Alhambra Resources Ltd.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the Year Ended December 31, 2008

This management's discussion and analysis ("MD&A") focuses on key items from the audited consolidated financial statements of Alhambra Resources Ltd. (also referred to as "Alhambra" or the "Corporation") for the year ended December 31, 2008 and the factors reasonably expected to impact future operations and results as prepared on June 25, 2009. 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, 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 June 25, 2009. 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.

Legal Dispute Invalidating Alhambra's Ownership of Kazakhstan Subsidiaries

On September 26, 2008 a statement of claim ("Kazakhstan Lawsuit") was filed in the Specialized Interdistrict Economical Court of the East-Kazakhstan Oblast ("Lower Court") of the Republic of Kazakhstan ("Kazakhstan") seeking to invalidate Alhambra's ownership of its former Kazakhstan subsidiaries, Saga Creek Gold Company LLP ("Saga Creek") and Goodwin Golems LLP ("Goodwin") (together the "Kazakhstan Subsidiaries"). Alhambra had acquired 100% interest in the Kazakhstan Subsidiaries from Marsa Aktiengesellschaft ("Marsa"), a Liechtenstein company and Teragol Investments Limited ("Teragol"), a Cyprus company (jointly the "Plaintiffs") by virtue of a Partnership Unit Purchase and Exchange Agreement dated March 21, 2002 (the "Agreement"), as amended. The basis for the claim is that the Corporation's 100% owned subsidiary, Alhambra Overseas Limited, incorporated to hold Alhambra's interest in the Kazakhstan Subsidiaries, was not incorporated at the time the Agreement was initially entered into, despite the fact that such incorporation was subsequently completed soon thereafter. Alhambra applied to the Lower Court to have the litigation dismissed for the lack of jurisdiction, however, such application was denied as was the appeal to the Civil Cases Review Board of the East-Kazakhstan Oblast Court (the "Review Board"). As a result, hearings in the Lower Court on the merits of the case began on November 17, 2008 and were completed on November 24, 2008. On November 25, 2008 the Lower Court rendered its decision in favor of the Plaintiffs. The Corporation appealed the Lower Court's decision to the Review Board, but on December 26, 2008 the Review Board issued its ruling upholding the Lower Court's decision. The Corporation appealed to the next level of the court system in Kazakhstan which was the Supervisory Chamber of the East-Kazakhstan Oblast Court ("Supervisory Chamber") whose decision, rendered on February 27, 2009, again upheld the decisions of the previous courts. This final decision was made despite the Supervisory Chamber receiving a supervisory protest in support of Alhambra's appeal by the Prosecutor of the East-Kazakhstan Oblast stating that the Lower Court's decision and resolution of the Review Board have to be cancelled due to incorrect determination of the facts of the case as well as the incorrect application of the norms of material and procedural law. Alhambra's arguments, which are supported by the Oblast Prosecutor, are among the following:

(i) The effective date of the Agreement is not March 21, 2002 but August 8, 2003 when all the conditions precedent of the Agreement were fulfilled and the consideration was paid to and accepted by the Plaintiffs.
(ii) The Agreement provides for arbitration among the parties and as such the litigation should not be heard by Kazakhstan courts at all.
(iii) The Plaintiffs are not interested parties to the Agreement by virtue of their transferring the rights and title to the Agreement to a third party on August 9, 2005.
(iv) The claim is statute barred as it was filed on September 25, 2008, more than six and one half years from the date of the Agreement and five years beyond the final closing, rather than within the three years required under the statute of limitation laws in Kazakhstan.
(v) The Plaintiffs cannot be considered victims as none of their rights were violated since all conditions precedent were satisfied and the Plaintiffs accepted the consideration as provided for under the Agreement.
(vi) Nothing in the civil code of Kazakhstan enables a vendor to cause a transaction to be voided as long as the rights of the vendor are not violated.
(vii) Despite receiving proper payment, the Plaintiffs are acting in bad faith in pursuing unjust enrichment by seeking to be returned to their original position, which has greatly appreciated through the actions of Alhambra since acquiring its interest.
(viii) The Plaintiffs, through their actions subsequent to March 21, 2002 did, on a number of occasions, admit validity of the Agreement.

On January 27, 2009 (the "Ownership Transfer Date") the ownership of the Kazakhstan Subsidiaries was re-registered back in the names of the Plaintiffs giving effect to the court decisions. The Corporation continues to believe that the Kazakhstan courts have erred in their decision and will continue to seek remedies available under Kazakhstan law. On April 16, 2009 the Corporation filed an appeal with the Supreme Court of Kazakhstan (the "Supreme Court") asking the Supreme Court to overturn the decisions of the lower courts.

With the loss of the Kazakhstan Subsidiaries, Alhambra no longer has any operations in Kazakhstan. The consolidated statement of loss and deficit for the year ended December 31, 2008 has been prepared on the basis that individual income and expense items related to the Kazakhstan mineral operations were for the account of Alhambra up until December 26, 2008. Assets and liabilities related to the Kazakhstan mineral operations have been written off as of December 26, 2008.

As a result of the unfavorable legal decision, the Corporation has not been granted sufficient access to the accounting and operating records of the Kazakhstan Subsidiaries which has prevented the Corporation's auditors from obtaining sufficient appropriate audit evidence for expenses related to the Kazakhstan operations, and income taxes. Accordingly, the Corporation's auditors have not been able to determine whether any adjustments might be necessary to expenses, income taxes, and net loss from the Kazakhstan operations for the year ended December 31, 2008 as further described in notes 19 and 20 to the consolidated financial statements. As a result, the Corporation's auditors have qualified their opinion with respect to the December 31, 2008 financial statements.

Section 3.2(a) of National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency* ("NI 52-107") requires that an auditor's report accompanying financial statements does not contain a reservation under Canadian generally auditing standards. As Alhambra was not able to meet this requirement of NI 52-107, the Corporation made application to the Alberta Securities Commission ("ASC") seeking an exemption from the requirements of Section 3.2(a) of NI 52-107. The exemption was granted on June 19, 2009.

The Corporation has prepared this MD&A based on information related to the Kazakhstan Subsidiaries made available to the Corporation up to the Ownership Transfer Date. While the Corporation reviewed such information for reasonableness, it cannot be certain that adjustments to this information would not be necessary had the Corporation been able to complete its review of such information.

As a result of the write off of the investment in the Kazakhstan Subsidiaries, certain costs have been reclassified to facilitate comparison and assist the reader to better understand the impact of the write off on future operations.

Legal Dispute with Victoria Oil 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, which at the time was 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 appealed to the Alberta Court of Appeal. The Alberta Court of Appeal dismissed the Corporation's appeal on February 26, 2009. 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. As a result of an agreement reached between the parties, the action was discontinued effective June 8, 2009 without costs.

Management Cease Trade Order

With all the uncertainty resulting from the Kazakhstan Lawsuit as well as Alhambra not having sufficient funds at the time to remunerate its auditors, the Corporation determined that it would not be able to file its annual audited financial statements, management's discussion and analysis and CEO and CFO certificates (the "Unfiled Financial Statements") by the filing deadline of April 30, 2009 as prescribed by National Instrument 51-102 – *Continuous Disclosure Obligations* ("NI 51-102"). On April 16, 2009, in anticipation of not meeting the requirements of NI 51-102, Alhambra made application to the ASC, that the Corporation be subject to a Management Cease Trade Order ("MTO") rather than a Cease Trade Order ("CTO"). On May 1, 2009 the ASC issued a MTO against the Corporations CEO and CFO as opposed to a CTO against the Corporation. The Corporation is required to file the Unfiled Financial Statements by June 29, 2009 or the ASC can impose a CTO on Alhambra such that all trading in securities of the Corporation cease for such period as the ASC may deem appropriate.

Forward-Looking Information

Except for the statements of historical fact contained herein, certain statements contained in this MD&A constitute "forward-looking statements" as such term is used in applicable Canadian and US laws. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. In particular, any statements concerning the Corporation's ability to continue as a going concern described in this MD&A should be viewed as forward-looking statements to the extent that they involve estimates thereof. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and should be viewed as "forward-looking statements". Such forward-looking statements, including but not limited to, the Corporation's liquidity and financial capacity, the Corporation's funding sources to meet various obligations 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. 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.

Non-GAAP Measures

This MD&A contains the term "funds flow from operations" which is not a defined term under GAAP. Funds flow from operations is defined as cash flow from operating activities before changes in non-cash working capital. Management believes that funds flow from operations is a useful measurement that provides an indication of results generated by the Corporation's business activities. It demonstrates the Corporation's ability to generate the cash necessary to fund future growth through capital investment, and allows the Corporation to evaluate operating performance, leverage and liquidity. The following table provides a reconciliation of cash flow provided by (used in) operating activities as defined under GAAP with funds flow from operations as used in this MD&A.

		2008		2007
Cash flow provided by (used in) operating activities	$	854,810	$	(292,157)
Change in non-cash working capital		(253,369)		2,157,045
Funds flow from operations	$	601,441	$	1,864,888

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. Up until December 26, 2008 the Corporation continued to hold and operate its gold producing assets situated in Kazakhstan. DOT holds and conducts exploration activities on the Corporation's former Canadian DOT property, situated near Kamloops, British Columbia ("DOT Property").

Pursuant to the Arrangement, the DOT Property was transferred to DOT at its carrying amount of $944,666 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. At December 31, 2008, the market trading value of the 15,000,001 DOT shares owned by Alhambra was CDN$150,000.

Operating and Financial Highlights

	2008	2007
Operating (for the year ended December 31):		
Mining:		
Waste mined (Tonnes ("T")) (1)	1,981,680	1,588,970
Ore stacked (T) (1)	1,016,750	1,011,750
Grade of ore mined (Grams/T) (1)	1.09	0.91
Recoverable gold mined (Troy ounces (oz)) (1) (3)	24,971	20,665
Gold sales (ozs) (1)	17,464	18,763
Gold in work in progress (ozs) (2)	30,551	23,044
Reserves (ozs) (3) (4):		
Recoverable proved plus probable (1)	78,036	95,500
Financial (2):		
Revenue ($) (1)	14,852,032	12,952,684
Average gold price ($/oz) (1)	850.44	690.33
Operations expenses ($) (1)	9,799,464	6,644,204
Operations expenses ($/oz) (1)	561.12	354.11
Net loss ($) (1)	33,674,123	1,313,349
Net loss per share – basic and diluted ($) (1)	0.44	0.02
Capital expenditures ($) (1)	4,621,103	7,402,756
Total assets ($)	689,530	36,929,919
Shareholders' equity (deficiency)($)	(933,177)	32,704,925
Common shares outstanding at year end	75,774,147	75,578,147

Notes:

1. Operating results for the year are based on the Corporation owning its Kazakhstan Subsidiaries up to December 26, 2008 being the date the appeals court ruled in favor of the Plaintiffs in the Kazakhstan Lawsuit. The Corporation wrote off its investment of the Kazakhstan subsidiary at December 26, 2008.

2. Gold work in progress and gold reserves represent the quantities of gold at December 26, 2008 just prior to the write off of the Kazakhstan Subsidiaries.

3. 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.

4. Reserves relate only to the Oxide and Transition zones of the Uzboy gold deposit from which the Corporation is currently producing gold. Reserves reported at December 26, 2008 are equal to reserves at December 31, 2007 as confirmed by the Howe Report which had an effective date of December 31, 2007 and summarized below less gold sales for 2008.

Up until the Corporation received the unfavorable decision in the Kazakhstan lawsuit, the Corporation mined oxide gold mineralization from the West and East zones of the Uzboy gold deposit. During the year ended December 2008, the Corporation sold a total of 17,464 ozs of gold for total proceeds of $14.9 million. This compares to sales of 18,763 ozs and $13.0 million of sales during the year ended December 31, 2007. At December 31, 2007, the Corporation had 23,044 ozs of recoverable gold that had been stacked and was in various stages of processing for sale ("work in progress"). An additional 24,971 ozs of gold was stacked during 2008 which, after selling the 17,464 ozs, resulted in 30,551 ozs in work in progress at December 26, 2008, prior to the write off of the Kazakhstan Subsidiaries.

During the 2008 year, the Corporation mined a total of 1,981,680 T of waste and stacked 1,016,750 T of ore at an average gold grade of 1.09 grams/T ("g/t"). This compares to 1,588,970 T of waste mined and 1,011,750 T of ore at an average gold grade of 0.91 g/t stacked during the 2007 year. With the delivery and commissioning of the crushing unit in the third quarter of 2008, mining activities resumed at the higher grade West pit of the Uzboy gold deposit thus resulting in an increase in overall grade for the year. During the last half of 2007 and the first half of 2008 the Corporation had concentrated its mining activities on the lower grade East zone of the Uzboy gold deposit. Mining in the West zone has reached depths where the ore to be mined is harder, making it more difficult to maintain the estimated 70% gold recovery rate. Mining in the West zone had been suspended until a crushing unit could be installed. A crusher was required to ensure optimal fragmentation of the ore to ensure that the estimated 70% gold recovery rate is achieved. The crusher was installed and became operational in July of 2008.

Exploration review

During 2008, the Corporation, through Saga Creek, expended $4.6 million on its capital expenditure program of which $3.1 million was spent on exploration. **The majority of Saga Creek's 2008 capital program was completed prior to Alhambra receiving the unfavorable legal decision. Alhambra supervised Saga Creek's capital program up until receiving the unfavorable legal decision and as such is familiar with the results. However, to the extent that information has come available subsequent to the date of the unfavorable legal decision that may have impacted the results of the capital program, that information has not been available to Alhambra and as such cannot be included in this exploration review.**

Alhambra's 2008 exploration activities consisted of geophysical surveys and Reverse Airblast drilling ("RAB") on five priority areas. The exploration effort resulted in the discovery of a new, potentially large, zone of oxide gold mineralization located approximately 750 metres ("m") northeast of the West zone of the Uzboy gold deposit and the identification of four target areas that exhibit the same structural and magnetic signatures as the Uzboy gold deposit. In addition five large bedrock geochemical gold anomalies were located in the Shirotnaia area immediately north and west of the Aksu and Quartzite Hills gold mines. A brief overview of the exploration activities and results is set out below. This information has been disseminated previously in news releases and other public disclosure provided by Alhambra.

Uzboy gold deposit

Diamond Drilling

Eleven diamond drill holes ("DDH") were completed on the West (4 holes) and East (7 holes) zones of the Uzboy gold deposit during 2008. The drilling on the East zone intersected a number of mineralized intervals in several drill holes that contained multiple intervals of higher-grade gold mineralization which is not typical for the East zone. The mineralization in the East zone was extended to the southwest by the 2008 drilling and is open to the northeast and the southwest as well at depth. The diamond drilling on the southwest portion of the West zone appears to have defined the limits of the gold mineralization. The mineralization in the West zone is open to the northeast and at depth.

Geophysical Surveys

The Uzboy gold deposit is hosted in a wide shear zone (faulting and shearing) that exhibits intense pyrite-sericite-carbonate alteration. During 2008, a total field magnetometer ("magnetic") survey was completed over an area that measures approximately 17 kilometres ("kms") long by 8 kms wide from the Uzboy gold deposit southwest towards the Aygabak zone to identify zones of intense shearing and faulting and alteration similar to that at the Uzboy gold deposit.

The magnetic survey located three areas that exhibit a similar structural/alteration signature as the Uzboy gold deposit. Within these areas, five targets had been selected for Induced Polarization/Resistivity geophysical surveys to detect zones of sulphide mineralization. This survey was expected to be incorporated in the 2009 exploration program. A brief discussion of the results of the three areas is as follows:

Area #1

This area is located immediately southeast of the Uzboy gold mine and its structural trends and magnetic signature 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, a typical host rock for gold mineralization.

Area #2

This area extends for a distance of approximately 10 kms southwest of the Uzboy gold deposit and covers the southwest extension of the main shear zone which hosts the Uzboy gold deposit. Two targets within this area exhibit a similar structural setting to that 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 exhibits multiple 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

Six diamond drill holes (1,846 m) were completed during the second quarter to collect representative samples of the primary gold mineralization from the Uzboy gold deposit for additional metallurgical test work. The test work to be completed on the metallurgical samples was established in consultation with SGS Lakefield located in Cornwall, UK and Kazmechanobr, a certified metallurgical laboratory in Kazakhstan. The test work program consisted of collecting three representative samples of the primary gold mineralization covering a grade range from 1.0 to 5.0 g/t of gold. The collection of the metallurgical samples and the planned test work were not completed.

RAB Drilling

During the second quarter of 2008, 416 RAB holes (2,522 m) were completed in an area located approximately 750 m northeast of and along strike of the West zone of the Uzboy gold deposit. This resulted in the discovery of an as yet undefined zone of oxide gold mineralization. Due to the wide spaced nature of the profiles, only a preliminary interpretation of the results can be provided.

The oxide gold mineralization is interpreted to strike northeast-southwest and occur within the Main Shear Zone that hosts the Uzboy gold deposit. The oxide gold mineralization was intersected on wide spaced profiles over a horizontal distance of 180 m and is interpreted to represent one zone of mineralization.

In one zone, four parallel intervals of gold mineralization ranging in width from 12 m to 14 m occur over a distance of 80 m and are open to the northeast. Gold values within these zones range from 0.20 g/t to 4.80 g/t. In the second zone, four parallel intervals of gold mineralization ranging in width from 10 m to 50 m have been located and are open to the southwest. Within the mineralized intervals gold values range from 0.20 g/t to 0.98 g/t. The oxide gold mineralization in both zones is open at depth.

Uzboy Deposit Resource and Oxide Reserves Estimates

A.C.A. Howe International Limited ("Howe") completed the following updated independent National Instrument 43-101 ("NI 43-101") reports on the Uzboy gold deposit with an effective date of December 31, 2007:

- A current mineral resource estimate, and
- A current reserve estimate for the oxide and transitional zones

The Uzboy gold deposit consists of three distinct styles of gold mineralization, each with different metallurgical characteristics, being an upper oxide zone, a transitional zone and a lower primary zone.

1. Uzboy Deposit Resource Estimate

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

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

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

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

Notes:

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

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

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

(4) High-grade outlier values were capped (‘top-cut”) at 32 g/t for the West zone and 20 g/t for the East zone gold prior to compositing based on a review of distribution table analysis (histograms, cum frequency plots), and data decomposition analysis.

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

(6) The Uzboy heap leach mine is processing the Proven and Probable oxide reserves contained in the West and East zones of the Uzboy gold deposit. The Uzboy heap leach mine has been in commercial operations since May 1, 2006. Prior to that date, all environmental, permitting, legal, title and taxation aspects of the Uzboy heap leach mine were established with the various department of the government of the Republic of Kazakhstan prior to commencing commercial operations. Saga Creek Gold Corporation LLP ("Saga Creek"), a 100% formerly owned subsidiary of the

Corporation, is responsible for the mining, processing and exploration activities conducted on the Uzboy gold project. Saga Creek contributes significantly to the local economy and produces cathodic sediment as a product that is shipped to Europe for refining and marketing. As such, the estimate of the current mineral resources for the Uzboy gold deposit and the mineral reserve for the oxide portion of the Uzboy gold deposit are not expected to be affected by the above mentioned issues.

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

2. Uzboy Deposit Oxide Reserves Estimate

The Measured and Indicated mineral resources contained in the oxide and transitional zones make up approximately 27% of the total Measured and Indicated resources for the Uzboy gold deposit. These zones each have different metallurgical characteristics and cannot be combined for reporting purposes. Only Measured and Indicated mineral resource with an effective date of December 31, 2007 was used to estimate the Proven and Probable mineral reserves in the oxide and transitional zones.

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

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

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

The following input parameters were used in the reserve estimation: an ore body block model, cut off grades, metal prices and cost parameters to determine the proportion of ore to waste in each block and the value of each block. Based on the pit optimization study, the optimal pit was case #41 which was selected for reporting purposes. Pit #41 yielded an estimated strip ratio of 1.26, total waste material of: 5.90 million T, total ore of: 4.60 million T and an average grade of: 1.12 g/t gold.

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

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

*** Keeping with best practice principles, rounding errors may occur**

The Measured and Indicated mineral resource categories for the Uzboy gold deposit used by Howe to estimate the Proven and Probable Mineral Reserves comply with the resource definitions of the CIM and NI 43-101: *Standards of Disclosure for Mineral Projects.*

Recoverable gold based on the estimated life of mine percentage gold recovery, mining losses and dilution are estimated to be 71,000 ozs for the oxide zone and 24,500 ozs for the transitional zone for a total of 95,500 ozs.

Howe used the following parameters to estimate reserves:

Parameter	Oxide	Transitional
Mining Method	Open Pit	Open Pit
Processing Method	Heap Leaching	Heap Leaching
Mining Cost/tonne	US$1.95	US$ 2.01
Mining Losses (%)	6.2	6.2
Mining Dilution (%)	8.4	8.4
Processing Costs/tonne	US$3.85	US$4.17
Processing Recovery (%)	70	58
Gold price (US$/oz)	850	850
Payment (%)	99.05	99.05
Royalty (%)	3.5	3.5
Pit Slope (degrees)	45	45

The production pit design for the West and East zones of the Uzboy gold deposit was completed by Howe using the following parameters: pit slope 45 degrees, bench height 5 m, bench width 3.2 m, ramp width 15 m, and ramp slope 8 degrees.

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

A sensitivity analysis of the Proven and Probable reserves shows that mining and processing of the oxide and transitional ores in the optimal pit #41 would yield a net present value (“NPV”) of approximately $42 million, net of mining and processing costs, over a four year period using a discount rate of 10%.

Shirotnaia Zone

The Shirotnaia zone was one of Alhambra’s priority exploration areas and covers a 20 km strike length of the Aksu-Balusti mineral trend approximately three kms north of the gold and uranium deposits currently being mined at Aksu.

The 2008 exploration program (a total of 3,428 RAB holes totalling 22,803 m) focused on following up the results of a bedrock geochemical survey completed in 2007. This work identified five bedrock geochemical gold anomalies that were defined within the Shirotnaia area**.**

Three bedrock geochemical gold anomalies (greater than 0.05 g/t gold) are located approximately 6 kms east of the Shirotnaia diamond drilling discovery announced in 2007. These anomalies cover a 6 km strike length of the northeast trending Atansor Fault zone. The maximum width of the largest anomaly is approximately 1.5 kms. Gold values within these anomalies range from 0.05 g/t to a maximum of 1.65 g/t.

Two bedrock geochemical anomalies were located southwest of the area of the diamond drilling discovery in 2007. These anomalies (greater than 0.05 g/t gold) coincide with the fault that controls the Quartzite Hill gold deposit located within the mining allotment held by KazakhGold Limited. These two anomalies are interpreted to be extensions of the Quartzite Hill gold deposit.

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

Geophysical Surveys

The gold mineralization at Shirotnaia is hosted in faulted and sheared andesite that exhibits intense pyrite-sericite-carbonate alteration. A total field magnetometer ("magnetic") survey was completed during the third quarter of 2008 to outline zones of metasomatic alteration (pyrite-sericite-carbonate), faulting and shearing that could hosts additional zones of gold mineralization.

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 results of the total field magnetometer survey have not been received.

Dombraly Gold Deposit

The Dombraly gold deposit was mined as an open pit during 1980's, which generated a large "waste pile". Systematic trenching followed by channel sampling and RAB drilling completed on 20 m spaced profiles over the "waste pile" was completed in 2008. RAB drilling consisted of 613 holes totalling 4,152 m. The average grade of all the samples collected is 1.0 g/t gold.

Kirtoge and Aygabak

A limited RAB program was completed during the second and third quarters of 2008 to test the results of a limited geophysical exploration program completed in late 2007 and to test several gold anomalies. A total of 1,454 RAB holes (9,126 m) were completed. Analytical results for these samples have not been received.

Financial Review

Segmented information

The Corporation and its subsidiaries operate in one reportable segment, the exploration for and development of mineral properties. Identifiable assets, revenues and net loss in each of its geographic are as disclosed in note 19 to the 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 year ended December 31, 2008, the Corporation recognized $14,852,032 in revenue from the sale of 17,464 ozs of gold at an average price of $850.44/oz. This compares with 2007 revenue of $12,952,684 from the sale of 18,763 ozs of gold at an average price of $690.33/oz.

The $1,899,348 increase in revenue from 2007 to 2008 was the result of a positive price variance of $2,796,088 due to a 23% increase in the average gold sales price. The positive price variance was partially offset by a negative volume variance of $896,740 caused by the 7% decrease in sales. 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 lower sales volumes in 2008 as compared to 2007.

Net smelter royalty

The net smelter royalty ranges from 2.5 to 3.0% (dependent on the price of gold) of the gross revenue. During the year ended December 31, 2008, the Corporation recognized $445,561 in net smelter royalty expenses, which is 3% of the revenue recognized in the period. This compares to $388,581 for the year ended December 31, 2007. Similarly, with the variance in sales revenue, the increase in average sales price received for gold accounted for $83,882 of the $56,980 increase in net smelter royalty. This was offset by $26,902 resulting from the decrease in the quantity of gold sold.

Interest and other

		2008		2007
Interest	$	13,795	$	85,131
Other		–		176,591
Total	$	13,795	$	261,722

Interest income from funds held on deposit during the year ended December 31, 2008 totaled $13,795, a decrease of $71,336 over the $85,131 recorded in 2007. The decrease is primarily a result of levels of cash invested in short term deposits in 2008 as compared to 2007.

Other income in 2007 related to the final settlement of accounts related to oil and gas assets sold effective January 1, 2005.

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 year ended December 31, 2008 totaled $9,799,464 or $561.12/oz of gold sold as compared to $6,644,204 or $354.11/oz of gold sold for the year ended December 31, 2007.

Of the increase in operating costs of $3,155,260 from 2007 to 2008, $3,615,252 was the result of the increase in a 58% increase in average per unit operating costs. This negative variance was partially offset by a positive variance of $459,992 caused by the 7% decrease in gold sales volumes.

The increase in per unit operating costs was primarily the result of two factors. The first was 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.

The second factor relates to the quality of ore mined. 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. Currently the Corporation mines ore from both the East and West zones of the Uzboy gold deposit. During the last half of 2007 and the first half of 2008, the Corporation's mining activities were concentrated on the East zone of the Uzboy gold deposit. Mining in the West zone had reached depths where the ore to be mined was harder and could not be fragmented to an optimal size by drilling and blasting alone 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. The crusher was purchased and put into service in July of 2008 at which time the Corporation increased mining activities in the West zone. With the startup of the crusher, grades began to improve such that the overall average grade for 2008 was 10% higher than for 2007, however the higher grades did not translate into additional gold sales as they related to ore stacked primarily in the fourth quarter of 2008.

General and administrative expenses

General and administrative expenses for the year ended December 31, 2008 increased by $260,249 to $4,043,513 from the $3,783,264 recorded in the 2007 year. Of the total, $1,952,932 related to the Saga Creek operations for 2008 compared to $1,558,008 for the 2007 year. The increase in Saga Creek's general and administration costs was primarily the result of two factors. The first was the impact of inflation on costs in Kazakhstan specifically, as well as the mining industry globally. The second was related to increased legal expenses incurred during the fourth quarter of 2008 related to the Kazakhstan Lawsuit.

The remainder of general and administrative costs relates to corporate activities. For the year ended December 31, 2008, corporate general and administrative costs totaled $2,090,581, which was a decrease of $134,675 over the corresponding 2007 amount of $2,225,256. The decrease is the result of an additional $156,897 received from DOT under the Administration and Corporate services Contract (the "Contract"). The Contract began on September 1, 2007, which resulted in four months of fees being collected in 2007 as compared to a full twelve months in 2008. Alhambra corporate also experienced increased legal costs related to the Kazakhstan Lawsuit as well as the Victoria lawsuit (note 20(a) to the consolidated financial statements) however this increase was offset by reductions in other corporate general and administrative costs.

Interest expense

Interest expense for the year ended December 31, 2008 totaled $142,336, an increase of $17,232 over the comparable 2007 amount of $125,104. Saga Creek's interest expense for 2008 totaled $101,588, a decrease of $23,516 compared to the $125,104 recorded in 2007. This decrease is a result of lower average interest rates applicable to the Advances related to the Pre-Payment Gold Sales Facility Agreement. The remaining $40,748 of interest incurred in 2008 relates to the twelve percent (12%) secured debentures (the "Debentures") issued in August of 2008 (note 7 of the consolidated financial statements).

Stock-based compensation

Due primarily to the high volatility of the Corporation's stock price, this calculation gives a significant value to stock options which must be expensed during their vesting period. The amount of this expense for the years ended December 31, 2008 and 2007 were $1,181,990 and $979,119, 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 expense calculated was expensed during the 2006 vesting periods.

Depreciation, depletion and accretion

Depreciation, depletion and accretion expense for the year ended December 31, 2008 was $1,636,650, an increase of $415,471 over the $1,221,179 recorded for the 2007 year. Substantially all the amounts for both years relate to the Kazakhstan operation. The increase from 2007 to 2008 is primarily the result of a higher depreciable asset base, particularly during the last half of the year when the crushing unit was operating.

Foreign exchange (gain) loss

During the year ended December 31, 2008, the Corporation recorded a foreign exchange gain of $286,575 as compared to a foreign exchange loss of $96,207 for the 2007 year. Saga Creek's operations accounted for $262,833 of the 2008 foreign exchange gain and $39,074 of the 2007 foreign exchange loss. Alhambra corporate was responsible the remaining $23,742 of the 2008 foreign exchange gain and $57,133 of 2007 foreign exchange loss. During 2007 the United States dollar depreciated against the Canadian dollar and Kazakhstan Tenge resulting in the loss. During 2008, the United States dollar recovered the losses it experienced in 2007.

Income tax expense

Income tax expense recorded relates entirely to Saga Creek. As Saga Creek is a profitable entity, it is subject to income tax under Kazakhstan law. Income tax expense for the year ended 2008 totaled $507,514, a decrease of $672,628 over the $1,180,142 recorded for 2007. The lower taxes for 2008 were a result of lower income reported in 2008 than in 2007. For 2008, all income taxes reported were future income taxes as Saga Creek reported a taxable loss resulting in no current income tax owing. In 2007, Saga Creek reported $312,158 of current tax expense and $867,984 of future income tax expense. The corporate tax rate in Kazakhstan is presently 30%.

The Corporation has Canadian non-capital losses, for which no benefit has been recognized in the financial statements, of approximately CDN$4,454,000 at December 31, 2008, which commence expiring in 2014.

Equity loss

The Corporation accounts for its 36% ownership of the common shares of DOT using the equity method of accounting. For the 2008 year, the Corporation recorded an equity loss of $104,055. This compares to a loss of $109,959 recorded for the 2007 year.

Write off of investment in former subsidiary

As a result of the unfavorable decision reached in the Kazakhstan Lawsuit, Alhambra's ownership in the Kazakhstan Subsidiaries was transferred to the Plaintiffs. The Corporation was therefore required to write off its investment in all assets related to the Kazakhstan Subsidiaries. The details of the write-off is as follows:

Accounts receivable	$ 1,507,887
Inventory	734,753
Work in progress	7,820,283
Mineral assets	27,746,232
Accounts payable and accrued liabilities	(4,480,251)
Asset retirement obligations	(427,991)
Future income taxes	(1,935,471)
	$ 30,965,442

The Corporation has not recorded any amount relating to recoveries due to the Corporation as a result of the loss of its subsidiaries, due to the uncertainty of ultimate collection of such amounts if any. This includes approximately $21.5 million loaned from Alhambra to Saga Creek, evidenced by a loan agreement and supported by a ruling of the International Arbitration Court (IUS), dated April 3, 2009. Any recovery will be recorded when realized.

Funds flow

Funds flow from operating activities was $601,441 for the year ended December 31, 2008 as compared to $1,864,888 for the 2007 year, a decrease of $1,263,447. In 2008, mining operations at Saga Creek continued to contribute positive funds flow which totaled $2,890,213. This was a decrease of $1,092,136 over the $3,982,349 contributed for the 2007 year. Higher revenue in 2008 resulting from increased gold prices was more than offset by the higher operating costs thus resulting in the decreased funds flow from mining activities.

Positive funds flow from mining operations was partially offset by negative corporate funds flow, which is primarily head office general and administration expense. For the years ended December 31, 2008 and 2007, funds flow utilized in corporate activities was $2,288,772 and $2,117,461, respectively.

Net loss

The Corporation incurred a net loss of $33,674,123 for the year ended December 31, 2008, an increase of $32,360,774 over the net loss recorded in 2007 of $1,313,349. The 2008 loss includes an amount related to the write-off of the Corporation's mining activities in Kazakhstan totaling $30,965,442. Prior to the write-off, mining operations continued to be positive with net income totaling $759,158 in 2008, a decrease of $1,149,557 over the $1,908,715 of net income recorded in the 2007 year. The decrease in funds flow from operating activities as reported above resulted in the decrease in net earnings.

For the year ended December 31, 2008, corporate losses totaled $3,467,839, an increase of $245,775 over the $3,222,064 loss reported for the 2007 year. The corporate losses for 2008 were primarily the result of general and administrative expenses totaling $2,090,581 (2007 - $2,225,256), stock-based compensation of $1,181,990 (2007 - $979,119) and equity loss in the loss of DOT of $104,055 (2007 – $109,959).

Based on a weighted average number of common shares of 75,701,163 and 71,298,944 for 2008 and 2007, respectively, the Corporation's net loss per common share was $0.44 for 2008 as compared to $0.02 for 2007.

Liquidity and capital resources

During 2008, Alhambra received $108,009 as proceeds from the issue of 196,000 common shares upon the exercise of stock options. In addition CDN$1,000,000 was received on the issue of the Debentures. 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 Corporation is in default of the terms of the Debenture agreement requiring the payment of interest, however, the Debenture holders have agreed not to exercise the default remedies provided to them under the Debenture agreement prior to June 30, 2009.

Subsequent to the year end, the Corporation issued CDN$675,000 of subordinated secured promissory notes (the "Notes"). The Notes bear simple interest at an annual rate of 20%, mature one year after the date of receipt of the funds, are secured against assets of the Corporation and are subordinated to the Debentures. In connection with the Notes, the Corporation has issued 5,400,000 non-transferable warrants (the "Warrants") to purchase 5,400,000 common shares of the Corporation. Half of the Warrants issued have an exercise price of CDN$0.10 per common share and the other half have an exercise prices of CDN$0.20 per common share. All Warrants are exercisable until October 29, 2009. The Warrants and any common shares acquired upon exercise of the Warrants are subject to a hold period expiring on August 29, 2009. A total of CDN$215,000 of Notes were subscribed for by officers and directors of the Corporation.

The proceeds received from the issue of the Debentures and Notes have been used for corporate purposes to help sustain the Corporation while it appeals the decision reached in the Kazakhstan Lawsuit. With the loss of ownership of the Kazakhstan Subsidiaries, the Corporation no longer has access to funds from its former operating activities therefore must rely on raising money in the debt or equity markets.

At December 31, 2008 the Corporation had $25,818 of cash and cash equivalents and a deficiency in other working capital of $1,584,165. The Corporation continues to search out sources of external financing to meet its obligations. However, with the loss of ownership of its former Kazakhstan Subsidiaries, raising additional funds has proved to be very difficult. If the Corporation is unable to continue to raise additional funds, the Corporation's ability to continue as a going concern is extremely doubtful.

Related party transactions

During the year ended December 31, 2008, the Corporation paid $93,294 (2007 - $134,018) in consulting fees to a corporation controlled by a director and former officer of the Corporation. Of this amount, $nil (2007 - $40,205) was capitalized to exploration and development costs.

During the year ended December 31, 2008, the Corporation incurred $158,018 (2007 - $243,472) in costs from a law firm in which a former officer of the Corporation is a partner. Of that total $nil (2007 - $9,272) has been charged to share issue costs and $158,018 (2007 - $234,200) was expensed as legal expenses. The officer resigned his position effective April 29, 2009.

On August 29, 2007, the Corporation and DOT entered into an Administrative and Corporate Services Contract (the “Contract”) whereby DOT agreed to engage the Corporation to provide management, administration and corporate services to DOT. The Contract provides for a monthly remuneration of CDN$20,000 plus all reasonable out of pocket expenses and is for an indefinite term but may be terminated by either party upon providing thirty (30) days prior written notice. The Corporation billed DOT CDN$240,000 (2007 – CDN$80,000) under the Contract together with CDN$ nil (2007 - CDN$29,946) related to direct costs of DOT paid for by the Corporation. The amount uncollected as of December 31, 2008 was CDN$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.

Fourth quarter 2008 results

The analysis of the fourth quarter 2008 results has been based on information that Alhambra obtained prior to the Ownership Transfer Date. The impact, if any, of adjustments made to the financial records of the Kazakhstan Subsidiaries subsequent to that date has not been reflected in this analysis.

During the fourth quarter of 2008 the Corporation realized $4,772,685 from the sale of 6,100 ozs of gold at average price of $782.41/oz. In the fourth quarter of 2007, sales revenue totaled $3,554,841 from the sale of 4,570 ozs of gold at an average price of $777.86/oz. The 34% increase in gold sales revenue was a result of a 33% increase in the quantity of gold sold as the Corporation resumed mining in the West zone. The average grade of ore mined during the fourth quarter of 2008 was 1.30 g/t as compared to 0.78 g/t in the fourth quarter of 2007.

Operating costs for the fourth quarter of 2008 were $3,413,846 or $559.65/oz compared to $1,633,947 or $357.54/oz for the fourth quarter of 2007. Of the negative variance of $1,779,899, $546,733 related to the 33% increase in sales volumes. The remaining $1,233,166 of negative variance related to the 57% increase in per unit operating costs. The increase in per unit operating costs is primarily the result of inflationary factors impacting the mining business in Kazakhstan during this period.

Alhambra’s net loss for the fourth quarter of 2008 was $31,687,984 or $0.41 per common share, basic and diluted. Included in the 2008 fourth quarter loss was $30,965,442 related the write-off of investment in the Kazakhstan Subsidiaries. Net earnings for the fourth quarter of 2007 were $89,431 or $0.00 per share, both basic and diluted.

The Saga Creek operations continued to have positive earnings, which totaled $131,032 for the fourth quarter of 2008. However, due to higher operating and general administration costs, this result was $700,133 lower than the $831,165 reported in the fourth quarter of 2007.

In the fourth quarter of 2008, Alhambra recorded a loss from corporate activities of $31,819,016 as compared to $741,734 recorded for the fourth quarter of 2007. Included in the 2008 loss was the $30,965,442 loss recorded on the write-off of investment in the Kazakhstan Subsidiaries.

Financial instruments

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and Secured debentures are approximated by their carrying amounts because of their short-term nature or because they bear interest at market rates.

Contractual obligations

Effective September 1, 2008 the Corporation entered into a lease on the premises it used for its corporate head office. The terms of the lease committed the Corporation to make monthly rental payments of approximately CDN$11,542 (exclusive of occupancy costs) up until expiry of the lease on August 31, 2013. The total amount remaining to be paid under the lease as of December 31, 2008 was approximately CDN$646,000 (exclusive of occupancy costs). Effective June 1, 2009 the landlord terminated the lease as the Corporation had not paid its current obligation under the lease. Despite the landlord terminating the lease, it has informed the Corporation that it believes the Corporation wrongly repudiated the lease and remains liable for the loss of rental revenue over the unexpired term of the lease. On June 16, 2009 the landlord notified the Corporation that it is seeking to recover CDN$97,793 in outstanding rent plus damages of CDN$810,877 for the loss of the benefit of the lease over the balance of the term. To the extent that the landlord recovers rent from a subsequent tenant, the amount claimed by the landlord will be reduced. The landlord has given the Corporation until June 30, 2009 to settle the claim. As at December 31, 2008 the Corporation has recorded all amounts due under the lease agreement. No provision for damages has been recorded in the financial statements. The Corporation is currently assessing its options in this matter.

The Corporation has no other off balance sheet financing arrangements.

Disclosure of outstanding share data

	As of December 31, 2008	Change in 2009	Issued in 2009	As of June 25, 2009
Common shares issued and outstanding	75,774,147	–	–	75,774,147
Common shares issuable upon exercise of vested stock options	4,445,000	(327,500)	–	4,117,500
Common shares issuable upon exercise of warrants	–	–	5,400,000	5,400,000
Common shares fully diluted	80,219,147	(327,500)	5,400,000	85,291,647

At December 31, 2008, there were 75,774,147 common shares issued and outstanding and 80,219,147 fully diluted common shares after giving effect to the exercise of all outstanding vested stock options and warrants. Subsequently, up to June 25, 2009, no additional common shares have been issued however options vested on an additional 612,500 common shares. In addition, options to purchase 940,000 common shares expired unexercised. Subsequent to the year end, warrants to purchase 5,400,000 common shares were issued in connection with the Notes.

Disclosure of material components of expenditures

During 2008, the Corporation spent approximately $4.6 million in capital expenditures on Saga Creek's mining projects. Of this amount, approximately $3.1 million was spent on exploration with the remaining $1.5 million spent on capital projects. Of the $3.1 million spent on exploration, $1.3 million related to the Shirotnaia zone and a further $1.1 million was spent on the Uzboy gold deposit. A further $100,000 was spent on a scoping study that was undertaken to determine the economic value of the recoverable reserves at the Uzboy gold deposit, including the sulphide resources. However, as a result of the Kazakhstan Lawsuit, the work on the scoping study was not completed. The remaining $0.6 million was spent on Saga Creek's other exploration projects as well as general exploration expenses.

Of the $1.5 million spent on capital projects during the year, $1.1 million related to the acquisition of the crushing unit. The remainder was spent on equipment used at the Uzboy site and the resin stripping facility.

During 2008, general and administrative expenses totaled $4,043,513, an increase of $260,249 over the comparable 2007 amount of $3,783,264. Included in this amount was $1,952,932 of general and administrative costs directly related to Saga Creek's operations. This compares to $1,558,008 in general and administration costs incurred directly by Saga Creek in 2007. Corporate overhead costs accounted for the remaining $2,090,581, which compares to the $2,225,256 of corporate overhead costs incurred in 2007.

Employee and consultant compensation expense accounted for $1,089,934 (56%) of the total Saga Creek general and administration expenses for 2008. This was 17% higher than the 2007 comparable amount of $935,450 (60%). This increase was primarily the result of salary increases granted during 2008 to bring the salaries of Saga Creek employees up to a level more consistent with their peers in the mining industry in Kazakhstan. Professional expenses in 2008 accounted for another $387,652 (20%) of total Saga Creek general administration costs, a 128% increase over the $169,952 (11%) recorded in 2007. This increase was due to increased legal expenses incurred during the fourth quarter of 2008 related to the Kazakhstan Lawsuit. The remaining $475,346 (24%) in 2008 general and administration costs includes general corporate costs and office expenses. This was an increase of 5% over the comparable amount recorded in 2007 of $452,606 (29%). Included as part of corporate costs are withholding taxes paid to the Kazakhstan government related to interest on advances and the net smelter royalty.

Employee costs accounted for 41% ($848,786) of the total corporate general and administration costs in 2008 as compared to 36% ($802,424) of the total in 2007. The increase was the result of increases in employee and consultant remuneration effective January 1, 2008.

Professional costs, which include legal, auditing and outside consulting fees, totaled $699,227 (33%) in 2008 as compared to $527,580 (24%) in 2007. This increase relates to legal costs incurred in defending the two lawsuits filed against the Corporation during 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 17% ($353,874) of total general and administrative expenses in 2008 as compared to 28% ($613,961) in 2007. The decrease was due to lower investor relations, corporate reporting and annual meeting costs. With the state of the world's capital markets and the Corporation's cash position, Alhambra significantly reduced its investor relations program during 2008. The reduction in annual meeting costs from 2007 to 2008 was the result of the incurrence in 2007 of the costs associated with the approval of the Arrangement.

Office expenses in 2008 of $411,088 (2007 - $355,960) accounted for a further 20% (2007 – 16%) of general and administrative expenses. The increase was a result of inflationary increases in all components of office expenses particularly increased rent as the Corporation's lease was renewed effective September 1, 2008.

The Corporation billed DOT $222,394 (11%) during 2008 under its agreement to provide management services under the Contract. This compares to $74,669 (4%) billed for the four months that the Contract was in effect during 2007.

Business Risks

The following describes the types of risks that the Corporation was exposed to in its operations and how it managed those risks up until the unfavorable decision reached in the Kazakhstan Lawsuit resulted in the loss of its Kazakhstan Subsidiaries. As the Corporation has appealed the decision to the Supreme Court, Alhambra believes that it should continue to provide information on these risks in its MD&A until all legal remedies available to the Corporation have been exhausted.

World economic slowdown

The current worldwide economic slowdown, stock market uncertainty and international credit crisis could adversely impact the Corporation's ability to raise sufficient working capital to sustain operations. The Corporation can neither predict the impact the current economic conditions will have on future results, nor predict when the economy will show meaningful improvement.

Exploration and development

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

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

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

Operations risk

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

Country risk

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

Regulations and mining law

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

Environmental factors

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

Permits and licenses

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

Income and other taxes

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

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

Going Concern Risk

Due to the unfavorable decision reached in the Kazakhstan Lawsuit, Alhambra no longer has any assets that generate cash flow. In addition, the Corporation has a significant working capital deficiency. As a result, Alhambra's ability to continue operating as a going concern and successfully defend the Kazakhstan Lawsuit is in significant doubt and is dependent upon its ability to raise additional capital. To date the Corporation has raised some funds through the issue of secured indebtedness however these funds are only adequate to fund a portion of its current and future obligations. Additional financing must be obtained in order to continue as a going concern. The Corporation is currently attempting to raise additional funds, however, there is no assurance that it will be able to do so.

Significant Accounting Policies

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

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

Work in progress

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

Mineral resources and reserves

A mineral resource is defined by the Canadian Institute of Mining, Metallurgy and Petroleum as a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospect for economic extraction. Mineral reserves are those parts of mineral resources which, after the application of all mining factors, estimated gold recovery and operating costs, are the estimated tonnage and grade which is the basis of an economically viable project. Proven and Probable mineral reserves differ by the degree of certainty of such reserves. By their nature, reserves are at best estimates and can only be determined once the reserves have been completely mined and the project abandoned. Changes in Proven and Probable mineral reserves impact the calculation of depletion and the evaluation for impairment as discussed in note 2(g) of the consolidated financial statements.

Asset retirement obligations

Asset retirement obligations are initially measured at fair value when they are incurred which is the discounted future value of the estimated liability. This requires an estimate to be made of the future costs of retiring the asset at the point in time the asset is acquired. The asset retirement obligation was written off at December 26, 2008 as a result of the loss of the Kazakhstan Subsidiaries.

Stock-based compensation

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

Income tax accounting

The determination of the Corporation's income tax liability requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management. This is further complicated by the fact that the taxation system in Kazakhstan is relatively new and characterized by frequent changes in legislation, official pronouncements and court decisions. Future income taxes were written off as of December 26, 2008 as a result of the loss of the Kazakhstan Subsidiaries.

New Accounting Pronouncements

The Corporation has adopted the following guidelines provided by the Canadian Institute of Chartered Accountants ("CICA") effective January 1, 2008:

Inventories

Section 3031 which replaces Handbook Section 3030, "Inventories", establishes standards for the measurement and disclosure of inventories. The new standard provides more extensive guidance on the determination of cost, including allocation of overhead and requires impairment testing. The adoption of Section 3031 did not result in a material impact on the Corporation's consolidated financial statements.

Financial Instruments – Disclosures and Presentation

Section 3862 and 3863 replace Handbook Section 3861, “Financial Instruments – Disclosures and Presentation”, revising its disclosure requirements, and carrying forward its presentation requirements. These new standards place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3862 specifies disclosures that enable users to evaluate: (i) the significance of financial instruments for the entity’s financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

As a result of the adoption of these standards, additional disclosures on the risks of certain financial instruments have been included in note 16 to the consolidated financial statements.

Future accounting pronouncements

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets. Effective for fiscal years beginning on or after October 1, 2008, this section provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. Retroactive application to prior-period financial statements will be required. The Corporation does not expect that this new standard will have any impact on its financial statements..

Business combinations

In January 2009, the CICA issued Section 1582, Business Combinations and related standards for non-controlling interests and consolidated financial statements. These sections are effective January 1, 2011 and apply prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Corporation. Early adoption is permitted. These sections replace Section 1581, Business Combinations and harmonizes the Canadian standards with IFRS.

International financial reporting standards (“IFRS”)

In February 2008, the CICA Accounting Standards Board (“AcSB”) confirmed that the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010.

The International Accounting Standards Board (“IASB”) has also issued an exposure draft relating to certain amendments and exemptions to IFRS 1. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. Although the amended IFRS 1 standard would provide relief, the changeover to IFRS represents a significant change in accounting standards and the transition from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Corporation’s reported financial position and reported results of operations.

During 2009, the Corporation plans to complete a high-level IFRS changeover plan and establish a preliminary timeline for the execution and completion of the conversion project. The changeover plan will include a preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment will provide insight into what are anticipated to be the most significant areas of difference applicable to the Corporation.

Following the completion of the high-level IFRS changeover plan, the Corporation will perform an in-depth review of the significant areas of difference, identified during the preliminary assessment, in order to identify all specific Canadian GAAP and IFRS differences and select ongoing IFRS policies.

Key areas addressed will also be reviewed to determine any information technology issues, the impact on internal controls over financial reporting and the impact on business activities. External advisors will be retained to assist management with the project on an as needed basis. The Corporation will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.

Summary of Quarterly Results ($)

	Three months ended, 2008			
	March	June	September	December
Net loss	(815,720)	(973,943)	(196,476)	(31,687,984)
Basic and diluted net (loss) per share	(0.01)	(0.01)	(0.01)	(0.41)

	Three months ended, 2007			
	March	June	September	December
Net income (loss)	(598,878)	(871,412)	67,510	89,431
Basic and diluted net income (loss) per share	(0.01)	(0.01)	0.00	0.00

The significant loss reported in the fourth quarter of 2008 was the result of the write-off of the investment in the Kazakhstan Subsidiaries.

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 2007 and 2008 year.

Outlook for 2009

The outlook for Alhambra for 2009 and beyond is very uncertain and indeterminable at this time. The Corporation is currently focused on the Kazakhstan Lawsuit which as noted above has been appealed to the Supreme Court. Alhambra is uncertain at this time if the Supreme Court will even choose to consider the Corporation's appeal. If the Supreme Court decides to consider the appeal there is no certainty that it will rule in Alhambra's favor and overturn the decisions of the lower courts.

The loss of the Kazakhstan Subsidiaries has made it necessary for the Corporation to seek external financing to fund its corporate expenses including legal costs associated with the Kazakhstan Lawsuits. While the recently completed financings have enabled Alhambra to meet some of these obligations, it has not been adequate to meet them all. There is no assurance that additional funds will be available to meet unpaid past obligations or meet future obligations. Without additional financing and success in the appeal to the Supreme Court, Alhambra's ability to continue as a going concern is extremely doubtful.

While a favorable ruling by the Supreme Court will improve the outlook for the Corporation, it will still be necessary for the Corporation to obtain additional financing to satisfy its outstanding obligations and continue with its plans to develop Saga Creek's gold resources and reserves. With the general worldwide economic slowdown, stock market uncertainty and worldwide credit crisis, there is no certainty that the Corporation will be able to raise the necessary working capital.