Alhambra Resources Ltd.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the Year Ended December 31, 2010 (US Dollars)

This management's discussion and analysis ("MD&A") focuses on key items from the audited consolidated financial statements of Alhambra Resources Ltd. (also referred to as "Alhambra" or the "Corporation") for the year ended December 31, 2010 and the factors reasonably expected to impact future operations and results as prepared on May 2, 2011. 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, 2010 and the related notes. The financial statements have been prepared in accordance with International Financial Reporting Standards and are reported in US$000's except as otherwise stated.

This MD&A was reviewed and approved by the Corporation's audit committee and board of directors on May 2, 2011, 2011. Additional information on the Corporation is available under the Corporation's profile on SEDAR at www.sedar.com.

Forward-Looking Information

Except for the statements of historical fact contained herein, certain statements contained in this MD&A constitute "forward-looking statements" as such term is used in applicable Canadian and US laws. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. In particular, any statements concerning the Corporation's ability to continue as a going concern as described, statements concerning the strategy of advancing the Uzboy Project towards pre-feasibility, the formalization of a development plan, converting Inferred resources to mineral reserves by conducting additional exploration and other factors and events described in this MD&A should be viewed as forward-looking statements to the extent that they involve estimates thereof. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and should be viewed as "forward-looking statements". Such forward-looking statements, involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and other factors include, among others, the Corporation's liquidity and financial capacity, the Corporation's funding sources to meet various obligations, advancing the project towards pre-feasibility, formalizing a development plan, lack of financing in order to convert Inferred resources to mineral reserves through additional exploration, costs and timing of exploration and production development, availability of capital to fund exploration and production development; political, social and other risks inherent in carrying on business in a foreign jurisdiction, the effects of a recessionary economy and such other business risks as discussed herein and other publicly filed disclosure documents. Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could vary or differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements contained in this MD&A.

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

Adoption of International Financial Reporting Standards

On March 18, 2011, the Alberta Securities Commission granted Alhambra exemptive relief to adoption International Financial Reporting Standards with an adoption date of January 1, 2010 and a transition date of January 1, 2008.

Measurement Uncertainty

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those reported. Significant areas requiring the use of management estimates include the determination of impairment of property, plant and equipment and exploration and evaluation costs, provisions, and assumptions used in calculating 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. Except for the period from December 26, 2008 through September 15, 2009, the Corporation continued to hold and operate its gold producing assets situated in Kazakhstan. DOT holds and conducts exploration activities on the Corporation's former Canadian DOT property, situated near Kamloops, British Columbia ("DOT Property").

Pursuant to the Arrangement, the DOT Property was transferred to DOT at its carrying amount of $944,666 in exchange for 30,000,000 common shares. Every shareholder of the Corporation received one (1) new common share and 0.21153 of a DOT common share for every one (1) common share of the Corporation held on the effective date of the Arrangement resulting in 15,000,000 DOT common shares held by Alhambra being distributed to Alhambra shareholders on a pro rata basis. As a result of the Arrangement, Alhambra holds 15,000,001 shares of DOT which represents approximately 27% of the 55,734,333 common shares of DOT currently outstanding. At December 31, 2010, the market trading value of the 15,000,001 DOT shares owned by Alhambra was CDN$1,725.

Operating and Financial Highlights

	2010	2009
Operating (for the year ended December 31):		
Mining:		
Waste mined (Tonnes ("T")) (1)	2,374,398	854,781
Ore stacked (T) (1)	1,023,853	303,383
Grade of ore mined (Grams/T) (1)	0.85	0.91
Recoverable gold mined (Troy ounces (oz)) (1) ()	18,192	5,799
Gold sales (ozs) (1)	12,663	5,606
Gold in work in progress (ozs)	36,623	31,094
Financial (1):		
Revenue ($) (1)	15,991,	6,160,
Average gold price ($/oz) (1)	1,262.78	1,098.84
Operations expenses ($) (1)	9,120,	3,650,
Operations expenses ($/oz) (1)	720.24	651.18
Net income (loss) ($) (1)	5,042	66,755
Net income (loss) per share		
Basic ($/share) (1)	(0.06)	0.87
Diluted ($/share) (1)	(0.06)	0.81
Capital expenditures ($)	16,093	349
Total assets ($)	125,801	104,424
Shareholders' equity ($)	73,158	67,974
Common shares outstanding at year end	103,994,309	81,074,421

Notes:

1. Operating and certain financial results for the year ended December 31, 2009, are based on the Corporation owning its Kazakhstan Subsidiaries from the date of re-acquisition of control on September 15, 2009. Effective September 15, 2009 the Corporation recorded the assets and liabilities of the Kazakhstan Subsidiaries at their estimated fair value for consideration of $nil thereby recognizing a gain on the re-acquisition. Operating results for the year ended December 31, 2008 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. Recoverable gold for is estimated to be equal to 65% of estimated total gold stacked.

Substantially all the ore mined during 2010 came from the East zone of the Uzboy gold deposit. During the year ended December 31, 2010, the Corporation sold a total of 12,663 ounces ("ozs") of gold for total proceeds of $15,991. This compares to sales of 5,799 ozs and $6,160 of sales during the period from September 15 to December 31, 2009. At December 31, 2009, an estimated 31,094 ozs of gold had been stacked and was in various stages of processing for sale ("work in progress"). During 2010 an additional estimated 18,192 ozs of gold was stacked which, after selling 12,663 ozs, resulted in an estimated balance of 36,623 ozs in work in progress at December 31, 2010.

During 2010, the Corporation mined a total of 2,374,398 T of waste and stacked 1,023,853 T of ore at an average gold grade of 0.85 grams/T ("g/t"). This compares to 854,781 T of waste mined and 303,383 T of ore stacked at an average gold grade of 0.91 g/t during the period from September 15 to December 31, 2009.

Financial Review

Highlights

Segmented information

The Corporation and its subsidiaries operate in one reportable segment, the exploration for and development of mineral properties in Kazakhstan and therefore presentation geographically is the most appropriate. Identifiable assets, revenues and net loss in each of its geographic are as disclosed in note 22 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 a refinery in Italy where the final refining process takes place and the gold is sold. The Corporation sells all of its gold to one supplier.

During 2010 the Corporation recognized $15,991 in revenue from the sale of 12,663 ozs of at an average price of gold $1,262.78. For the period from September 15 to December 31, 2009, the Corporation recognized $6,160 in revenue from the sale of 5,606 ozs of gold at an average price of $1,098.84/oz.

Net smelter royalty

The net smelter royalty ranges from 2.5 to 3.0% (dependent on the price of gold) of the gross revenue. During the year ended December 31, 2010, the Corporation recognized $480 in net smelter royalty expenses as compared to $184 for the period from September 15 to December 31, 2009, which is 3% (2009 – 3%) of the revenue recognized in the period.

Mineral extraction tax

Effective January 1, 2009 the Government of Kazakhstan enacted new tax legislation that included a tax on the value of useful mineral reserves extracted under the terms of a subsoil use contract. Under the provisions of the legislation, the tax is based on production volumes priced at the average daily benchmark price. The rate for gold and silver, being the two products which the Corporation currently mines is 5% from January 1, 2009 to December 31, 2012 and 5.5% thereafter. During the year ended December 31, 2010 a total of $998 in mineral extraction tax was expensed as compared to a total of $284 for the period from September 15 to December 31, 2009.

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. 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, 2010 were $9,120 or $720.25 per oz ("/oz") sold as compared to $3,650 or $651.18/oz of gold sold for the period from September 15 to December 31, 2009.

Included in the 2010 operating cost amount is $2,307 or $182.15/oz related to the amortization of the bump-up to fair value from the estimated cost of work in progress on re-valuation at September 15, 2009. Cash operating costs were therefore $538.10/oz. For the period September 15 to December 31, 2009, $1,285 or $229.23/oz of similar costs were included in operating costs making the cash cost of gold sold for this period $421.95.

The increase in per unit operating costs was primarily the result of mining activities being focused on the lower grade east pit. Mining costs are largely dependent on the quantity of ore moved which is independent of the grade from that ore. During the latter part of 2010, the Corporation changed its mining contractor and negotiated terms which the Corporation believes will lead to lower mining costs.

Administrative expenses

Administrative expenses for the year ended December 31, 2010 totaled $6,022 as compared to $2,244 for the year ended December 31, 2009. Of these totals, $3,699 and $468 related to the Saga Creek operations for the 2010 year and period from September 15 to December 31, 2009, respectively.

The remainder of administrative expenses relates to corporate activities. For the year ended December 31, 2010, corporate administrative expenses totaled $2,323 which was an increase of $547 over the corresponding 2009 amount of $1,776.

Included in corporate administrative expenses are noncash, share-based payments expense which for the year ended December 31, 2010 totaled $908, a $387 increase over the $521 recorded in 2009. 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. Share-based payments expense for 2010 relates to the amortization of the value calculated for the 3,600,000 options granted in the last four months of 2009 and the 2,100,000 options granted during the third quarter of 2010. The share-based payments expense for 2009 relates primarily to the 3,600,000 options granted in the last four months of 2009 and to the 2,750,000 options that were granted in the first quarter of 2008. The large share-based payments expense recorded in 2010 relates in part to the third quarter grant of the 2,000,000 options of which 800,000 vested immediately.

The remaining corporate administrative expenses are comprised of corporate cash overhead costs which for the 2010 year were $1,415, an increase of $160 over the $1,255 incurred in the 2009 year. While there were increases and decreases in various components of corporate cash overhead costs, the overall negative variance was entirely due to the 14% decline in the average value of the US$ as compared to the CDN$ on a yearly comparative basis. Corporate cash overhead costs are incurred primarily in CDN$.

Depreciation, depletion and accretion

Depreciation, depletion and accretion expense for the year ended December 31, 2010 was $2,028 as compared to $264 for the period from September 15 to December 31, 2009. Substantially all the amounts for both years relate to the Kazakhstan operation.

Depletion charged on the fair value assigned to mineral properties as a result of the re-acquisition of control of subsidiaries as well as depreciation on fixed assets used in the production of gold is charged to work in progress on the basis of the volume of gold produced as a percentage of gold reserves. It is then expensed on the basis of gold sales as a percentage of gold in work in progress. In the future, as gold production and gold sales progress, the amount of this depletion and depreciation will increase and have a larger relative impact on the operating results.

Financing income and costs

		2010		2009
Finance income	$	–	$	356
Finance costs		(887)		(527)
Net finance income (expense)	$	(887)	$	(171)

For the most part, finance income relates to foreign exchange gains recognized during the period. In 2009, the Kazakhstan Tenge was devalued which resulted in the gain on the conversion of the Saga Creek net monetary Tenge liability to US$. During 2010 the Tenge improved marginally resulting in a loss being recorded which has been grouped with finance costs.

Finance costs		2010		2009
Interest on loans and borrowings	$	85	$	190
Unwinding of discount on loans and borrowings		109		282
Interest accrued on outstanding liabilities		420		55
Foreign exchange loss		268		–
Other		5		–
Net finance expense	$	887	$	527

For 2010 interest on loans and borrowings relates to the 12% convertible secured debentures ("Debentures") that were converted to common shares on August 11, 2010 (note 14(b) to the audited consolidated financial statements). In 2009 interest expense relates to the Debentures that were outstanding for the entire year ($116) plus the 20% secured subordinated promissory notes ("Notes") that were issued on April 29, 2009 ($74) and retired on October 29, 2009 (note 14(c) to the audited consolidated financial statements).

Similarly, unwinding of the discount on loans and borrowings in 2010 relates to the amortization of the value assigned to the 2,500,450 warrants that were issued to the Debenture holders together with the value assigned to the conversion feature, both of which were included as part of the new terms negotiated as part of the extension of the maturity date of the Debentures from August 11, 2009 to August 11, 2010. In 2009 the unwinding of the discount related both to the Debentures ($67) together with value assigned to the 5,400,000 warrants issued as part of the issue of the Notes ($215).

The interest accrued on outstanding liabilities in 2010 and 2009 relates primarily to interest on amounts outstanding in Kazakhstan on unpaid Mineral Extraction Tax and unpaid amounts related to historical costs (see "Selected Balance Sheet Items" – "Provisions" later in this MD&A). These amounts are as a result of an audit by the tax authorities in Kazakhstan. The Corporation has accrued these amounts however is challenging in the Kazakhstan courts, the tax authorities' position on these issues.

The foreign exchange loss relates to the Corporation's Kazakhstan operations and is the result of an improvement in the Kazakhstan foreign exchange rate in relation to the US$.

Income tax expense

Income tax expense recorded relates entirely to Saga Creek. As Saga Creek is a profitable entity, it is subject to income tax under Kazakhstan law. The Corporation recorded an income tax expense of $1,443 for the year ended December 31, 2010 as compared to $1,309 for the year ended December 31, 2009. Saga Creek incurred a current tax expense of $901 in 2010 as compared to $486 for the 2009 period being reported. The 2009 current tax expense is relatively high given that it applies to only a 3 ½ month period however typically the final quarter of the year is more profitable thus attracting a more significant proportion of the year's corporate tax.

The remaining $542 of income tax expense for the 2010 year is deferred income tax which compares to $823 for the year ended December 31, 2009. At September 15, 2009 Saga Creek recorded a deferred income tax liability associated with the fair value assigned to Saga Creek's assets and liabilities. Expectations were that the Corporation would begin to record deferred income tax recoveries as depletion of these assets is charged as an expense. However, Saga Creek recorded a foreign exchange loss in February of 2009 as a result of the devaluation of the Kazakhstan Tenge in relation to the US$. The future tax benefit of this loss was recorded in the books of Saga Creek at the re-acquisition date on September 15, 2009 and much of it was utilized in the fourth quarter of 2009 to reduce income taxes that otherwise would have been payable.

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

The Corporation has Canadian non-capital losses, for which no benefit has been recognized in the financial statements, of approximately CDN$8,000 at December 31, 2010, which commence expiring in 2014.

Equity loss

The Corporation accounts for its ownership of the common shares of DOT using the equity method of accounting. On September 23, 2009 DOT issued additional common share equity that reduced Alhambra ownership to 27% from the 36% owned prior to the DOT issue. For the year ended December 31, 2010, the Corporation recorded an equity loss of $55 compared to the $115 recorded for the 2009 year. This is primarily the result of a lower loss reported by DOT in 2010 than in 2009 combined with the smaller equity ownership interest that Alhambra currently holds in DOT. DOT's loss in 2010 was substantially lower than in 2009 as a result of the recording of the tax effect of exploration expenses renounced to participants in a flow through share financing completed by DOT in 2009.

Loss and re-acquisition of control of Kazakhstan subsidiaries in 2009

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 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 was that the Corporation's 100% owned subsidiary, Alhambra Overseas Limited, incorporated to hold Alhambra's interest in the Kazakhstan Subsidiaries, was not incorporated at the time the Agreement was initially entered into, despite the fact that such incorporation was subsequently completed soon thereafter. Alhambra applied to the Lower Court to have the litigation dismissed for the lack of jurisdiction, however, such application was denied as was the appeal to the Civil Cases Review Board of the East-Kazakhstan Oblast Court (the "Review Board"). As a result, hearings in the Lower Court on the merits of the case began on November 17, 2008 and were completed on November 24, 2008. On November 25, 2008 the Lower Court rendered its decision in favor of the 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 whose decision, rendered on February 27, 2009, again upheld the decisions of the previous courts. On January 27, 2009 the ownership of the Kazakhstan Subsidiaries was re-registered back in the names of the Plaintiffs giving effect to the court decisions. As a result of the decision, the assets and liabilities related to the Kazakhstan mineral operations were written off as of December 26, 2008 as the Corporation ceased to control the Kazakhstan Subsidiaries.

On April 16, 2009 the Corporation filed an appeal with the Supreme Court of Kazakhstan asking the Supreme Court to overturn the decisions of the lower courts. The Supreme Court hearing was held on August 12, 2009 at which time the Supreme Court reversed the decisions of the Lower Courts and dismissed the Plaintiffs' claim. On September 15, 2009 the ownership of the shares of the

Kazakhstan Subsidiaries was re-registered in the name of Alhambra and the Corporation commenced operations on that date.

With the re-registration, Alhambra re-acquired control of its ownership in the Kazakhstan Subsidiaries on September 15, 2009. The Corporation recorded the net identifiable assets and liabilities of Saga Creek and Goodwin at fair value. The Corporation undertook a review of the net identifiable assets and liabilities at the date of re-registration and, where available, third party information (including the NI 43-101 compliant report entitled “Resource and Reserve Estimation Study on the Uzboy Gold Deposit, Akmola Oblast Kazakhstan” with an effective date of December 31, 2007 prepared by ACA Howe was used. In determining the fair value of Saga Creek’s assets and liabilities, the Corporation made assumptions about reserves, recovery rates, prices, operating, general and administration and capital costs and deferred income tax rates as well as made assumptions in determining the Corporation’s weighted average cost of capital used to discount the annualized cash flows that were derived from the modeling work done. As a result of the valuation the Corporation recorded a gain on the re-acquisition of $68,816.

The following table reflects the combined net identifiable assets and liabilities of Saga Creek including fair value adjustments at the time of re-registration. The Corporation undertook a review of the net identifiable assets and liabilities at the date of re-registration and, where available, third party information (including the NI 43-101 compliant report entitled “Resource and Reserve Estimation Study on the Uzboy Gold Deposit, Akmola Oblast Kazakhstan” with an effective date of December 31, 2007 prepared by Alhambra’s Independent Geological Consultants) was utilized in determining these fair values. In determining the fair value of Saga Creek’s assets, the Corporation made assumptions about reserves and resources, recovery rates, prices, operating, general and administration costs and capital costs and future income tax rates as well as made assumptions in determining the Corporation’s weighted average cost of capital used to discount the annualized cash flows that were derived from the modeling work done.

	Fair values recognized on re-gaining control at September 15, 2009
Consideration	$ –
Fair value of assets and liabilities:	
Cash	1,235
Trade and other receivables	1,400
Deposits and prepaid expenses	392
Inventories	15,088
Property, plant and equipment	79,986
Intangible assets	4,519
Trade and other payables	(4,083)
Provisions	(216)
Deferred income taxes	(29,505)
Gain recognized on re-gaining control of former subsidiaries	$ 68,816

Net profit (loss)

The Corporation recorded a net loss of $5,042 for the year ended December 31, 2010 compared to a net profit recorded in 2009 of $66,755. The 2009 net income included a gain on the re-gaining of control of the Kazakhstan Subsidiaries of $68,816. Before including the 2009 gain, Alhambra recorded a net loss of $2,061 for the 2009 year.

Mining operations for the year ended December 31, 2010 reported a net loss of $2,191 as compared to a net income totaling $340 for the period from September 15 to December 31, 2009, a decrease of $2,531.

For the year ended December 31, 2010, corporate losses totaled $2,851, an increase $450 over the $2,401 recorded in 2009. Higher general and administration costs caused principally by higher share-based payment expense and the impact on the weakened US$ on corporate cash administrative costs accounted for the larger loss.

Based on a weighted average number of common shares of 88,710,746 and 76,688,989 for 2010 and 2009, respectively, the Corporation's basic net loss per common share was $0.06 for 2010 and basic income per common share for 2009 was $0.87.

After giving effect to all potentially dilutive equity components, diluted net loss per share for 2010 was $0.06 (2009 – diluted earnings per common share - $0.81) based on a weighted average number of shares outstanding of 88,710,746 (2009 – 81,957,985). Since the Corporation reported a net loss in 2010, all potentially dilutive factors were anti-dilutive.

For the 2010 year 7,731,250 options and 11,802,775 warrants representing all the options and warrants outstanding were excluded from the dilutive earnings per share calculation as they would be considered anti-dilutive. For the 2009 year, 3,125,000 options and 2,500,450 warrants were excluded from the dilutive earnings per share calculation as they would be considered anti-dilutive.

Summarized Cash Flows

		2010		2009
Net cash provided from (used in) operating activities	$	(2,071)	$	71
Net cash provided from financing activities		7,431		841
Net cash (used in) investing activities		(2,443)		(278)

Operating cash flow

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

For the year ended December 31, 2009, net cash provided from operating activities was $71. The Corporation earned a net profit for the year of $66,755 which was offset by the gain on the re-acquisition of control over the assets of its Kazakhstan Subsidiaries, Saga Creek.

Financing cash flow

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

For the year ended December 31, 2009, net cash flow provided from financing activities was $841 as a result of the issue of secured debentures and secured notes totaling $1,570 and the issue of common shares on the exercise of warrants for $719, offset by the retirement of secured debentures and notes totaling $1,448.

Investing cash flow

For the year ended December 31, 2010, net cash flow used in investing activities was $2,443 primarily as a result of the acquisition of property, plant and equipment of $16,093 offset by an increase in trade and other payables of $13,650. The acquisition of property included $13,828 attributable to the acquisition of historical cost technical data related to its licenses.

For the year ended December 31, 2009, net cash flow used in investing activities was $278 of property, plant and equipment.

Selected Balance Sheet Items

Trade and other receivables

Accounts receivable primarily represents refundable Value Added Tax (“VAT”) and amounts owing on the sale of gold. VAT is paid by the Corporation on goods and services purchased in Kazakhstan and utilized in its operations. At December 31, 2010 the balance outstanding on account of VAT was $1,335 (December 31, 2009 - $848). The Corporation applies for a refund of VAT in the first quarter following the end year for which the VAT had been paid. The refund claim is subject to audit by the tax authorities in Kazakhstan with the refund due at the end of the second quarter. Historically, the Corporation has been successful in collecting all amounts due.

Amounts outstanding for the sale of gold were $984 at December 31, 2010 (December 31, 2009 - $936). The Corporation recognizes revenue from the sale of gold when the price is determinable, the product has been delivered and title has been transferred to the customer and the collection of sale is reasonably assured. Accounts receivables typically arise when a gold sale is made near a month end but payment is not made until the following month. Normally, the time between shipment and the receipt of cash is approximately two weeks.

Deposits and prepaid expenses

Prepaid expenses arise in Kazakhstan as the Corporation is often required to place a deposit down upon signing of a contract. The larger than normal balance at December 31, 2010 is due to the Corporation having recorded approximately $600 in connection of costs incurred to December 31, 2010 in its advancement of a potential listing on an Asian stock exchange.

Inventories

The Corporation’s inventory comprises mostly work in progress in which all costs associated with the production of gold, including direct costs incurred in the mining, leaching and resin stripping processes, as well as a portion of depreciation of equipment used in each process, and depletion on mineral assets, are charged to work in progress inventory and expensed based on the quantity of gold sold as a percentage of gold mined. At December 31, 2010 the Corporation estimated that there was approximately 36,623 ozs of gold in work in progress (December 31, 2009 – 31,094 ozs) at a carrying cost of $24,319 (December 31, 2009 - $16,286). The Corporation reclassifies the portion of this inventory that it does not expect to sell in the next year as non-current. At December 31, 2010, the Corporation classified 21,623 ozs ($13,110) (December 31, 2009 – 14,094 ozs and $6,791) as non-current.

At December 31, 2010, the Corporation also had $1,247 (December 31, 2009 - $1,362) of raw materials and supplies inventory which is used in its operations.

Trade and other payables

At December 31, 2010 the Corporation had outstanding $6,953 in trade and other payables (December 31, 2009 - $4,475). The credit terms that govern the Corporation’s relationship with its suppliers are such that substantially all amounts outstanding are due within one month.

The increase of $2,478 from December 31, 2009 to December 31, 2010 relates to the interest and penalties accrued regarding the assessment by the tax authorities in Kazakhstan regarding unpaid MET, historical costs and income tax assessment items totaling $2,741. The Corporation is challenging the Kazakhstan economic court, the Kazakhstan tax authorities’ conclusion presented in the assessment and believes that the foreign investment contract which details the Corporation’s rights and obligations associated with its licenses protects the Corporation from these changes that have given rise to the assessment. There is however, sufficient uncertainty as to whether the Corporation can win the appeal and as such has accrued the obligation as well as the interest and penalties thereon.

Provisions

At December 31, 2010 the Corporation had outstanding provisions for future liabilities of $14,093 (December 31, 2009 - $225). Of the total, $265 (2009 - $225) relates to future site reclamation. The liability for site reclamation was determined using an inflation rate of 5% (December 31, 2009 – 5%) and an estimated mine life of 10 years (December 31, 2009 – 10 years) for the Uzboy project. A discount rate of 7% (December 31, 2009 – 7%) was used. The undiscounted value of the liability is approximately $316 (2009 - $439).

The Corporation has recorded a provision as of December 31, 2010 related to the acquisition of geological information from the government of Kazakhstan ("Historical Data"). This Historical Data was acquired by a previous owner of the Saga Creek licenses for a cost of $95. The indicative cost incurred by the Government of Kazakhstan at that time was $15,833. Effective January 1, 2009 the Government of Kazakhstan enacted legislation that required those companies that had acquired the Historical Data begin paying to the Government of Kazakhstan the unpaid amounts beginning on January 1, 2009 in equal quarterly installments over ten (10) years. It is the opinion of the Corporation that it is not liable for the liability as the obligation is not recorded in the contract governing foreign investment which details the Corporation's rights and obligations associated with its licenses.

In late 2010, as the result of an audit of Saga Creek by the Kazakhstan tax authorities, the Government of Kazakhstan assessed Saga Creek for the liability rejecting the Corporation's appeal of the assessment. The Corporation has since filed a claim in the economic court in Kazakhstan seeking to have the decision of the tax authorities reversed together with the obligation and related interest and penalties. While Alhambra believes that its position is defendable, there is a high risk that it will not be successful in the Kazakhstan courts and as such has recorded the provision. The liability associated with the provision for Historical Data is $13,828 of which $9,381 has been recorded as non-current. A discount rate of 3.2% was used to determine the amount of the liability. The undiscounted value of the liability is $15,738.

Deferred Tax Liabilities

At December 31, 2010 the Corporation has $31,597 (December 31, 2009 – $30,832) in deferred tax liabilities that relate primarily to the fair value assigned to the Uzboy project on the re-acquisition of control of Saga Creek.

Capital Expenditures

During the year ended December 31, 2010 the Corporation recorded capital expenditures of $16,093 in capital expenditures, all in Kazakhstan. Of that total, $13,828 relates to the acquisition of historical data as legislated by the Government of Kazakhstan (see "Provisions" section above). Of the remaining $2,255, approximately $254 relates to buildings, machinery and equipment used in the operations in Kazakhstan. The remaining $2,001 relates to the Corporations 2010 exploration program which is detailed below.

Alhambra's 2010 extensive exploration drilling program was concentrated on its three advanced "resource definition" exploration projects (Uzboy Gold Deposit ("Uzboy"), Shirotnaia and Dombraly) and three early stage exploration projects (Zhanatobe, Kerbay and North Balusty). In addition, a soil and rock chip sampling program was conducted on one of its early stage exploration projects (Vasilkovskoe East).

Alhambra completed 27,265 metres ("m") of exploration drilling of which approximately 34% was core drilling, 11% was reverse circulation ("RC") drilling, 32% was rotary air-blast ("RAB") drilling and the remaining 23% was hydro-core lift ("KGK") drilling. Of the yearly metres drilled, approximately 74% of this total was drilled on Alhambra's advanced "resource definition" exploration project areas of Uzboy, Shirotnaia and Dombraly. The remaining 26% was drilled on Alhambra's early stage exploration project areas of North Balusty, Kerbay, and Zhanatobe.

Completion of the 2010 drilling program was pushed well into 2011. This combined with export delays of more than 11,800 drill samples due to new export law and procedures lead to significant delays in receiving drill assay results. The 2010 drilling program will be totally completed in the second quarter of 2011.

Due to the late completion of the assaying and interpretation of the drill samples, the updated Uzboy National Instrument ("NI") 43-101 compliant resource report and Preliminary Economic Assessment (i.e. Scoping Study) Reports have been delayed. Both reports will be completed as early as possible. The initial NI 43-101 compliant resource reports for both Dombraly and Shirotnaia are still anticipated to be completed by year-end 2011. Assay results will be released when received and interpreted and the resource reports will be issued when completed.

Uzboy Gold Deposit

An extensive exploration program was completed at Uzboy. This included additional oxide and sulfide resource delineation at its flanks and deep horizons. The 2010 drilling program consisted of 8,298 m of core, RAB and KGK drilling.

At Uzboy Nova, located approximately 1.5 kilometres ("kms") north-east ("NE") of the West Uzboy open pit, an area that is logistically part of the existing Uzboy gold deposit and heap-leach operation, 8 core holes totaling 571 m were drilled. Four oxide and four sulfide mineralization zones were successfully intercepted. At Uzboy NW, located 2.5 kms north-west ("NW") from the West Uzboy open pit, 127 KGK holes totaling 4,183 m were completed. A favorable geophysical anomaly, suggesting gold mineralization, was tested.

At West Uzboy and East Uzboy, core drilling started with relatively shallow holes targeting shallow near surface oxide mineralization as an extension of the known oxide mineralization and continued with deeper holes at depth to test for additional sulphide gold mineralization. Twenty-seven holes totaling 3,239 m were drilled. These deeper holes confirmed the presence at depth of zones of strong sulphide mineralization and numerous intervals of intensive hydrothermal alteration, bulk silicification, and quartz veinleting were intercepted.

Pending positive assay results, these holes will prove the continuity of the mineralized zone going from the Uzboy Middle East open pit to the Far East pit as well as to Uzboy A & B, a distance of approximately 1.0 km.

Shirotnaia

Shirotnaia 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 and Quartzite Hills. The gold mineralization at Shirotnaia is hosted in faulted and sheared andesite volcanic and volcaniclastic rocks that exhibits intense pyrite-sericite-carbonate and silica-clay alteration. The 2010 drilling program consisted of 3,391 m of core and RC drilling.

The first stage of the drilling program consisted of nine core holes totaling 1,141 m. The objective of this drilling program was to test the depth extension of the large gold anomaly previously outlined by the 2008 RAB drilling program. Two significant widths of high grade gold mineralization were encountered within a large area of lower grade gold mineralization, suggesting the probable continuation of the high grades to depth as is usual for this style of mineralization.

The assays from the nine hole core drilling program resulted in the discovery of two new zones of higher grade gold mineralization at Shirotnaia as well as numerous wide zones of low grade mineralization. In particular, one hole intersected 4.32 grams per tonne ("g/t") gold over an interval of 36.0 m including a higher grade interval of 16.80 g/t gold over 9.0 m and a second hole intersected 2.13 g/t gold over an interval of 20 m. These two zones could be estimated as at least 850 and 1,000 m long, 10-20 m wide and more than 60 m along the dip. The mineralized zones remain open along strike and at depth.

A second stage in-fill RC drilling program consisting of 43 holes totaling 2,250 m was completed at Shirotnaia to further enhance and understand the geometry of the large zone of anomalous gold mineralization previously outlined at Shirotnaia. These holes were drilled between the nine core holes and the area NE of them. Broad intervals of anomalous gold concentrations (for +0.15 g/t) were intersected in 79% of the holes drilled. The RC drilling program successfully confirmed the presence of gold mineralization for at least another 550 m of strike length to the northeast, outside the boundaries of the 2007/2010 core drilling defined area of gold mineralization. The program also successfully provided new priority targets for the follow-up core drilling program in 2011.

Dombraly

The 2010 drilling program consisted of 8,511 m of core, RC and RAB drilling.

The objective of the 2010 exploration program at Dombraly was to continue core and non-core drilling on the oxide and sulphide zones of gold mineralization, to test the depth extensions of the known zones of gold mineralization, to locate new zones of gold mineralization in close proximity to Dombraly and to validate the gold mineralization and grade of the former stockpile and open pit back-fill. This program was focused to further define the extent and continuity of the gold mineralization at Dombraly, leading to an initial NI 43-101 compliant resource estimate by year-end 2011.

The gold mineralization at Dombraly is oxidized to a depth ranging from approximately 60-80 m, but in some cases, it can reach a depth of 100-120 m. The oxide zone is underlain by a transitional zone which in turn is underlain by sulphide gold mineralization.

Fifteen core drill holes totaling 3,788 m were completed. This included two holes that collapsed and were re-drilled. Of the thirteen core holes drilled, four holes were drilled at the northern flank of the Dombraly main zone of gold mineralization with the objective of extending the deep sulfide mineralization to the north and to check for shallow oxide mineralization. The remaining nine core holes were drilled just south of the known zones of gold mineralization where the gold mineralization is open-ended and aided in outlining the possible continuation of gold mineralization there.

All the holes confirmed the presence of previously established zones of hydrothermal alterations, quartz veining and pyrite mineralization as well as other zones of strongly oxidized sediments north and south of the existing open pit. Prior to year-end 2010, assays from only two of the southernmost core holes were received and reported. Assay results from the remaining holes are pending.

The RC drilling program at Dombraly included drilling of the waste pile, the open pit back fill material and the possible extension of oxide mineralization northward of the pit. The waste pile was successfully drilled as 25 RC holes totaling 340 m were completed. The back fill material was also successfully drilled with 7 inclined and vertical RC holes totaling 287 m. Most of these holes were planned to be 120 m deep to probe the under pit in-situ mineralization but because they met a horizon with intensive water debit, the average depth of the holes was 41 m with the maximum being 74 m. The 5 hole RC line totaling 256 m drilled northward of the pit met the same problems and as a result the average depth of the holes was 51 m instead of 120 m with the maximum of 57 m. Assay results from these holes are pending.

A RAB drilling program surrounding Dombraly was completed targeting a possible further extension to the south from the stockpile of the main Dombraly mineralized zone as well as another possible mineralized zone 900 m north-east of the pit. This program consisted of 192 RAB holes totaling 3,840 m. Assay results are pending.

Zhanatobe

RAB drilling was completed at Zhanatobe. Fifteen drill lines with 483 holes totaling 4,744 m were drilled.

Geological results of the RAB drilling are encouraging. As established by drill chip logging, numerous bodies of completely silicified iron oxide rich rocks were intercepted. These types of rocks could be indicators for the presence of carbonate hosted gold mineralization.

Only partial assay results from this drilling program have been received. The results of the RAB drilling program are encouraging with patchy anomalism ranging from 0.1 to 0.2 g/t gold being established in both the Northern and Central areas. The most significant +0.2 g/t Au anomaly with a peak value of 0.51 g/t Au was established in the last drill line in the Northern area. This appears to be the obvious target for 2011 follow-up drilling.

Assay results from RAB holes drilled at the most promising silicified zone situated in the Central area are still pending.

Kerbay

Two scout diamond holes totaling 305 m were drilled on Kerbay. Both holes intercepted interesting intervals of hydrothermal alterations in andesite and siltstone, but the assay results did not indicate significant mineralized intercepts. The only anomalous interval was established in hole DDK 110-01 from 99 to 108 m. The weighted average gold grade was 0.2 g/t with the peak value of 0.36 g/t. Exploration at Kerbay will continue in 2011 with RC drilling in the NW part of the area which wasn't tested in 2010 and where some trench anomalies exist.

North Balusty

As a result of the exploration conducted at North Bulusty in prior years, a 12.8 km long and up to 2.5 km wide zone of gold anomalism in alluvium and saprolitic rocks was established. It consists of numerous wide individual anomalies where the gold grades exceed 0.1 g/t. In three potential target areas the concentration of anomalies is higher and the gold grades reach 0.5 g/t in RAB samples. It is still unclear whether it is a very big zone of low grade mineralization, a broad low grade aureole of a significant deposit, or just a set of transported anomalies in reworked saprolite and alluvium.

The 2010 drilling program completed was a test line of 51 KGK holes totaling 2,018 m. The depth of the holes averaged 40 m but varied from 7 to 79 m. In total, 988 samples were taken. Assay results are still pending.

Vasilkovskoe East

The exploration program for Vasilkovskoe East, a 500 square kilometre (“km^2”) project area located on the western section of Alhambra’s license area, included soil sampling of two areas (Western and Akshasor) as well as geological traverses with rock chip sampling at the Ivanovka area situated between the Western and Akshasor locations.

In the Western area, 4 N-S orientated lines from 5 to 7 kms long were sampled. The distance between the lines was 500 m and between samples along the line at 100 m. A total of 225 soil samples were taken. In the Akshasor area 9 NW soil sampling lines orientated 1,000 to 1,650 m long and 200 m apart were completed. Samples were taken each 25 m along the line in the central part of the area and each 50 m at the flanks. A total of 336 samples were taken. The results from the Western area returned one sample containing 20 ppb gold and a second sample containing 1.9 ppm gold. Taking into account the very wide space between the individual samples, more soil/rock samples are planned be taken in this area.

Soil sampling results from the Akshasor area were very interesting. Twenty-five samples returned gold grades of between 20 ppb with the peak grade of 0.289 g/t Au. The anomalous contour of +30 ppb Au, consisting of two NW and NE orientated parts, has dimensions of about 550 m by 450 m. It continues as zones of patchy gold anomalism in both NW and south-east (“SE”) directions and remains open to the SE where sampling still has to be done. Elevated grades of Ag, As, Sb, Ba, Bi and Mo support the gold anomaly and this signature suggests the presence of an orogenic intrusion related mineralization (Vasilkovskoe style) mineralization.

In the Ivanovka area, 30 kms of geological traverses covering an area of 12.7 km^2 were done and 54 rock chip samples taken. A schematic geological map of the area was prepared which shows a favourable geological environment measuring 1,100 m long and 250 m wide for sediment hosted gold mineralization.

Liquidity and capital resources

Alhambra operates in a capital intensive industry in which the demands for capital to finance exploration and development of its properties as well as its corporate overheads generally occur far in advance of projects being put on production and generating cash flow. While the Corporation generates cash flow from the operations of the oxide zone of the Uzboy Project, additional funds are required to enable Alhambra to add shareholder value through exploration and development and fund some of its working capital requirements. As a result, the Corporation depends on the capital markets to raise fund these activities. If the Corporation is unable to raise additional funds through these capital markets, the Corporation's ability to continue as a going concern is extremely doubtful.

During 2010, the Corporation received $8,000 as proceeds from the issue of 18,604,650 units at a purchase price of $0.43 per unit. Each unit consisted of one common share and one-half of a common share purchase warrant (the "Warrant") resulting in the issue of 18,604,650 common shares and 9,302,325 Warrants. Each whole Warrant entitles the holder thereof to purchase one common share of the Corporation at a purchase price of $0.72 per common share on or before February 19, 2012 for 5,388,690 Warrants and March 28, 2012 for 3,913,635 Warrants.

During 2009, Alhambra received $719 as proceeds from the issue of 5,300,274 common shares upon the exercise of 5,300,274 Note Warrants. In addition, the Corporation had outstanding a series of twelve percent (12%) secured debentures due August 11, 2009 in the principle amount of CDN$1,000 (the "Debentures"). As the Corporation was unable to pay the outstanding principal and accrued interest at the maturity date, the holders of the Debentures agreed to add the accrued interest to the principal outstanding and extend the maturity date of the Debentures to August 11, 2010. The accrued interest at August 11, 2009 totaled CDN$125 resulting in the principal amount of the Debentures at August 11, 2009 totaling CDN$1,125. In consideration for agreeing not to call the Debentures, the Corporation issued convertible debentures including warrants ("the Convertible Debentures") as follows:

(a) The Debenture holders had the option to convert the principal amount and unpaid interest at any time prior to maturity into common shares of the Corporation at a price of CDN$0.30 per common share;
(b) Warrants to purchase up to 2,500,450 common shares ("Debenture Warrants") were granted with an expiry date of August 11, 2011. Each Debenture Warrant may be converted into one common share of the Corporation at any time prior to expiry at a purchase price of CDN$0.45 per common share;
(c) Interest accrued on the new principal amount at a rate of 12% per annum, compounded quarterly and payable at the earlier of the date of conversion or the new maturity date; and
(d) The Corporation had the right at any time prior to maturity, to prepay all or a portion thereof, of the Debentures and accrued interest, without notice, bonus or penalty. If the Corporation decided to exercise this right, then the Debenture holders would have had the option of converting the principal amount of the Debentures plus accrued interest, or any portion thereof prior to the prepayment date, into common shares of the Corporation at a price of CDN$0.30 per common share.

The Debentures were secured by way of a first floating charge against all of the assets, property and undertakings of Alhambra, and were held by certain officers and/or directors of the Corporation. The modifications to the Debentures were approved by the independent members of the board of directors with the applicable directors abstaining.

Effective August 11, 2010 the Debenture holders exercised their option to convert the principle plus accrued interest into common shares of the Corporation. As a result, the Corporation issued 4,221,488 common shares on the conversion of CDN$1,266 of principle and accrued interest.

At December 31, 2010 the Corporation had $3,375 (2009 – $344) in cash and $7,785 (2009 – $7,825) in positive working capital.

Related party transactions

Balances and transactions between the Corporation and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Group and other related parties are disclosed below.

(a) Compensation of key management personnel:

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

		2010		2009
Short-term employee benefits	$	816	$	513
Share-based payments		664		431
Director fees		–		–
	$	1,480	$	944

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

(b) Other transactions:

(i) During the year ended December 31, 2010, the Group paid $6 (2009 - $2) in consulting fees to a company controlled by a former director and officer of the Group. The amount owing to the company controlled by the former director and officer as of December 31, 2010 was $nil (2009 - $nil). The former director and officer resigned his position on September 23, 2009.

(ii) During the year ended December 31, 2010, the Group incurred $137 (2009 - $48) in costs from a law firm in which an officer of the Group is a partner. The officer resigned from the Group effective April 29, 2009. The amount owing to the law firm as of December 31, 2010 was $31 (2009 - $126).

(iii) On August 29, 2007, the Corporation and DOT entered into an Administrative and Corporate Services Contract (the "Contract") whereby DOT agreed to engage the Corporation to provide management, administration and corporate services to DOT. The Contract provides for a monthly remuneration of CDN$20 plus all reasonable out of pocket expenses and is for an indefinite term but may be terminated by either party upon providing 30 days prior written notice. The Corporation billed DOT CDN$240 (2009 - CDN$240) under the Contract. The amount uncollected as of December 31, 2010 was CDN$359 (2009 - CDN$105). Effective January 1, 2011, the Corporation suspended billing DOT the monthly remuneration. In addition, the Corporation advanced DOT CDN$400 to enable DOT to meet working capital requirements while DOT is investigating options regarding financing. At this time the Corporation is not charging DOT any interest. The Corporation has classified the loan as a long term receivable until such time there is more certainty that DOT will be able to return the funds in the short term.

Highlights of fourth quarter 2010 results

During the fourth quarter of 2010, the Corporation realized $4,030 from the sale of 2,870 ozs of gold at an average price of $1,403.90 per oz. This compares to the fourth quarter 2009 sales amount of $5,034 from the sale of 4,501 ozs at an average gold price of $1,118.43/oz. The $1,005 decrease in gold sales revenue was a result of 1,631 less sales partially offset by an increase in the average price of gold of $285.61. The Corporation stacked 281,208 T of ore at an average grade of 0.99 g/t as compared to 303,383 T of ore at an average grade 0.91 g/t in the fourth quarter of 2009. Because the ore stacked in the fourth quarter of 2010 went onto a new pad which did not get into production until later in the quarter and then was affected by an early freeze, the Corporation did not benefit from the flush production that can result from new ore being put under leach. It is anticipated that the benefits of this new pad and better than average grade will be seen in the second quarter of 2011.

Operating costs for the fourth quarter of 2010 were $2,091 or $728.46/oz as compared to $3,232 or $718.17/oz for the fourth quarter of 2009. This positive variance of $1,141 relates directly to the 36% decrease in sales volumes. Included in the fourth quarter 2010 operating costs was $427 related to the estimated fair value assigned to the work in progress at September 15, 2009. This equates to $148.75/oz of gold produced for a cash cost of $579.69/oz of gold sold. The fourth quarter 2009 per unit cash costs were $432.65/oz.

Administrative expenses for the fourth quarter of 2010 totaled $3,556, an increase of $2,802 from the $754 recorded in the fourth quarter of 2009. General and administration expenses related to mining operations totaled $2,741, an increase of $2,476 over the comparable amount recorded for the fourth quarter of 2009 of $265. Penalties assessed by the tax authorities in Kazakhstan accounting for this negative variance. The Corporation is currently disputing the assessments including the penalties and interest thereon in the courts in Kazakhstan.

Administration expenses of $815 accounted for the remaining administrative expenses for the fourth quarter of 2010, an increase of $325 over the comparable 2009 fourth quarter amount of $490. Included in corporate general and administrative expense was share-based payment expense of $118 and $185 for the fourth quarters of 2010 and 2009, respectively.

The remaining $697 of Corporate general and administrative expenses for the fourth quarter of 2010 were cash costs which were $392 higher than corporate cash administrative costs for the comparable quarter in 2009. The increased costs were the result of increased professional consulting costs associated with the conversion to IFRS, the settlement of the outstanding legal suit with the Corporation’s previous landlord and bonuses paid to employees.

Net finance costs for the fourth quarter of 2010 totaled $401 as compared to a net finance income for the fourth quarter of 2009 of $74. Interest expense for the fourth quarter of 2010 amounted to $309 as compared to $269 in the comparable quarter in 2009. The 2010 amount related almost entirely to interest on unpaid taxes assessed by the tax department currently being disputed by the Corporation. The 2009 interest was the combination of interest and the unwinding of the discount on the Debentures and Notes. The remaining $92 of net finance costs incurred in the fourth quarter of 2010 was related to foreign exchange losses. This compared to a foreign exchange gain recorded in the fourth quarter of 2009 of $343. The loss in 2010 relates primarily to the deterioration of the US$ in relation to the CDN$ whereas the gain in 2009 relates to the gain on conversion of the Saga Creek net monetary liabilities to US$ due to the deterioration of the Tenge during that year.

Net loss for the fourth quarter of 2010 was $4,005 or $0.05 per share based on a weighted average number of shares outstanding for the period of 103,986,157. This compares to a net loss of $8,142 or $0.10 per share based on a weighted average number of shares outstanding of 79,403,682 for the fourth quarter of 2009. The large net loss in the fourth quarter of 2010 was primarily the result of the penalties and interest charged on the liabilities being disputed regarding the tax assessment. The large net loss in 2009 was the result of adjustments made on the gain recorded at September 15, 2009 from regaining control of the Kazakhstan Subsidiaries.

Financial instruments

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

Commitments

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

The Corporation is anticipating spending approximately $7,500 on exploration activities during 2011, subject to suitable financing.

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

Subsequent event

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 CDN$12 (exclusive of occupancy costs) up until expiry of the lease on August 31, 2013. 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 informed the Corporation that it believed the Corporation wrongly repudiated the lease and remained liable for the loss of rental revenue over the unexpired term of the lease. On October 1, 2010 the landlord filed a statement of claim in the Court of Queen's Bench of Alberta claiming the following:

(a) Judgment in the sum of CDN$356 for amounts due and owing under the lease up to and including September 1, 2010 and for the present value of rent and other amounts payable under the lease for the balance of the term in the sum of CDN$672;

(b) Interest pursuant to terms of the lease, or in the alternative, interest pursuant to the Judgment Interest Act;

(c) Costs of this action on a solicitor client basis; and

(d) Such further costs and other relief as this Honourable Court deems just.

On January 5, 2011 the Corporation and landlord settled the claim for a total of CDN$59 which included the net amount owing at the time the lease was terminated of CDN$32 plus CDN$30 in damages and legal costs. The discontinuance of the claim was registered in the Court of Queen's Bench of Alberta on January 6, 2011. The settlement amount has been reflected in the accounts of the Corporation as of December 31, 2010.

The Corporation has no other off balance sheet financing arrangements.

Share data

The Corporation is authorized to issue an unlimited number of common shares of which 103,994,309 were outstanding as of December 31, 2010. The following table shows the detailed number of shares, options and warrants outstanding as of December 31, 2010 and changes that have occurred up to the date of this MD&A.

	As of December 31, 2010	Change in 2011	Issued in 2011	As of May 2, 2011
Common shares issued and outstanding	103,994,309	–	137,750	104,132,059
Common shares issuable upon exercise of stock options	7,731,250	(2,062,750)	3,050,000	8,718,500
Common shares issuable upon exercise of warrants	11,802,775	–	–	11,802,775
Common shares fully diluted	123,528,334	(2,062,750)	3,187,750	124,653,334

Subsequent to December 31, 2010, the Corporation issued 137,750 common shares on the exercise of vested options. The options exercise price was CDN$0.22 per share for a total proceeds of CDN $30. In addition 1,925,000 options expired unexercised and 3,050,000 new options were issued. The new options are priced at CDN$1.05 per common share, have a term of five years from the date of grant and vest as to 25% immediately and 25% each six months thereafter.

Business Risks

The following describes the types of risks that the Corporation is exposed to in its operations and how it manages those risks.

World Economic Uncertainty

While certain economies and business sectors are recovering from the recent economic slowdown, there still remains stock market uncertainty and an international credit crisis that could adversely impact the Corporation's ability to raise sufficient working capital to sustain operations. The Corporation can neither predict the impact how this uncertainty will have on future results.

Exploration and development

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

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

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

Operations risk

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

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

The re-gaining of control of the Kazakhstan Subsidiaries effective September 15, 2009 combined with the financing done in 2010 and the conversion to share capital of the secured debentures has significantly reduced Alhambra's going concern risk. However, to continue as a going concern, as well as implement exploration and development plans to sustain the Corporation and promote growth, significant additional capital will be required. The Corporation is currently attempting to raise addition 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 control of the Kazakhstan Subsidiaries. Upon re-gaining control the Corporation was required to record the work in progress at fair market value.

Mineral resources and reserves

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

Upon re-acquisition, the Corporation was required to record mineral properties at fair market value. In determining the fair market value of the Kazakhstan Subsidiaries' assets, the Corporation made assumptions about reserves, recovery rates, prices, operating, general and administration costs and capital costs and deferred income tax rates as well as made assumptions in determining the Corporation's weighted average cost of capital used to discount the estimated annualized cash flows that were derived from the modeling work done.

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are determined by discounting the expected future cash flows and therefore require an estimate to be made of the future liability plus the discount rate applicable.

Share-based payments

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

Income tax accounting

The determination of the Corporation's income tax assets and liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax assets and liabilities may differ significantly from that estimated and recorded by management. This is further complicated by the fact that the taxation system in Kazakhstan is relatively new and characterized by frequent changes in legislation, official pronouncements and court decisions.

Accounting standards issued but not effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2010, and have not been applied in preparing these consolidated financial statements. The following standards and updates ("IFRS") are assessed to not have a significant impact on the Corporation's financial statements.

(a) IAS 24 Related Party Disclosures:
Effective for accounting periods commencing on or after 1 January 2011;

(b) IFRS 9 Financial Instruments:
Effective for accounting periods commencing on or after 1 January 2013; and

(c) IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments:
Effective for accounting periods commencing on or after 1 July 2010.

Selected Quarterly Data

	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Gold sales (ozs)	2,870	4,378	3,523	1,892
Average gold price ($/oz)	$ 1,404	$ 1,277	$ 1,206	$ 1,122
Revenue ($000's)	$ 4,030	$ 5,590	$ 4,247	$ 2,124
Net profit (loss) ($000's)	$ (4,005)	$ (289)	$ 19	$ (767)
Basic earnings (loss) per share	$ (0.05)	$ (0.00)	$ 0.00	$ (0.01)
Diluted earnings (loss) per share	$ (0.05)	$ (0.00)	$ 0.00	$ (0.01)

	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Gold sales (ozs)	4,502	1,104	–	–
Average gold price ($/oz)	$ 1,118	$ 1,020	$ –	$ –
Revenue ($000's)	$ 5,034	$ 1,126	$ –	$ –
Net profit (loss)	$ (8,142)	$ 76,016	$ (431)	$ (692)
Basic earnings (loss) per share	$ (0.10)	$ 0.99	$ (0.01)	$ (0.01)
Diluted earnings (loss) per share	$ (0.10)	$ 0.93	$ (0.01)	$ (0.01)

The loss recorded in the fourth quarter of 2010 is due to lower gold sales revenue plus higher administrative costs.

The significant net income reported in the third quarter of 2009 was the result of the gain recorded on the re-gaining of control of the Kazakhstan Subsidiaries. The loss in the fourth quarter of 2009 was as a result of an adjustment made to the gain on re-acquisition recorded in the third quarter. This adjustment related primarily to an adjustment to the future tax rate offset by an increase in the fair value of work in progress.

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.

Selected annual information

The following financial data, which has been prepared in accordance with Canadian generally accepted accounting principles, is derived from the Corporation's audited financial statements for the years ended December 31, 2010 and 2009.

	2010	2009	2008
Sales	$ 15,991	$ 6,160	$ 14,852
Net profit (loss)	(5,042)	66,755	(35,062)
Net earnings (loss) per share:			
Basic	(0.06)	0.87	(0.46)
Diluted	(0.06)	0.81	(0.46)
Total assets	125,801	104,424	690

Objectives for 2011

Completion of the 2010 drilling program was pushed well into 2011. This combined with export delays of more than 11,800 drill samples due to new export law and procedures lead to significant delays in receiving drill assay results. The 2010 drilling program will be totally completed in the second quarter of 2011.

Due to the late completion of the assaying and interpretation of the drill samples, the updated Uzboy National Instrument ("NI") 43-101 compliant resource report and Preliminary Economic Assessment (i.e. Scoping Study) Reports have been delayed. Both reports will be completed as early as possible. The initial NI 43-101 compliant resource reports for both Dombraly and Shirotnaia are still anticipated to be completed by year-end 2011. Assay results will be released when received and interpreted and the resource reports will be issued when completed.

During 2011, Alhambra is planning to significantly accelerate the development of its advanced "resource definition" exploration projects of Uzboy, Shirotnaia and Dombraly. The Corporation also anticipates advancing numerous early stage exploration projects and assessing a number of other gold targets of anticipated high potential over its vast mineral license area.

Alhambra anticipates implementing an exploration and development program of up to $7,500, subject to sufficient cash flow and suitable financing. The main focus will continue to be on Uzboy, Dombraly and Shirotnaia with continuing resource development drilling and production development assessments, including metallurgical and gold recovery tests.

Alhambra will continue to position itself for continued growth and to create growing wealth for its shareholders through the ongoing exploitation of its vast exploration and development license. In addition, the Corporation will continue developing and upgrading its staff to meet its future challenges and objectives. Increased market liquidity for its common shares and access to capital markets will be focused on by continuing to pursue a dual listing on an Asian stock exchange.