been collected and submitted. The collection of three representative samples of the primary gold mineralization covering a grade range from 1.0 to 5.0 g/t gold are planned. This grade range to be covered by the test work reflects the range of average gold grades intersected to date by the diamond drilling of the Uzboy gold deposit.

Reverse Air Blast Drilling

During the third quarter of 2008, the analytical results for the 416 RAB holes (2,522 m) completed during the second quarter of 2008 located approximately 750 m northeast of and along strike of the West zone of the Uzboy gold deposit were received. This

work was completed to test the interpreted strike extension of several narrow intervals of low-grade oxide gold mineralization located in 2007 and resulted in the discovery of several new and as yet undefined zones of oxide gold mineralization. Due to the wide spaced nature of the profiles, only a preliminary interpretation of the results can be provided.

The new zones of oxide gold mineralization are interpreted to strike northeast-southwest and occur within an area that exhibits a strong magnetic low signature. The new zones are interpreted to occur within the Main Shear Zone, the main structural feature which hosts the Uzboy gold deposit. The new zones of oxide gold mineralization (at a 0.20 g/t) cut off were intersected on wide spaced profiles over a horizontal distance of 180 m. The zones of gold mineralization intersected on Profiles 110 and 116 are interpreted to be the extension of the gold mineralization intersected on Profiles 136 and 144.

Four parallel zones of gold mineralization ranging in width from 20 m to 100 m occur from Profile 136 to Profile 144 at a distance of 80 m. On Profile 140, gold mineralization was intersected at the northwest and southeast ends of this profile which remains open. Gold grades within these zones range from 0.20 g/t to 4.80 g/t and the mineralized intervals typically average from 12 m to 14 m and are open at depth.

From Profiles 110 to 116, four parallel zones of gold mineralization occur ranging in width from 10 m to 50 m. At the northwest end of these profiles, gold mineralization was intersected which remains open to the northwest. The depth of the mineralized intervals being reported depends on the length of the RAB hole but typically ranges from 8 m to 12 m and is open at depth. Within the mineralized intervals gold grades range from 0.20 g/t to 0.98 g/t.

Shirotnaia Zone

Bedrock Geochemical Survey
During the third quarter of 2008, a total of 1,578 RAB holes (12,045 m) were completed. The objective of this work was to continue the bedrock geochemical sampling program to delineate the dimensions of the bedrock gold anomalies discovered in 2007 and in the first and second quarters of 2008.

The Shirotnaia zone is one of Alhambra's priority areas of exploration in 2008. This zone covers a 20 kilometre 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 size of the bedrock geochemical gold anomalies, the geology and proximity to the producing gold mines at Aksu and Quartzite Hills support the exploration potential for this area.

The analytical results for the bedrock geochemical sampling program completed during the quarter are pending.

Geophysical Surveys
The total field magnetometer survey was completed during the third quarter. The purpose of this survey was to outline zones of metasomatic altered (pyrite-sericite), faulted and sheared andesite that could host additional zones of gold mineralization similar to that discovered in the first quarter of 2007. The magnetic survey covered an area of approximately 287 square kms (approximately 20 kms long by 14 kms wide) over 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 fourth quarter of 2008.

Dombraly Gold deposit

The Dombraly gold deposit was a former open pit gold mine during the former Soviet governed period. The former mining activities generated a large "waste pile". The grade of all samples collected from the "waste pile" by Alhambra averages 1.0 g/t gold. RAB drilling was completed to systematically sample the "waste pile" on 20 m spaced profiles to estimate the distribution of gold grade within the 'waste pile". A total of 613 holes (4,152 m) were drilled through the waste pile during the quarter. The sampling was completed at 2 m intervals and analytical results are pending.

Kirtoge

A RAB program was completed during the quarter to test the results of a limited geophysical exploration program and several gold anomalies. A total of 1,159 RAB holes (7,100 m) were completed. Analytical results for these samples are expected to be received during the fourth quarter.

Aygabak

A limited RAB drilling program was completed to test the results of a limited geophysical exploration program completed in late 2007. Analytical results for these samples are expected to be received during the fourth quarter.

FINANCIAL REVIEW

Segmented Information

The Corporation and its subsidiaries operate in one reportable segment, the exploration for and development of mineral properties. Identifiable assets, revenues and net loss in each of its geographic segments 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 nine months ended September 30, 2008, the Corporation recognized $10,079,347 in revenue from the sale of 11,364 ozs of gold at an average price of $886.95/oz. This compares with revenue of $9,397,843 from the sale of 14,193 ozs of gold at an average price of $662.15 for the comparable nine month period in 2007.

Of the increase in revenue of $681,504 from 2007 to 2008, $2,554,716 is a result of a 34% increase in the average price received for the sale of gold offset by $1,873,212 resulting from a 20% decrease in sales volumes. The mining of lower grade ore from the East zone of the Uzboy gold deposit during the first half of 2008 combined with colder weather in the first quarter of 2008 resulted in the lower sales volumes in the first nine months of 2008 as compared to the first nine months of 2007.

During the three months ended September 30, 2008, the Corporation recognized $4,251,565 in revenue from the sale of 4,952 ozs of gold at an average price of $858.56/oz. This compares to $3,955,211 in revenue from the sale of 5,843 ozs of gold at an average price of $676.91/oz for the three months ended September 30, 2007.

Of the increase in revenue of $296,354 from 2007 to 2008, $899,485 is a result of a 27% increase in the average price received for the sale of gold offset by $603,131 resulting from a 15% decrease in sales volume. During the third quarter of 2008 the Corporation stacked a total of 9,905 recoverable ozs, a 60% increase over the 6,180 recoverable ozs stacked during the third quarter of 2007. As indicated, this was a result of blending-in higher grade material from the west zone from which little material was moved during the third quarter of 2007. Included in third quarter, 2008 production was 1,095 ozs of gold that was shipped to the refinery on September 30, 2008 and sold in October, 2008. The Corporation's accounting policy for revenue recognition requires this sale to be recorded in the fourth quarter. If this late shipment had been recorded in the third quarter, actual sales volumes for the third quarter of 2008 would have exceeded sales volumes recorded in the third quarter of 2007.

Net Smelter Royalty

The net smelter royalty ranges from 2.5 to 3.0% (dependent on the price of gold) of gross revenue. During the nine months and three months ended September 30, 2008, the Corporation recognized $302,380 and $127,547, respectively in net smelter royalty expenses which is 3% of the revenue recognized in the period. These represent increases of $20,445 and $7,891 over the $281,935 and $119,656, respectively for the comparable nine 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 nine months ended September 30, 2008 totaled $6,385,618 or $561.92/oz of gold sold as compared to $5,010,257 or $353.01/oz of gold sold in the comparable period in 2007.

Of the increase in operating costs of $1,375,361 from 2007 to 2008, $2,374,024 is the result of a 60% increase in per unit operating costs. This increase was partially offset by $998,663 resulting from the 20% decrease in gold sales volumes.

The increase in per unit operating costs for the nine months ended September 30, 2008 as compared to the nine month period ended September 30, 2007 is essentially the result of two factors. The first is the impact of inflation on costs in Kazakhstan specifically as well as the mining industry globally. The major components of Alhambra's operating costs, namely salaries, fuel, transportation of ore from the pit to the pad and blasting of material for stacking, have all been subject to significant increases.

As reported in the previous quarterly reports, the second factor relates to the quality of ore mined during the first half of 2008 as compared to the first half of 2007. During the first half of 2008 the Corporation mined a lower average grade of ore (0.81 g/t) as compared to the first six months of 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.

Operating costs for the three months ended September 30, 2008 totaled $2,686,603 or $542.53/oz of gold sold as compared to $2,200,693 or $376.64/oz of gold sold in the comparable period in 2007.

Of the increase in operating costs of $485,910 from 2007 to 2008, $821,494 is the result of a 44% increase in per unit operating costs. This increase was partially offset by $335,584 resulting from the 15% decrease in gold sales volumes.

The increase in per unit operating costs in the third quarter of 2008 when compared to the third quarter of 2007 is the result of the inflation factors reported above. The Corporation is encouraged by the fact that per unit operating costs decreased in the third quarter of 2008 from those reported in the first and second quarters of 2008, principally because of the increase in the volume of ore mined and stacked in the third quarter. Since over 50% of the Corporations operating expenses are fixed in nature, increased mining activities result in lower per unit operating costs.

General and Administrative Expenses

General and administrative expenses for the nine months ended September 30, 2008 decreased $192,669 to $2,651,956 from the $2,844,625 recorded in the comparable period in 2007. Of the total, $1,383,694 related to the Saga Creek operations for the nine months ended September 30, 2008 compared to $1,367,420 for the nine months ended September 30, 2007. Saga Creek general and administration costs for the nine months increased only marginally 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 nine months ended September 30, 2008, corporate general and administrative costs totaled $1,268,262 which was a decrease of $208,943 from the corresponding 2007 amount of $1,477,205. After adjusting for the effect of an 8% decline in the average value of the US dollar in relation to the CDN dollar and the additional $157,638 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 $163,000.

General and administrative expenses for the three months ended September 30, 2008 decreased $50,489 to $812,643 from the $863,132 recorded in the comparable period in 2007. Of the total, $477,780 related to the Saga Creek operations for the three months ended September 30, 2008 compared to $441,759 for the three months ended September 30, 2007. The 8% increase in Saga Creek general and administration costs was the result of inflationary pressures in Kazakhstan and a 3% quarter over quarter 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 September 30, 2008, corporate general and administrative costs totaled $334,863 which was a decrease of $86,510 from the corresponding 2007 amount of $421,373. After adjusting for the additional $38,487 received from DOT the Contract in the third quarter of 2008 as compared to the corresponding period in 2007, the Corporation experienced an overall positive variance in general and administration costs of approximately $48,000.

Interest Expense

Interest expense for the nine months ended September 30, 2008 totaled $92,359, a decrease of $6,984 over the comparable 2007 amount of $99,343. For the three months ended September 30, 2008, interest expense was $41,785 or $8,351 higher than the $33,434 reported in the same three month period in 2007. Lower interest rates in 2008 applicable to the Advances resulted in the reduction in interest expense for the nine months ended September 30, 2008 as compared to the comparable period in 2007. Interest on the Debentures, which began in August, 2008 offset some of the decrease in interest expense related to the Debentures as well as being responsible for increase in interest expense in the third quarter of 2008 as compared to the third quarter of 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 terms of each option. The amount of this expense for the nine months and three months ended September 30, 2008 was $1,258,226 and $148,578, respectively. For the nine months and three months ended September 30, 2007, stock-based compensation expense was $933,647 and $150,317, 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 nine months ended September 30, 2008 was $1,035,285, an increase of $293,742 over the $741,543 expensed for the comparable nine month period during 2007. Depreciation, depletion and accretion expense for the three months ended September 30, 2008 was $411,411, an increase of $202,053 over the $209,358 reported 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, particularly in the third quarter of 2008 when the crushing unit began operations.

Income Tax Expense

As Saga Creek is a profitable entity, it is subject to income tax under Kazakhstan law. Income tax expense for the nine months and three months ended September 30, 2008 totaled $459,301 and $225,959, respectively compared to $809,073 and $480,037, respectively for the comparable nine month and three month periods ending September 30, 2007. Lower income for tax purposes from Saga Creek, primarily the result of higher depreciation from fixed assets that were brought into service during the third quarter, was responsible for the reduction in income tax expense in 2008 as compared to 2007. This higher third quarter depreciation was significant enough to eliminate current taxes accrued during the first six months of 2008.

Funds Flow

Funds flow provided from operating activities was $865,128 for the nine months ended September 30, 2008 as compared to funds flow provided from operating activities in the comparable nine month period in 2007 of $910,318, a decrease of $45,190. Mining operations at Saga Creek continued to contribute positive funds flow which totaled $2,112,052 for the nine months ended September 30, 2008. This however was a decrease of $290,845 from the $2,402,897 contributed during the comparable nine month period in 2007. The decrease was primarily a result of an increase in operating expenses offset by increases in gold sales revenues, foreign exchange gains and lower current tax expense.

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 nine month period ended September 30, 2008 relative to the comparable 2007 period resulted in an improvement in funds flow utilized in corporate activities of $245,655 to $1,246,924 as compared to the $1,492,579 utilized in the comparable period of 2007.

For the three months ended September 30, 2008, funds flow provided from operating activities was $814,253 as compared to funds flow provided from operating activities in the comparable three month period in 2007 of $823,089, a decrease of $8,836. Mining operations at Saga Creek continued to contribute positive funds flow which totaled $1,165,657 for the three months ended September 30, 2008. This was a decrease of $84,741 over the $1,250,398 contributed during the comparable three month period in 2007. The increases in gold sales revenue and lower current tax expense was more than offset by increases in operating and general and administration expenses and a decrease in realized 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 September 30, 2008 relative to the comparable period in 2007 resulted in an improvement of $75,905 in funds flow utilized in corporate activities to $351,404 as compared to the $427,309 utilized in the comparable period in 2007.

Net Loss

The Corporation incurred a net loss of $1,986,139 for the nine months ended September 30, 2008, an increase of $583,359 over the net loss recorded in comparable nine month period in 2007 of $1,402,780. Mining operations continued to contribute positive net income totaling $628,127 in the nine months ended September 30, 2008, a decrease of $449,424 over the $1,077,551 of net income recorded in the corresponding nine month period in 2007. The decrease in funds flow combined with higher depreciation, depletion and accretion expense 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 nine month periods ending September 30, 2008 and 2007, corporate losses were $2,614,266 and $2,480,331, respectively, an increase of $133,935. The decrease in funds flow utilized in operating activities was more than offset by the increase in stock-based compensation and the recognition of an increase of $55,613 in the Corporation's proportionate share in the loss of DOT.

Based on a weighted average number of common shares of 75,676,658 and 69,925,244, the Corporation's net loss per common share was $0.03 and $0.02 for nine month periods ended September 30, 2008 and 2007, respectively.

For the three months ended September 30, 2008, the Corporation incurred a net loss of $196,476, an increase of $263,985 over the net income recorded in comparable three month period in 2007 of $67,509. Mining operations contributed positive net income of $326,509 in the three months ended September 30, 2008, a decrease of $365,296 from the $691,805 of net income recorded in the corresponding three month period in 2007. The decrease in funds flow plus increases in depreciation, depletion and accretion and future income taxes resulted 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 September 30, 2008 and 2007, corporate losses were $522,985 and $624,296 respectively. The decrease in funds flow utilized in operating activities and a decrease of $23,300 in the Corporation's share in the loss of DOT accounted for the decreased loss of $101,311.

Based on a basic weighted average number of common shares of 75,774,147, the Corporation's net loss per common share was $0.01 for three month periods ended September 30, 2008. This compares to a net income of $0.00 per basic weighted average number of common shares of 70,739,415 for the three months ended September 30, 2007. On a diluted weighted average number of shares of 71,867,967 the Corporation recorded a net income of $0.00 per common share for the third quarter of 2007.

Liquidity and Capital Resources

During the nine months ended September 30, 2008, the Corporation received $108,009 from 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 September 30, 2008 the Corporation had $334,730 of cash and cash equivalents and a total of $1,873,867 in other working capital. Included in the other working capital at September 30, 2008, was $6,043,692 in work in progress. This represents the costs incurred to September 30, 2008 in the mining, leaching and smelting of approximately 20,000 ozs of recoverable gold that the Corporation estimates it will sell in the next year. A further estimated 9,077 ozs of recoverable gold contained in the heap with an estimated cost of $2,460,802 has been classified as a long-term asset (see note 4 to the interim unaudited consolidated financial statements). Included as a reduction in other working capital at September 30, 2008 was $744,443 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 14(b) to interim unaudited consolidated financial

statements). During the third quarter, 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 (herein referred to as 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. The Debentures are recorded as a current liability (note 7 to the unaudited consolidated financial statements).

The Corporation has completed its capital program for 2008 and is currently planning its 2009 capital program.

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 nine months ended September 30, 2008, while not unexpected due to the quality of the ore being mined during the first half of the year and cold weather experienced during the first quarter, were lower than in the nine months ended September 30, 2007 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 it should continue to do so, particularly since it is expected that harder rock from the mine can be processed while maintaining recovery rates. Historically, this positive funds flow from operations has not been adequate to completely fund the Corporation's capital program. In addition, no funds have been repatriated to Canada, nor is it expected that any funds will be repatriated to Canada in the near future, to cover any head office expenses as the Corporation reinvested such funds flow into its capital program in Kazakhstan.

While the Corporation's capital program and head office expenses have been historically financed by funds raised from equity financings, there is no assurance that this will continue to occur, particularly in light of the legal disputes pending (see "Legal Disputes" section above and note 16 to the unaudited consolidated interim financial statements), the current state of the world's financial markets and the trading price of Alhambra's common shares. There is no assurance that the Corporation will be able to raise the necessary capital to fund its operations and discharge its obligations. As a result, the Corporation's ability to continue as a going concern is currently in doubt.

Related Party Transactions

During the nine months ended September 30, 2008, the Corporation paid $68,503 (2007 – $97,990) in consulting fees to a corporation controlled by a director and former officer of the Corporation ("Consultant"). Of this amount, $3,286 (2007 – $29,397) was capitalized to exploration and development costs. The Consultant provides technical services related to the Corporation's exploration and development program and acts as the Corporation's Qualified Person. These services are provided at market equivalent rates.

During the nine months ended September 30, 2008, the Corporation incurred $112,788 (2007 - $191,016) 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 nine months ended September 30, 2008, the Corporation received CDN$180,000 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 September 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.

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 September 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 September 30, 2008 and December 31, 2007 nor was it required to write-off any receivables during the nine months ended September 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 however due to the legal disputes pending (see "Legal Disputes" section above and note 16 to the unaudited consolidated interim financial statements) combined with the current state of the world capital markets and the trading price of the Corporation's common shares, there is no assurance that this will continue. Failure to resolve the legal disputes and obtain additional financing could impact the Corporation's ability to continue as a going concern.

(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.

Based on the fair values at September 30, 2008 of the Corporation's financial instruments denominated in Kazakhstan Tenge ("Tenge"), an increase (decrease) in the value of the US$ over the Tenge of 10 Tenge per US$ would result in a decrease (increase) in the Corporation's net loss for the nine months ended September 30, 2008 of $198,000 ($234,000).

Based on the fair values at September 30, 2008 of the Corporation's financial instruments denominated in CDN$, an increase (decrease) in the value of the US$ over the CDN$ of $0.01 CDN per US$ would result in a decrease (increase) in the Corporation's net loss for the nine months ended September 30, 2008 of approximately $10,000 ($10,000).

(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 nine months ended September 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 $75,000.

(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 14(b) to the unaudited consolidated financial statements) and secured debentures (see note 7 to the unaudited consolidated financial statements). 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 nine months ended September 30, 2008 of approximately $8,700.

(e) Fair value of financial investments

The Corporation's financial instruments as at September 30, 2008 and December 31, 2007 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, advances and secured debentures. 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 $642,519.

The Corporation has no other off balance sheet financing arrangements.

Disclosure of Outstanding Share Data

	As of September 30, 2008	Change in 2008	Issued in 2008	As of November 26, 2008
Common shares issued and outstanding	**75,774,147**	–	–	75,774,147
Common shares issuable upon exercise of vested stock options	**4,920,000**	–	–	4,920,000
Common shares issuable upon exercise of warrants	**2,333,333**	(2,333,333)	–	–
Common shares fully diluted	**83,027,480**	(2,333,333)	–	80,694,147

At September 30, 2008, there were 75,774,147 common shares issued and outstanding and 83,027,480 fully diluted common shares after giving effect to the exercise of all outstanding vested stock options and warrants. On October 3, 2008 warrants entitling the holder to acquire 2,333,333 common shares of the Corporation expired. As of the filing date of this MD&A, none of the options were in the money.

Disclosure of Material Components of Expenditures

During the three months ended September 30, 2008, the Corporation spent approximately $850,000 in capital expenditures on its mining projects. Of this amount, approximately $775,000 was spent on exploration with the remaining $75,000 was spent on capital projects. As outlined in the exploration review, the third quarter program included the drilling of 23,297 m of RAB drilling in Shirotnaia, Dombraly and Kirtoge and analyzing data obtained from activities completed during the first half of the year including the magnetometer survey competed around the Uzboy gold deposit.

During the three months ended September 30, 2008, general and administrative expenses totaled $812,643, a $50,489 improvement over the $863,132 reported for the same three month period in 2007. Included in this amount was $477,780 of general and administrative costs directly related to Saga Creek operations which compares to the $441,759 recorded in the comparable three month period in 2007. Corporate overhead costs accounted for the remaining $334,863 which compares to $421,373 of corporate overhead costs incurred in the three months ended September 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 3% decline in the average value of the US dollar in relationship to the Tenge combined with inflationary pressures on costs accounted for the $36,021 in increased general and administration costs incurred by the Saga Creek operations. Employee and consultant compensation costs made up $331,203 (69%) of total Saga Creek general and administrative costs during the three months ended September 30, 2008 compared to $315,839 (72%) during the comparable three month period in 2007. The increase in employee and consulting costs in the third quarter of 2008 was primarily due to an increase in salaries paid to Saga Creek employees effective

July 1, 2008 to keep pace with the general trend in wages in Kazakhstan. The remaining $146,577 in general and administration expenses for the three months ended September 30, 2008 include corporate, office and professional expenses. This was an increase of $20,657 over the comparable three month period in 2007 total of $125,920.

Corporate employee costs incurred during the three months ended September 30, 2008 accounted for 61% ($203,428) of the total corporate general and administration costs as compared to 40% ($170,282) of the total in 2007. The increase resulted from increases in employee and consultant remuneration that were effective January 1, 2008.

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 10% ($32,856) of total general and administrative expenses in the three months ended September 30, 2008 as compared to 36% ($153,376) for the comparable three month period in 2007. The decrease was due to lower 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. In addition, the Corporation has reduced its investor relations program given the state of the world's capital markets and the Corporation's current cash position.

Office expenses incurred in the three months ended September 30, 2008 of $88,150 (2007 - $66,776) accounted for a further 26% (2007 – 16%) of general and administrative expenses. The increase is due to general inflationary increases in all components of office expenses including increased rent as the Corporation's lease was renewed effective September 1, 2008.

Professional costs, which include legal and auditing and outside consulting fees, totaled $68,423 (20%) for the three months ended September 30, 2008 as compared to $49,071 (12%) in comparable three month period in 2007. The higher costs relate mostly to legal costs associated with the legal claims that began near the end of the third quarter of 2008.

During the three months ended September 30, 2008, the Corporation billed DOT $57,994 (17%) under the Contract as compared to $18,132 (4%) billed in the third quarter of 2007. 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 its 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 and other projects of the Corporation 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 particularly in light of the legal disputes pending (see "Legal Disputes" section above and note 16 to the unaudited consolidated interim financial statements) combined with the current state of the world's capital markets and the trading price of the Corporation's common shares. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration plans or even the Corporation's ability to continue as a going concern.

Litigation Risks

The Corporation is involved in several legal disputes in Kazakhstan and Canada. While the Corporation believes the actions commenced against the Corporation are unfounded and without merit, there is no assurance that the applicable courts will rule in favour of the Corporation or if they do, whether judgments of local or foreign courts will be enforceable. If such courts rule against the Corporation and all aspects of appeal are exhausted, the Corporation could be subject to loss of its assets in Kazakhstan and the subsoil use rights related to its mineral licenses.

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 February 2008, the CICA Accounting Standards Board (AcSB") confirmed the changeover to International Reporting Standards ("IFRS") from Canadian GAAP will be required for publicly accountable enterprises' interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The AcSB issued the "omnibus" exposure draft of IFRS with comments due by July 31, 2008, wherein early adoption by Canadian entities is also permitted. The Canadian Securities Administrators ("CSA") has also used Concept Paper 52-402, which requested feedback on the early adoption of IRS as well as the continued use of US GAAP by domestic issuers. The eventual changeover to IFRS represents a change due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Corporation's reported financial position and results of operations.

Although the Corporation has not completed development of its IFRS changeover plan, when finalized it is anticipated that it will include project structure and governance, resourcing and training, an analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions. The Corporation anticipates completing its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements, prior to December 31, 2009.

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, ($)	December 31 2007	March 31 2008	June 30 2008	**September 30 2008**
Income (loss)	89,431	(815,720)	(973,943)	**(196,476)**
Basic and diluted net income (loss) per share	0.00	(0.01)	(0.01)	**(0.01)**

Three months ended, ($)	December 31 2006	March 31 2007	June 30 2007	**September 30 2007**
Income (loss)	(766,892)	(598,878)	(871,412)	**67,510**
Basic and diluted net income (loss) per share	(0.01)	(0.01)	(0.01)	**0.00**

Operations at Saga Creek are seasonal such that given no other major operational issues, it is expected that the gold sales during the cold weather months will be less than other months. As a result, monthly sales of gold during the months of December through May will be less than during other months of the year. The Corporation does heat the leaching solution to help offset some of the effects of the cold winters. This trend was consistent during the 2006 and 2007 years and continued into the first nine months 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.

FORWARD-LOOKING INFORMATION

Except for the statements of historical fact contained herein, certain statements contained in this MD&A constitute “forward-looking statements” as such term is used in applicable Canadian and US laws. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. In particular, statements concerning mineral resource estimates should be viewed as forward-looking statements to the extent that they involve estimates of the mineralization. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as “expects” or “does not expect”, “is expected”, “anticipates” or “does not anticipate”, “plans”, “estimates” or “intends”, or stating that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved) are not statements of historical fact and should be viewed as “forward-looking statements”. Such forward-looking statements, including but not limited to, the amount of estimated mineralization, the timing and possible outcome of possible pending economic evaluations, the Corporation’s liquidity and financial capacity, the Corporation’s funding sources to meet various obligations, the Corporation’s assessment of the legal disputes and other factors and events described in this document, involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and other factors include, among others: the timing and actual results of exploration activities; variations in the underlying assumptions associated with the estimation or realization of mineral resources; the conclusions of economic evaluations and possible variations in ore grade or recovery rates; costs and timing of the development of existing and new deposits, availability of capital to fund exploration and development programs

and the resulting dilution caused by the raising of capital through the sale of shares; other risks of the mining industry including without limitation those associated with the environment, financing or in the completion of development or construction activities, title disputes or claims limitations on insurance coverage and such other business risks as discussed herein. Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements there may be other factors that cause actions events or results not to be anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could vary or differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements contained in this MD&A.

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

Interim Consolidated Balance Sheets

(Unaudited) (Expressed in U.S. Dollars)

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 334,730**	$ 3,056,812
Accounts receivable	**1,231,508**	862,104
Deposits and prepaid expenses	**57,132**	53,750
Supplies inventory	**771,136**	807,774
Work in progress, current portion (note 4)	**6,043,692**	5,626,570
	8,438,198	10,407,010
Work in progress (note 4)	**2,460,802**	–
Mineral assets (note 5)	**28,511,676**	25,630,333
Equipment	**47,978**	57,869
Investment in DOT Resources Ltd. (note1(b))	**672,258**	834,707
	$ 40,130,912	$ 36,929,919
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 4,541,673**	$ 1,677,645
Advances (note 14(b))	**744,443**	744,965
Secured debentures (note 7)	**943,485**	–
	6,229,601	2,422,610
Asset retirement obligations (note 6)	**416,832**	374,427
Future income taxes	**1,887,258**	1,427,957
Shareholders' equity:		
Share capital (note 8(b))	**34,585,094**	34,432,307
Warrants (note 8(c))	**675,595**	675,595
Contributed surplus (note 8(d))	**3,843,437**	2,576,263
Accumulated other comprehensive income (note 8)	**418,988**	960,514
Deficit	**(7,925,893)**	(5,939,754)
	31,597,221	32,704,925
Nature of operations and basis of presentation (note 1)		
Commitments (notes 14)		
Segment information (note 15)		
Legal disputes (notes 16)		
	$ 40,130,912	$ 36,929,919

See accompanying notes to consolidated financial statements.

Interim Consolidated Statements of Income (Loss) and Deficit

Three and nine months ended September 30, 2008 and 2007

(Unaudited) (Expressed in U.S. Dollars)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
Revenue:				
Sales	**$ 4,251,565**	$ 3,955,211	**$ 10,079,347**	$ 9,397,843
Less net smelter royalty	**127,547**	119,656	**302,380**	281,935
	4,124,018	3,836,555	**9,776,967**	9,115,908
Interest and other	**605**	1,964	**13,612**	25,417
	4,124,623	3,838,519	**9,790,579**	9,141,325
Expenses:				
Operations	**2,686,603**	2,200,693	**6,385,618**	5,010,257
General and administrative	**812,643**	863,132	**2,651,956**	2,844,625
Interest	**41,785**	33,434	**92,359**	99,343
Stock-based compensation (note 8(d))	**148,578**	150,317	**1,258,226**	933,647
Depreciation, depletion and accretion	**411,411**	209,358	**1,035,285**	741,543
Foreign exchange loss (gain)	**(25,422)**	(208,803)	**(204,482)**	62,775
	4,075,598	3,248,131	**11,218,962**	9,692,190
Income (loss) before the undernoted	**49,025**	590,388	**(1,428,383)**	(550,865)
Income tax expense:				
Current	**(205,239)**	126,974	**–**	214,007
Future	**(431,198)**	353,063	**459,301**	595,066
	225,959	480,037	**459,301**	809,073
Income (loss) before equity loss	**(176,934)**	110,351	**(1,887,684)**	(1,359,938)
Equity loss	**19,542**	42,842	**98,455**	42,842
Net income (loss)	**(196,476)**	67,509	**(1,986,139)**	(1,402,780)
Deficit, beginning of period	**(7,729,417)**	(6,096,694)	**(5,939,754)**	(4,626,405)
Deficit, end of period	**$ (7,925,893)**	$(6,029,185)	**$ (7,925,893)**	$ (6,029,185)
Per share (note 12):				
Net income (loss) per share				
Basic	**$ (0.01)**	$ 0.00	**$ (0.03)**	$ (0.02)
Diluted	**$ N/A**	$ 0.00	**$ N/A**	$ N/A

See accompanying notes to consolidated financial statements.

Interim Consolidated Statements of Comprehensive Income (Loss)

Three and nine months ended September 30, 2008 and 2007

(Unaudited) (Expressed in U.S. Dollars)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
Net income (loss)	**$ (196,476)**	$ 67,509	**$ (1,986,139)**	$(1,402,780)
Translation gains (losses) on self-sustaining operations	**(270,250)**	477,589	**(541,526)**	1,109,787
Total comprehensive income (loss)	**$ (466,726)**	$ 545,098	**$ (2,527,665)**	$ (292,993)

See accompanying notes to consolidated financial statements.

Interim Consolidated Statements of Cash Flows

Three and nine months ended September 30, 2008 and 2007

(Unaudited) (Expressed in U.S. Dollars)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
Cash provided by (used in):				
Operating:				
Net income (loss)	**$ (196,476)**	$ 67,509	**$ (1,986,139)**	$ (1,402,780)
Items not involving cash:				
Stock-based compensation	**148,578**	150,317	**1,258,226**	933,647
Depreciation, depletion and accretion	**411,411**	209,358	**1,035,285**	741,543
Future income taxes	**431,198**	353,063	**459,301**	595,066
Equity loss	**19,542**	42,842	**98,455**	42,842
	814,253	823,089	**865,128**	910,318
Change in non-cash working capital (note 11)	**1,655,541**	(260,150)	**1,301,001**	580,197
	2,469,794	562,939	**2,166,129**	1,490,515
Financing:				
Issuance of common shares	**–**	340,378	**108,009**	915,636
Change in non-capital working capitals	**943,485**	–	**943,485**	–
	943,485	340,378	**1,051,494**	915,636
Investing:				
Expenditures on mineral assets	**(847,161)**	(1,748,578)	**(4,185,866)**	(4,906,321)
Work in progress	**(2,460,802)**	–	**(2,460,802)**	–
Acquisition of equipment	**(2,408)**	(690)	**(4,443)**	(8,750)
Change in non-cash working capital (note 11)	**(98,064)**	(311,379)	**809,235**	281,771
	(3,408,435)	(2,060,647)	**(5,841,876)**	(4,633,300)
Effect of exchange rate changes on cash and cash equivalents	**(32,141)**	57,548	**(97,829)**	184,520
Increase (decrease) in cash and cash equivalents	**(27,297)**	(1,099,782)	**(2,722,082)**	(2,042,629)
Cash and cash equivalents, beginning of period	**362,027**	1,595,191	**3,056,812**	2,538,038
Cash and cash equivalents, end of period	**$ 334,730**	$ 495,409	**$ 334,730**	$ 495,409
Supplemental disclosure of cash flow information:				
Interest paid	**$ 25,998**	$ 33,434	**$ 76,570**	$ 99,343
Taxes paid	**54,884**	188,875	**218,599**	258,224

See accompanying notes to consolidated financial statements.

Notes to Interim Consolidated Financial Statements

Nine months ended September 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.

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. Because of the legal disputes pending (note 16) combined with the current state of the world's financial markets, it is very difficult for the Corporation to raise the necessary capital to continue with its business plan and discharge its obligations when they become due. There is no assurance that the Corporation will be able to raise this necessary capital. As a result the Corporation's ability to continue as a going concern is currently in doubt.

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 nine months ended September 30, 2007 was CDN$1,611,528 or CDN$0.02 per basic and diluted share. As a result of the change in reporting currency, the net loss for the nine months ended September 30, 2007 is now US$1,402,780 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 September 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) Changes in accounting policies and recent accounting pronouncements:

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 13.

(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. The disclosures required by adoption of this section are presented in note 3.

(v) International financial reporting standards

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to International Reporting Standards ("IFRS") from Canadian GAAP will be required for publicly accountable enterprises interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The AcSB issued the "omnibus" exposure draft of IFRS with comments due by July 31, 2008, wherein early adoption by Canadian entities is also permitted. The Canadian Securities Administrators ("CSA") has also used Concept Paper 52-402, which requested feedback on the early adoption of IFRS as well as the continued use of US GAAP by domestic issuers. The eventual changeover to IFRS represents a change due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Corporation's reported financial position and results of operations.

Although the Corporation has not completed development of its IFRS changeover plan, when finalized it is anticipated that it will include project structure and governance, resourcing and training, an analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions. The Corporation anticipates completing its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements, prior to December 31, 2009.

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 as well as 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 September 30, 2008, 96% 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 September 30, 2008 and December 31, 2007 nor was it required to write-off any receivables during the nine months ended September 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 however due to the legal disputes pending (note 16) combined with the current state of the world's financial markets 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.

Based on the fair values at September 30, 2008 of the Corporation's financial instruments denominated in Kazakhstan Tenge, an increase (decrease) in the value of the US$ over the Kazakhstan Tenge of 10 Tenge per US$ would result in a decrease (increase) in the Corporation's net loss for the nine months ended September 30, 2008 of $198,000 ($234,000).

Based on the fair values at September 30, 2008 of the Corporation's finance instruments denominated in CDN$, an increase (decrease) in the value of the US$ over the CDN$ of $0.01 CDN per US$ would result in a decrease (increase) in the Corporation's net loss for the nine months ended September 30, 2008 of approximately $10,000 ($10,000).

(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 nine months ended September 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 $75,000.

(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 14(b)) and secured debentures (see note 7). 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 nine months ended September 30, 2008 of approximately $8,700.

(e) Fair value of financial investments

The Corporation's financial instruments as at September 30, 2008 and December 31, 2007 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, advances and secured debentures. 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:

	September 30, 2008	December 31, 2007
Pad	**$ 7,277,489**	$ 4,422,620
Resin	**442,255**	479,204
Stripping plant	**784,750**	724,746
	8,504,494	5,626,570
Less long term portion	**2,460,802**	–
	$ 6,043,692	$ 5,626,570

The Corporation currently estimates that there are 29,077 troy ounces ("ozs") of gold in work in progress of which an estimated 20,000 ozs of gold will be sold within the next year. The estimated cost of the remaining 9,077 ozs of gold, which are contained in the pad, has been classified on the balance sheet as a long-term asset based on the average cost of the total 26,844 ozs of gold estimated to be in the pad.

5 MINERAL ASSETS

Mining assets consist of the following:

	September 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 $ 699,035 (2007 - $613,923)	**$ 19,277,374**	$ 16,886,923
Equipment, net of accumulated depreciation of $ 2,526,531(2007 - $1,625,961)	**9,234,302**	8,738,130
Construction in progress	**-**	5,280
	$ 28,511,676	$ 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 14(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 September 30, 2008 totaled $17,733,236 (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 nine months ended September 30, 2008, the Corporation capitalized $49,065 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.

	Nine months ended September 30, 2008	Year ended December 31, 2007
Balance, beginning of period	**$ 374,427**	$ 311,000
Revisions to previous estimates	**2,857**	17,547
Accretion expense	**39,548**	45,880
Balance, end of period	**$ 416,832**	$ 374,427

The Corporation estimates that the total undiscounted cash flows required to settle its asset retirement obligations at September 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 SECURED DEBENTURES

The Corporation has outstanding a series of twelve (12%) percent secured debentures due August 11, 2009 in the principle amount of CDN$1,000,000 (the "Debentures"). The Debentures bear interest at a simple rate of twelve (12%) percent per annual calculated annually, not in advance. The Debentures are secured by way of a first floating change against all of the assets, property and undertakings of the Corporation. The entire amount of the Debentures was subscribed by officers and directors of the Corporation.

8 SHARE CAPITAL

(a) Authorized

Unlimited voting common shares

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

(b) Issued and outstanding

	Nine months ended September 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:

	Nine months ended September 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

	Nine months ended September 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

The warrants expired unexercised on October 3, 2008.

(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:

	Nine months ended September 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**	**$ 1.12**	3,905,000	$ 1.18
Exercisable, end of period	**4,282,500**	**$ 1.13**	3,397,500	$ 1.12

The following table summarizes information about stock options outstanding and exercisable at September 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	1.63	800,000	1.63
CDN $0.76	75,000	0.23	75,000	0.23
CDN $1.06	940,000	0.29	940,000	0.29
CDN $1.15	2,750,000	2.34	1,325,000	2.34
CDN $1.60	1,830,000	1.27	1,780,000	1.26
	6,395,000	1.62	4,920,000	1.27

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:

	Nine months ended September 30, 2008	Year ended December 31, 2007
Balance, beginning of period	**$ 2,576,263**	$ 1,913,473
Stock-based compensation expense	**1,258,226**	979,119
Stock-based compensation capitalized	**53,726**	87,792
Transfer to share capital on the exercise of stock options	**(44,778)**	(404,121)
Balance, end of period	**$ 3,843,437**	$ 2,576,263

9 ACCUMULATED OTHER COMPREHENSIVE INCOME

	Nine months ended September 30, 2008	Year ended December 31, 2007
Balance, beginning of period	**$ 960,514**	$ (223,791)
Translation gains (losses) on self-sustaining operations	**(541,526)**	1,184,305
Balance, end of period	**$ 418,988**	$ 960,514

10 RELATED PARTY TRANSACTIONS

(a) During the nine months ended September 30, 2008, the Corporation paid $68,503 (2007 - $97,990) in consulting fees to a corporation controlled by a director and former officer of the Corporation. Of this amount, $3,286 (2007 - $29,397) was capitalized to exploration and development costs.

(b) During the nine months ended September 30, 2008, the Corporation incurred $112,788 (2007 - $191,016) 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 nine months ended September 30, 2008, Alhambra billed DOT CDN$180,000 under the Contract. The amount uncollected as of September 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.

11 SUPPLEMENTARY CASH FLOW INFORMATION

Changes in non-cash working capital are as follows:

	Three months ended September 30		Nine Months ended September 30	
	2008	2007	**2008**	2007
Accounts receivable	**$ (428,047)**	$ (457,915)	**$ (369,404)**	$ 114,851
Deposits and prepaid expenses	**123,537**	(15,341)	**(3,382)**	65,415
Supplies inventory	**(20,913)**	(103,833)	**36,638**	(181,151)
Work in progress current portion	**1,088,565**	(754,702)	**(417,122)**	(1,412,345)
Accounts payable and accrued liabilities	**794,456**	764,508	**2,864,028**	2,305,866
Advances	**(121)**	(4,246)	**(522)**	(30,668)
Secured debenture	**943,485**	–	**943,485**	–
	$ 2,500,962	$ (571,529)	**$ 3,053,721**	$ 861,968
Relating to:				
Operating activities	**$ 1,655,541**	$ (260,150)	**$ 1,301,001**	$ 580,197
Financing activities	**943,485**	–	**943,485**	–
Investing activities	**(98,064)**	(311,379)	**809,235**	281,771
	$ 2,500,962	$ (571,529)	**$ 3,053,721**	$ 861,968

12 INCOME (LOSS) PER SHARE

Basic and diluted income (loss) per share are calculated using the weighted average number of shares outstanding during the period.

	Three months ended September 30		Nine Months ended September 30	
	2008	2007	**2008**	2007
Weighted average shares outstanding				
Basic	**75,774,147**	70,739,415	**75,676,658**	69,925,244
Diluted	**N/A**	71,867,967	**N/A**	N/A

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

13 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 nine months ended September 30, 2008. The Corporation is not subject to externally imposed capital requirements.

14 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 $303,985 for the nine months ended September 30, 2008 (2007 - $283,920).

(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, 2008. 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 September 30, 2008, advances received from the vendor were $744,443 (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	$ 32,670
2009	$ 130,682
2010	$ 130,682
2011	$ 130,682
2012	$ 130,682
2013	$ 87,121

15 SEGMENT INFORMATION

As at September 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:

Nine months ended September 30, 2008	**Kazakhstan**	**Corporate**	**Total**
Sales of gold	**$ 10,079,347**	**$ –**	**$ 10,079,347**
Net income (loss)	**628,127**	**(2,614,266)**	**(1,986,139)**
Depreciation, depletion and accretion	**1,024,624**	**10,661**	**1,035,285**
Assets	**39,984,270**	**1,146,642**	**41,130,912**
Capital expenditures	**4,185,866**	**4,443**	**4,190,309**

Nine months ended September 30, 2007	Kazakhstan	Corporate	Total
Sales of gold	$ 9,397,843	$ –	$ 9,397,843
Net income (loss)	1,077,551	(2,480,331)	(1,402,780)
Depreciation, depletion and accretion	730,281	11,262	741,543
Assets as of December 31, 2007	32,848,070	4,081,849	36,929,919
Capital expenditures	4,906,321	8,750	4,915,071

Three months ended September 30, 2008	**Kazakhstan**	**Corporate**	**Total**
Sales of gold	**$ 4,251,565**	**$ –**	**$ 4,251,565**
Net income (loss)	**326,509**	**(522,985)**	**(196,476)**
Depreciation, depletion and accretion	**407,970**	**3,441**	**411,411**
Assets	**39,984,270**	**1,146,642**	**41,130,912**
Capital expenditures	**847,161**	**2,408**	**849,569**

Three months ended September 30, 2007	Kazakhstan	Corporate	Total
Sales of gold	$ 3,955,211	$ –	$ 3,955,211
Net income (loss)	691,805	(624,296)	67,509
Depreciation, depletion and accretion	205,530	3,828	209,358
Assets as of December 31, 2007	32,848,070	4,081,849	36,929,919
Capital expenditures	1,748,578	690	1,749,268

16 LEGAL DISPUTES

(a) Victoria Oil and Gas and Gas PLC ("Victoria"):

As a result of litigation in Kazakhstan to which Alhambra was not a party, legal title to an oil and natural gas license (the "Kemerkol License") was reinstated in the name of Saga Creek Gold Company LLP ("Saga Creek"), the Corporation's wholly-owned subsidiary in Kazakhstan. Prior to the litigation, the Kemerkol License was owned by a subsidiary of Victoria but title thereto was reinstated in the name of Saga Creek as a result of this litigation. Consequently Victoria commenced legal proceedings in the Court of Queen's Bench of Alberta (the "Alberta Court") on September 26, 2008 against Alhambra and others to prevent Saga Creek from disposing of the Kemerkol License until entitlement thereto has been determined by the Alberta Court. The Alberta Court granted a temporary injunction in that regard on September 26, 2008, which decision Alhambra has appealed to the Alberta Court of Appeal. The Alberta Court action alleges that the vendor who had previously sold the Kemerkol License to Victoria had acted fraudulently in bringing about the result of the Kazakhstan litigation and that Alhambra helped facilitate this outcome. Alhambra denies these allegations and believes they have no merit. The Alberta Court action seeks reinstatement of the Kemerkol License and punitive damages of $5,000,000 from the defendants. Alhambra believes the Alberta Court action is unfounded because ownership of the Kemerkol License is not within the jurisdiction of the Alberta Court. Alhambra believes there is no prospect of its being held liable for such damages.

(b) Marsa Aktiengesellschaft and Teragol Investments Limited (the "Plaintiffs"):

On October 3, 2008, the Corporation was served with a legal claim filed by the Plaintiffs in the Specialized Interdistrict Economic Court in East Kazakhstan (the "Lower Court") on September 25, 2008 seeking to invalidate the original Partnership Unit Purchase and Exchange Agreement (the "Agreement") dated March 21, 2002, as amended, whereby Alhambra purchased Saga Creek from the Plaintiffs. The basis for the claim is that the Corporation's 100% owned subsidiary, Alhambra Overseas Limited, incorporated to hold Alhambra's interest in Saga Creek, was not incorporated at the time the Agreement was initially entered into and despite the fact that such incorporation was subsequently completed soon thereafter. Alhambra applied to the Lower Court to have the litigation dismissed for the lack of jurisdiction, however, such application was denied as was the appeal to the Civil Cases Review Board, East Kazakhstan Oblast Court. As a result, hearings in the Lower Court on the merits of the case began on November 17, 2008 and were completed on November 24, 2008. On November 25, 2008 the Court rendered its decision in favour of the Plaintiffs. In addition, the Lower Court has issued an injunction that prohibits Saga Creek from transferring the subsoil use rights related to Saga Creek's mineral licenses and the Kemerkol License to any third party and from transferring any funds of Saga Creek to the accounts of Alhambra. Alhambra believes the Lower Court erred in its judgment and intends to appeal the decision within the fifteen calendar day time limit as permitted under Kazakhstan law. While Alhambra will continue to seek remedies under Kazakhstan law should the appeal be unsuccessful, the Plaintiffs would have the right at that time to begin the process to enforce the decision.

Corporate Information

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

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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 detailed statements can be found on page 25.

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