Interim Unaudited Consolidated Financial Statements of

ALHAMBRA RESOURCES LTD.

Nine Months Ended September 30, 2012

Notice of No Auditor Review of Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed these unaudited interim financial statements as at and for the nine months ended September 30, 2012 and 2011.

ALHAMBRA RESOURCES LTD.

Interim Consolidated Statements of Financial Position
(Unaudited)
(Expressed in thousands of U.S. dollars)

As at	Note	September 30, 2012	December 31, 2011
Assets			
Current assets:			
Cash and cash equivalents	7	$ 282	$ 873
Trade and other receivables		2,052	725
Deposits and prepaid expenses		2,718	2,471
Inventories	8	11,211	14,934
Total current assets		16,263	19,003
Non-current assets:			
Property, plant and equipment	9	64,523	66,483
Intangible assets	10	9,798	8,648
Investment in equity accounted investee	11	512	501
Inventories	8	21,545	17,704
Total non-current assets		96,378	93,336
Total assets		$ 112,641	$ 112,339
Liabilities and Equity			
Current liabilities:			
Trade and other payables		$ 7,721	$ 7,520
Promissory note	12	508	
Total current liabilities		8,229	7,520
Non-current liabilities:			
Provisions	13	307	283
Deferred tax liabilities		32,225	32,390
Total non-current liabilities		32,532	32,673
Total liabilities		40,761	40,193
Equity:			
Share capital	15	42,132	42,132
Warrants	15	3,787	2,393
Contributed surplus	15	9,427	9,017
Foreign currency translation reserve		295	728
Retained earnings		16,239	17,876
Total equity		71,880	72,146
Total liabilities and equity		$ 112,641	$ 112,339

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

Interim Consolidated Statements of Income and Expense
(Unaudited)
(Expressed in thousands of U.S. dollars)

	Note	Three Months Ended September 30 2012	Three Months Ended September 30 2011	Nine Months Ended September 30 2012	Nine Months Ended September 30 2011
Revenue:					
Sales		$ 2,447	$ 7,012	$ 8,080	$ 12,555
Less net smelter royalty		73	211	242	377
		2,374	6,801	7,838	12,178
Cost of sales		1,206	3,158	4,064	6,533
Gross profit		1,168	3,643	3,774	5,645
Expenses:					
Administrative expenses	6	605	(265)	2,242	4,465
Depletion and depreciation	9,10	526	1,110	1,493	2,127
		37	2,798	39	(947)
Finance costs	5	78	(272)	1,730	182
Share of loss of equity accounted investee	11	2	1	6	10
Loss before income taxes		(43)	3,069	(1,697)	(1,139)
Income tax expense (recovery)		322	519	(60)	62
Net loss for the year attributable to the equity holders of the Corporation		$ (365)	$ 2,550	$ (1,637)	$ (1,201)
Loss per share:					
Basic	16	$ (0.01)	$ 0.02	$ (0.02)	$ (0.01)
Diluted	16	(0.01)	0.02	(0.02)	(0.01)

Interim Consolidated Statements of Comprehensive Loss
(Unaudited)
(Expressed in thousands of U.S. dollars)

	Three Months Ended September 30 2012	Three Months Ended September 30 2011	Nine Months Ended September 30 2012	Nine Months Ended September 30 2011
Net loss for the year	$ (365)	$ 2,550	$ (1,637)	$ (1,201)
Other comprehensive (loss) income:				
Foreign currency translation difference for foreign operations	(97)	(723)	(433)	(204)
Total comprehensive loss	$ (462)	$ 1,827	$ (2,070)	$ (1,405)

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

Interim Consolidated Statements of Changes in Equity
(Unaudited)
(Expressed in thousands of U.S. dollars)

	Share Capital	Warrants	Contributed surplus	Foreign currency translation reserve	Retained earnings	Total
Balance, December 31, 2010	$ 42,075	$ 2,247	$ 6,140	$ 1,041	$ 21,655	$ 73,158
Share options exercised	31	–	–	–	–	31
Transfer on exercise of options	26	–	(26)	–	–	–
Share based payments expense	–	–	2,903	–	–	2,903
Extension of expiry date of warrants	–	146	–	–	–	146
Loss for the year	–	–	–	–	(3,779)	(3,779)
Other comprehensive income	–	–	–	(313)	–	(313)
Balance, December 31, 2011	42,132	2,393	9,017	728	17,876	72,146
Share based payments expense	–	–	410	–	–	410
Extension of expiry date of warrants	–	1,394	–	–	–	1,394
Loss for the period	–	–	–	–	(1,637)	(1,637)
Other comprehensive income	–	–	–	(433)	–	(433)
Balance, September 30, 2012	$ 42,132	$ 3,787	$ 9,427	$ 295	$ 16,239	$ 71,880

For details on movement in shares please see Note 15.

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

Interim Consolidated Statements of Cash Flows
(Unaudited)
(Expressed in thousands of U.S. dollars)

For the nine months ended	September 30, 2012	September 30, 2011
Cash provided by (used in):		
Cash flows from operating activities:		
Loss for the year	$ (1,637)	$ (1,201)
Adjustments for:		
Depletion and depreciation	1,493	2,127
Finance costs	1,398	5
Share of loss of equity accounted investee	6	10
Equity-settled share-based payment transactions	410	2,577
Deferred income tax expense	150	(439)
	1,820	3,079
Change in non-cash working capital	(748)	(4,279)
Net cash flows from operating activities	1,072	(1,200)
Cash flows from financing activities:		
Issuance of common shares and warrants	–	31
Promissory note	508	–
Net cash flows from financing activities	508	31
Cash flows from investing activities:		
Additions of property, plant and equipment and intangible assets	(1,447)	(2,399)
Change in non-cash working capital	(737)	367
Net cash flows from investing activities	(2,184)	(2,032)
Effect of exchange rate changes on cash and cash equivalents	13	(16)
Change in cash and cash equivalents	(591)	(3,217)
Cash and cash equivalents, beginning of period	873	3,375
Cash and cash equivalents, end of period	$ 282	$ 158

See accompanying notes to consolidated financial statements.

1. Reporting entity and nature of operations:

Alhambra Resources Ltd. (the "Corporation"), including all of its subsidiaries (note 4) ("Alhambra" or the "Group") is engaged in exploration for and development of mineral properties in the Republic of Kazakhstan ("Kazakhstan"). In addition to its exploration and development activities, Alhambra also produces gold from a pilot project on a portion of its Kazakhstan license that commenced commercial production on May 1, 2006.

Alhambra is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of Alberta. The Corporation's common shares trade in Canada on the TSX Venture Exchange under the symbol ALH, in the United States on the Over-The-Counter Pink Sheets Market under the symbol AHBRF and in Germany on the Frankfurt Open Market under the symbol A4Y.

The Corporation's registered address, head office and records office are located at Suite 3, 4015 – 1st Street S.E. Calgary, Alberta, Canada T2G 4X7.

2. Going concern and Kazakhstan business risks:

These consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards. The going concern basis assumes that the Group will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

On December 26, 2008, the Corporation lost ownership of assets that generated cash flow as a result of the unfavorable decision reached in the Kazakhstan Lawsuit, (the "Lawsuit"). With the ruling by the Supreme Court of Kazakhstan, the Corporation re-acquired ownership of its Kazakhstan operating subsidiary, Saga Creek Gold Group LLP ("Saga Creek") and Goodwin Golems LLP, ("Goodwin") effective September 15, 2009. The re-acquisition of Saga Creek returned to the Corporation ownership of revenue producing assets, which has once again provided the Group access to cash flow to meet its obligations. This cash flow, however, is not sufficient to enable the Group to meet all its obligations and carry out significant exploration and development programs. Effective September 28, 2010, the Corporation completed an equity private placement, the net proceeds from which were used to fund the Group's exploration and development programs and general working capital purposes. During the nine months ended September 30, 2012, the Group incurred a net loss of $1,637, and the Group is not generating a sufficient amount of cash flow from operations to cover its commitments. As a result there is significant doubt about the ability of the Group to continue as a going concern.

Alhambra recognizes the need to obtain debt or equity financing to meet its obligations and fund its exploration and development programs. The Corporation is in discussion with potential investors, however, at this time no commitments have been made by potential investors. However, in order for the Corporation to raise funds through the issue of common shares, it must first get approval from the Ministry of Industry and New Technology ("MINT") of the government of

Kazakhstan to issue common shares (note 22). There is no guarantee that sufficient funds will be raised or, should commitments be obtained for an equity financing, there is no guarantee that MINT will approve the issue of common shares under the terms and conditions that are negotiated for such equity financing.

Operating in Kazakhstan gives rise to certain risks including economic, political and social. 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.

These interim unaudited consolidated financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Corporation. The future business environment may differ from management's assessment.

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, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. 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 generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However the interpretations of relevant authorities could differ from those of the Corporation and should their position prevail, the resulting negative effect on financial results could be significant.

3. Summary of significant accounting policies:

These interim consolidated financial statements have been prepared by management following the same accounting policies and methods that were used and disclosed in the audited consolidated financial statements for the year ended December 31, 2011. The interim consolidated financial statements include all adjustments necessary to present fairly the results for the interim period ended September 30, 2012. These interim consolidated financial statements should be read in conjunction with the Corporation's most recent audited consolidated financial statements and notes filed under the Corporation's profile at www.sedar.com.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

4. Particulars of subsidiaries:

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, 1450165 Alberta Limited, Alhambra Cooperatief U.A., Alhambra Overseas Limited, Goodwin and Saga Creek.

	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held directly or indirectly September 30, 2012
Saga Creek Gold Company LLP	Mining	Kazakhstan	100%
Goodwin Golems LLP	Holding Company	Kazakhstan	100%
Alhambra Overseas Ltd.	Holding Company	Cyprus	100%
Alhambra Cooperatief U.A.	Holding Company	Netherlands	100%
1450165 Alberta ltd.	Holding Company	Canada	100%

5. Finance costs:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Interest on overdue taxes	$ 6	$ 51	$ 6	$ 135
Interest on taxes still being disputed	27	–	89	–
Interest on taxes successfully appealed	–	(607)	(131)	(316)
Interest on promissory note	18	–	35	–
Extension of warrants	–	–	1,394	–
Unwinding of discount on provisions	2	(173)	4	5
Interest on trade payables	22	–	64	–
Foreign exchange loss	3	457	269	358
Net finance costs	$ 78	$ (272)	$ 1,730	$ 182

6. Administrative Expenses:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Employee costs	$ 449	$ 1,153	$ 1,548	$ 4,313
Professional fees	(52)	150	283	612
Corporate maintenance costs	59	(1,617)	22	(787)
Office costs	149	49	389	327
	$ 605	$ (265)	$ 2,242	$ 4,465

(Expressed in thousands of U.S. dollars, unless otherwise stated)

Administrative expenses include share-based payments expenses (a non-cash item) of $410 and $2,577 which have been included in employee costs for the nine months ended September 30, 2012 and 2011, respectively.

To December 31, 2010 included in corporate maintenance costs was a total of $166 in penalties potentially owing as a result of an assessment by the tax authorities of Kazakhstan for the disallowance of certain income tax deductions. The Group had appealed the assessment to the Kazakhstan courts and on May 11, 2012 a decision was rendered which reversed the majority of the assessment (note 21 (b)). In the nine months ended September 30, 2012, as a result of the decision, the Group reversed $157 of the total $166 that the Group had estimated would have been due if the court had agreed with the Kazakhstan tax authorities' assessment. The original provision for the potential penalties had been accrued in the Groups consolidated financial statements in the fourth quarter of 2010.

To December 31, 2010, included in corporate maintenance costs was a total of $1,477 in penalties potentially owing as a result of an assessment by the tax authorities of Kazakhstan for unpaid Historical Costs. In the six months ended June 30, 2011 an additional $364 in penalties were accrued bringing the total penalties accrued with respect to Historical Costs to $1,841. The Group had appealed the assessment and on September 27, 2011 the Kazakhstan courts reversed the lower court's decision finding in the Group's favor. The reversal of the total $1,841 in penalties accrued was accounted for in the third quarter of 2011 (note 21(b)).

7. Cash and cash equivalents:

As at	September 30, 2012	December 31, 2011
Bank balances	$ 282	$ 873
Total cash and cash equivalents	$ 282	$ 873

(Expressed in thousands of U.S. dollars, unless otherwise stated)

8. Inventories:

As at	September 30, 2012	December 31, 2011
Ore	$ 17,287	$ 18,510
Gold in circuit	10,499	9,892
Concentrate	3,964	2,508
Total work in progress	31,750	30,910
Gold available for sale	–	654
Raw material and supplies	1,006	1,074
Total inventories	32,756	32,638
Less:		
Non-current inventories	21,545	17,704
Total current inventories	$ 11,211	$ 14,934

Virtually 100% of cost of goods sold reported for the nine months ended September 30, 2012 and 2011 is the result of the amortization of work in progress inventories based on the quantity of gold sold as a percentage of total quantity of recoverable gold in work in progress.

Gold available for sale at December 31, 2011 represents the cost of production of 615 ounces of gold that was in transit to the third party refinery for final processing and sale.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

9. Property, plant and equipment:

	Machinery and equipment	Mining assets being depleted	Buildings and construction	Total
Cost:				
Balance as at December 31, 2010	$ 2,981	$ 75,544	$ 4,441	$ 82,966
Additions	79	1,431	66	1,576
Effect of foreign exchange	(20)	(435)	(25)	(480)
Balance as at December 31, 2011	3,040	76,540	4,482	84,062
Additions	24	30	16	70
Effect of foreign exchange	(14)	(753)	(44)	(811)
Balance as at September 30, 2012	$ 3,050	$ 75,817	$ 4,454	$ 83,321
Accumulated depletion and depreciation:				
Balance as at December 31, 2010	$ 1,104	$ 9,344	$ 495	$ 10,943
Depletion and depreciation for the year	708	5,599	391	6,698
Effect of foreign exchange	(9)	(51)	(2)	(62)
Balance as at December 31, 2011	1,803	14,892	884	17,579
Depletion and depreciation for the year	471	635	293	1,399
Effect of foreign exchange	(17)	(152)	(11)	(180)
Balance as at September 30, 2012	$ 2,257	$ 15,375	$ 1,166	$ 18,798
Carrying amounts:				
As at December 31, 2010	$ 1,877	$ 66,200	$ 3,946	$ 72,023
As at December 31, 2011	1,237	61,648	3,598	66,483
As at September 30, 2012	793	60,442	3,288	64,523

(Expressed in thousands of U.S. dollars, unless otherwise stated)

10. Intangible assets:

	Exploration and evaluation expenditures	Computer software	Total
Cost:			
Balance as at December 31, 2010	$ 20,143	$ 48	$ 20,191
Additions	2,370	33	2,403
Elimination of historical cost provision as a result of court decision (note 21)	(13,780)	–	(13,780)
Effect of foreign exchange	(153)	–	(153)
Balance as at December 31, 2011	8,580	81	8,661
Additions	1,377	–	1,377
Effect of foreign exchange	(221)	–	(221)
Balance as at September 30, 2012	$ 9,736	$ 81	$ 9,817
Accumulated depletion and depreciation:			
Balance as at December 31, 2010	$ –	$ 6	$ 6
Depreciation for the year	–	7	7
Balance as at December 31, 2011	–	13	13
Depreciation for the year	–	6	6
Balance as at September 30, 2012	$ –	$ 19	$ 19
Carrying amounts:			
As at December 31, 2010	$ 20,143	$ 42	$ 20,185
As at December 31, 2011	8,580	68	8,648
As at September 30, 2012	9,736	62	9,798

The carrying amounts of exploration and evaluation assets represent non-producing exploration projects and undeveloped land in Kazakhstan. An impairment test was not triggered during the periods presented.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

11. Investment in equity accounted investee:

Summary financial information for the equity accounted investee held by the Corporation is presented as follows:

As at	September 30, 2012	December 31, 2011
DOT Resources Ltd.		
Ownership	27%	27%
Current assets	$ -	$ 7
Non-current assets	3,584	3,462
Total assets	3,584	3,469
Current liabilities	863	815
Total liabilities	863	815

For the nine months ended September 30,	2012	2011
Revenues	$ –	$ –
Expenses	23	71
Loss	$ (23)	$ (71)

The continuity of investment in the equity accounted investee held by the Corporation is presented as follows:

Balance as at December 31, 2010	$ 534
Share of loss	(21)
Effect of foreign exchange	(12)
Balance as at December 31, 2011	501
Share of loss	(6)
Effect of foreign exchange	17
Balance as at September 30, 2012	$ 512

Pursuant to a Plan of Arrangement (the "Arrangement") effective August 29, 2007, the Corporation transferred its 100% interest in its mineral claims located in the Province of British Columbia to DOT Resources Ltd. ("DOT"), together with related assets and obligations pertaining thereto, in exchange for 30,000,000 common shares of DOT. 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 the Corporation being distributed to Corporation shareholders on a pro rata basis.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

As a result of the Arrangement, Alhambra holds 15,000,001 common shares of DOT which represents approximately 27% of the outstanding common shares of DOT. At September 30, 2012, the market trading value of the 15,000,001 DOT shares owned by Alhambra was CDN$600.

12. Promissory note:

On April 1, 2012 the Corporation issued to an unrelated third party, a one year, 14% unsecured promissory note (the "Note") for a total proceeds of CDN$500. The principle and accrued interest on the Note are due and payable on or before March 31, 2013.

13. Provisions:

Changes to the provisions are as follows:

	Historical Costs	Site restoration	Total
Balance, December 31, 2010	$ 13,828	$ 265	$ 14,093
Liabilities incurred	–	2	2
Unwinding of the discount	–	18	18
Revision	(13,828)	(2)	(13,830)
Balance, December 31, 2011	–	283	283
Liabilities incurred	–	11	11
Unwinding of the discount	–	16	16
Revision	–	(3)	(3)
Balance, September 30, 2012	$ –	$ 307	$ 307
Current	$ –	$ –	$ –
Non-current	–	301	301

The ultimate amount of the site reclamation provision is uncertain; however, the fair value of this obligation is based on information currently available, including closure plans and applicable regulations. Significant closure activities include land rehabilitation, demolition of buildings and mine facilities and other costs.

The liability for the site reclamation provision at September 30, 2012 is approximately $301 (December 31, 2011 - $283). The liability was determined using an inflation rate of 5% (December 31, 2011 - 5%) and an estimated life of mine of 10 years for Uzboy (December 31, 2011 - 10 years). A discount rate of 7.5% was used (December 31, 2011 – 7.5%). The undiscounted value of this liability is approximately $352 (December 31, 2011 - $352).

The Corporation 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 ("Historical Costs"). Effective January 1, 2009 the Government of Kazakhstan enacted legislation that required those companies that had acquired Historical Data to begin paying to the Government of Kazakhstan the Historical Costs beginning on January 1, 2009 in equal quarterly installments over ten (10) years. It was the opinion of the Corporation that it should not be subject to this liability for Historical Costs as the obligation was not included as part of the foreign investment contract 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 plus interest and penalties for nonpayment of that portion of the Historical Cost liability related to the 2009 year. As a result the Corporation recorded the obligation plus interest and penalties for nonpayment up to September 30, 2011. The accrual also included amounts related to the 2010 year and 2011 up to September 30, 2011 that would have been payable should the Corporation ultimately be unsuccessful in its appeal of the 2009 assessment. On September 27, 2011, the Cassation Chamber of the Akmola Oblast Court in Kazakhstan ("Cassation Chamber") overturned the decision of previous courts that had upheld assessment. As a result, the Corporation reversed the provision recorded on the balance sheet of $13,828 with the offset to intangible assets and interest and penalties accrued against earnings totaling $2,467. The tax department appealed the ruling of the Cassation Chamber to the Supreme Court of Kazakhstan. By resolution dated September 27, 2012 the Supreme Court rendered its decision and upheld the Cassation Chamber's earlier decision in favor of Saga Creek. (note 21).

14. Commitments:

Under its foreign investment contract which details the Group's rights and obligations associated with its licenses, the Group 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 Group has exceeded the minimum amount required under the contract.

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

(Expressed in thousands of U.S. dollars, unless otherwise stated)

15. Share capital:

(a) Authorized:

Unlimited voting common shares, with no par value for all years presented.

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

(b) Issued:

	Nine months ended September 30, 2012			Year ended December 31, 2011		
	Number		Amount	Number		Amount
Common shares						
Balance, beginning of period	104,132,059	$	42,132	103,994,309	$	42,075
Share option exercised	–		–	137,750		31
Transfer on exercise of option	–		–	–		26
Balance, end of period	104,132,059	$	42,132	104,132,059	$	42,132

(c) Share options (equity settled):

The Corporation has a share option plan under which directors, officers, employees and consultants of the Corporation are eligible to receive share options. The aggregate number of common shares to be issued upon the exercise of all options granted under the plan shall not exceed 10% of the issued common shares of the Corporation at the time of granting of the options. Options granted under the plan generally have a term of five years which is also the maximum term available and vest at terms to be determined by the directors at the time of grant. The exercise price of each option shall be determined by the directors at the time of grant but shall not be less than the price permitted by the policies of the stock exchanges on which the Corporation's common shares are then listed. The Corporation is required and has applied to obtain a waiver from the government of Kazakhstan from its pre-emptive right in connection with the options granted (note 22).

Share-based compensation has been recorded as part of employee costs within administrative expenses (note 6).

(Expressed in thousands of U.S. dollars, unless otherwise stated)

A summary of the status of the Corporation's share option plan as at September 30, 2012 and December 31, 2011 and changes during the periods then ended are as follows:

	Nine months ended September 30, 2012		Year ended December 31, 2011	
	Number of options	Weighted average exercise price CDN$	Number of options	Weighted average exercise price CDN$
Outstanding, beginning of period	8,518,500	$ 0.62	7,731,250	$ 0.59
Granted	600,000	0.22	3,050,000	1.05
Exercised	–	–	(137,750)	0.22
Expired unexercised	–	–	(2,125,000)	1.15
Outstanding, end of period	9,118,500	$ 0.59	8,518,500	$ 0.62

(i) The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model. The fair value and weighted average assumptions are as follows:

(Weighted average)	2012	2011
Exercise price (CDN$/option)	0.22	1.05
Grant date share price (CDN$/option)	0.21	1.05
Risk-free interest rate (%)	1.36	2.53
Expected life (years)	5.00	5.00
Expected volatility (%)	150	150
Dividend rate (%)	–	–
Grant date fair value ($/option)	0.19	0.96

The Corporation has estimated volatility using its own historical volatility along with a comparison to peer companies.

(ii) Share options exercised during the year ended December 31, 2011

Number of options	Date of issue	Exercised	Exercise price	Closing share price at exercise date
26,500	September 1, 2009	February 24, 2011	CDN $0.22	CDN $0.86
30,000	September 1, 2009	February 28, 2011	CDN $0.22	CDN $0.93
31,250	September 1, 2009	March 14, 2011	CDN $0.22	CDN $0.99
50,000	September 1, 2009	April 11, 2011	CDN $0.22	CDN $0.88

(Expressed in thousands of U.S. dollars, unless otherwise stated)

(iii) Share options outstanding at the end of the period:

The following table summarizes information concerning outstanding and exercisable options at September 30, 2012:

Exercise Price ($/option)	Options outstanding	Options exercisable	Remaining Contractual life (years)	Grant date fair value ($/per option)
$ 0.22	3,418,500	2,968,500	2.45	$ 0.18
$ 0.315	350,000	350,000	2.13	0.27
$ 0.53	2,200,000	1,900,000	1.81	0.44
$ 0.65	100,000	100,000	1.10	0.53
$ 1.05	3,050,000	2,287,500	3.32	0.92
	9,118,500	7,606,000	2.56	$ 0.53

The following table summarizes information concerning outstanding and exercisable options at December 31, 2011:

Exercise Price ($/option)	Options outstanding	Options exercisable	Remaining Contractual life (years)	Grant date fair value ($/per option)
$ 0.22	2,818,500	2,818,500	2.67	$ 0.18
$ 0.315	350,000	350,000	2.88	0.27
$ 0.53	2,200,000	1,600,000	2.56	0.44
$ 0.65	100,000	75,000	1.85	0.53
$ 1.05	3,050,000	1,525,000	4.07	0.92
	8,518,500	6,368,500	3.14	$ 0.53

Subsequent to September 30, 2012 the Corporation issued stock options to a director to purchase 300,000 common shares at an exercise price of CDN$0.34 per share. The options have a term of five years and are exercisable as to 25% immediately and as to 25% each six months thereafter. The granting of the options are subject to regulatory approval.

A reconciliation of contributed surplus is provided below:

	Nine months ended September 30, 2012	Year ended December 31, 2011
Balance, beginning of period	$ 9,017	$ 6,140
Share-based compensation expense	410	2,903
Transferred on exercise of options	–	(26)
Balance, end of period	$ 9,427	$ 9,017

(Expressed in thousands of U.S. dollars, unless otherwise stated)

(d) Warrants:

The changes in warrants during the nine months ended September 30, 2012 and the year ended December 31, 2011 were as follows:

	Number of Warrants	Amount	Weighted average exercise price
Balance, December 31, 2010	11,802,775	$ 2,247	$ 0.66
Re-valuation due to extension of expiry date	–	146	–
Balance, December 31, 2011	11,802,775	2,393	0.66
Re-valuation due to extension of expiry date	–	1,394	–
Balance, September 30, 2012	11,802,775	$ 3,787	$ 0.66

Pursuant to a private placement competed in 2010, the Corporation issued 18,604,650 units at a purchase price of $0.43 per unit for total gross proceeds of $8,000. Each unit was comprised of one (1) common share and one-half (1/2) of a common share purchase warrant resulting in the issue of 18,604,650 common shares and 9,302,325 Warrants. Each whole warrant entitled 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. The Corporation sought and obtained approval from the TSX Venture Exchange ("TSXV") to extend the expiry date of the warrants to February 19, 2013 for 5,388,690 warrants and March 28, 2013 for 3,913,635 warrants. The exercise of these warrants is subject to an approval from MINT. The Corporation received MINT's approval on September 11, 2012 (the "Approval"). The Corporation calculated the fair value of the extension of these warrants to be $1,041.

During 2011 the Corporation had outstanding 2,500,450 warrants which were exercisable into common shares of the Corporation at a price of CDN$0.45 per common share and were originally set to expire on August 11, 2011 however the Corporation sought and obtained approval from the TSXV to extend the expiry date first to December 9, 2011 and then to February 8, 2012. The Corporation calculated the fair value of the two extensions obtained in 2011 to be $146. During the nine months ended September 30, 2012, the Corporation sought and obtained approval from the TSXV to further extend the expiry date of these warrants to the earlier of February 11, 2013 and a date which is sixty (60) days after receipt of the Approval. As the Corporation received the Approval on September 11, 2012, therefore in accordance with extension granted by the TSXV, these warrants expire on November 10, 2012. These warrants expired unexercised. The Corporation calculated the fair value of the extension received in the 2012 to be $353.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

The fair value of the extension of the expiry date of these warrants was estimated on the dates that the warrants were extended using the Black-Scholes option pricing model. The weighted average fair value of the extension of the expiry date of the warrants was calculated to be $1,394 for the warrants extended in 2012 and $146 for the warrants extended in 2011 using the following weighted-average assumptions:

	2012	2011
Fair value of warrants granted (CDN$/share)	0.11	0.06
Expected life (years)	1.0	0.5
Risk free interest rate (%)	1.00	1.00
Expected volatility (%)	94	47
Expected dividend yield (%)	–	–

16. Earnings (loss) per share:

The average market value of the Corporation's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Weighted average number of common shares (basic)	104,132,059	104,132,059	104,132,059	104,094,115
Effect of conversion of convertible debentures	–	–	–	–
Effect of warrants outstanding	–	243,553	–	–
Effect of share options outstanding	–	1,703,675	–	–
Weighted average number of Common shares (diluted)	104,132,059	106,079,287	104,132,059	104,094,115

The following potential ordinary shares, outstanding as at September 30, 2012 and 2011 are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

As at September 30,	2012	2011
Options	9,118,500	8,518,500
Warrants	11,802,775	11,802,775
	20,921,275	20,321,275

(Expressed in thousands of U.S. dollars, unless otherwise stated)

17. 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 nine months ended September 30, 2012 and 2011 were as follows:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Short-term employee benefits	$ 197	$ 192	$ 585	$ 579
Share-based payments	63	328	293	1,884
Director fees	–	–	–	–
	$ 260	$ 520	$ 878	$ 2,463

In addition to their salaries, executive officers also participate in the Group's share option program (note 15(c)).

(b) Other transaction:

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$20 plus all reasonable out of pocket expenses and is for an indefinite term but may be terminated by either party upon providing 30 days prior written notice. Effective January 1, 2011, the Corporation stopped charging DOT the monthly remuneration therefore during the nine months ended September 30, 2012 and 2011, the Corporation billed DOT CDN$nil under the Contract. The amount uncollected as of September 30, 2012 was CDN$367 (2010 - CDN$359). In addition, as of September 30, 2012 the Corporation has advanced DOT CDN$404 to enable DOT to meet working capital requirements while DOT is investigating options regarding financing. Currently the Corporation is not charging DOT any interest. The Corporation determined that there was a high probability that the amount owing from DOT was non-collectable and as such expensed $767 owing from DOT at December 31, 2011 as part of corporate maintenance costs within administrative expenses.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

18. Operating Segments:

The Group's operations are primarily directed towards the acquisition, exploration and production of gold in Kazakhstan and therefore presentation geographically is the most appropriate. For the nine months ended September 30, 2012 and 2011 substantially all of the Group's gold production was sold to one customer.

	Kazakhstan	Canada	Total
As at September 30, 2012:			
Segment assets	$ 109,330	$ 3,311	$ 112,641
Segment liabilities	37,539	3,222	40,761
For the nine months ended September 30, 2012:			
Sales	$ 8,080	$ –	$ 8,080
Net smelter royalty	(242)	–	(242)
Cost of sales	(4,064)	–	(4,064)
Administrative expenses	(749)	(1,493)	(2,242)
Depletion and depreciation	(1,488)	(5)	(1,493)
Net finance costs	(270)	(1,460)	(1,730)
Share of loss of equity accounted investee	–	(6)	(6)
Income (loss) before income taxes	1,267	(2,964)	(1,697)
Income tax recovery (expense)	60	–	60
Segment income (loss)	$ 1,327	$ (2,964)	$ (1,637)
Capital expenditures	$ 1,446	$ 1	$ 1,447

	Kazakhstan	Canada	Total
As at September 30, 2011:			
Segment assets	$ 108,290	$ 4,359	$ 112,469
Segment liabilities	36,325	1,963	38,288
For the nine months ended September 30, 2011:			
Sales	$ 12,555	$ –	$ 12,555
Net smelter royalty	(377)	–	(377)
Cost of sales	(6,533)	–	(6,533)
Administrative expenses	(290)	(4,175)	(4,465)
Depletion and depreciation	(2,122)	(5)	(2,127)
Net finance costs	(105)	(77)	(182)
Share of loss of equity accounted investee	–	(10)	(10)
Loss before income taxes	3,128	(4,267)	(1,139)
Income tax recovery (expense)	(62)	–	(62)
Segment income (loss)	$ 3,066	$ (4,267)	$ (1,201)
Capital expenditures	$ 2,396	$ 3	$ 2,399

(Expressed in thousands of U.S. dollars, unless otherwise stated)

	Kazakhstan	Canada	Total
As at September 30, 2012:			
Segment assets	$ 109,330	$ 3,311	$ 112,641
Segment liabilities	37,539	3,222	40,761
For the three months ended September 30, 2012:			
Sales	$ 2,447	$ –	$ 2,447
Net smelter royalty	(73)	–	(73)
Cost of sales	(1,206)	–	(1,206)
Administrative expenses	(166)	(439)	(605)
Depletion and depreciation	(524)	(2)	(526)
Net finance costs	(102)	24	(78)
Share of loss of equity accounted investee	–	(2)	(2)
Income (loss) before income taxes	376	(419)	(43)
Income tax recovery (expense)	(322)	–	(322)
Segment income (loss)	$ 54	$ (419)	$ (365)
Capital expenditures	$ 407	$ –	$ 407

	Kazakhstan	Canada	Total
As at September 30, 2011:			
Segment assets	$ 108,290	$ 4,359	$ 112,649
Segment liabilities	36,325	1,963	38,288
For the three months ended September 30, 2011:			
Sales	$ 7,012	$ –	$ 7,012
Net smelter royalty	(211)	–	(211)
Cost of sales	(3,158)	–	(3,158)
Administrative expenses	1,149	(884)	265
Depletion and depreciation	(1,109)	(1)	(1,110)
Net finance costs	286	(14)	272
Share of loss of equity accounted investee	–	(1)	(1)
Loss before income taxes	3,969	(900)	3,069
Income tax expense	(519)	–	(519)
Segment income (loss)	$ 3,450	$ (900)	$ 2,550
Capital expenditures	$ 763	$ –	$ 763

19. Management of capital:

The Group defines capital that it manages as its equity. The Group's objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to maintain investor confidence and to not expose the Group to excess risk. The Group manages its capital structure and makes adjustments to it based on the level of funds available to support the exploration and development of its mineral properties. While the re-acquisition of Saga Creek effective September 15, 2009 has resulted in the Group once again owning assets that generate cash flow, it is still necessary for the Group to raise funds to carry out its capital expenditure programs and carry on as a going concern. The Group is currently attempting to raise additional funds, however, there is no assurance it will be able to do so. The Group is not subject to externally imposed capital requirements except to the extent that any issue of common shares must first be approved by MINT (note 22).

20. Financial instruments:

Overview:

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

(a) Credit risk

(b) Liquidity risk

(c) Market risk

This note presents information about the Group's exposure to each of the above risks as well as the Group's objectives, policies and processes for measuring and managing risk.

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

(a) Credit risk:

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its obligation and arises principally from Saga Creek's receivable from the Government of Kazakhstan owing as a result of refundable Value Added Tax ("VAT") paid on goods and services purchased by Saga Creek and from Saga Creek's receivable from the purchaser of its gold. To date, Saga Creek has been able to collect all VAT due and owing but with the economic crisis that has affected Kazakhstan like most countries, there is no assurance that the refunds will be made on a timely basis in the future. As at September 30, 2012 approximately 52% (December 31, 2011 - 86%) of the recorded value of accounts receivable relates to VAT.

Saga Creek sells its gold to a single customer who also completes the final refining process necessary to make the gold readily saleable. Typically it takes approximately two weeks from the time the customer takes control of the gold for the refining to be completed and Saga Creek to received payment. At September 30, 2012 approximately 42% (December 31, 2011 - nil%) of the recorded value of accounts receivable relates to the sale of gold to one customer.

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

The carrying amount of cash and cash equivalents and trade and other receivables represents the maximum credit exposure. As at September 30, 2012 the Group has provided $747 for the non-collectability of an account receivable from DOT (note 17(b)). The Group has no other allowances for doubtful accounts as at September 30, 2012.

(b) Liquidity risk:

Liquidity risk is the risk that the Group will not be able to meet its obligations as they come due. With the re-registration of the shares of the Kazakhstan Subsidiaries, Alhambra now has ownership of revenue producing assets. However, in defending the lawsuit, the Group incurred substantial liabilities and the cash generated from its properties will not be enough to meet all its obligations in addition to resuming an aggressive exploration and development program. Therefore, additional financing must still be obtained in order to continue as a going concern. The Group is currently attempting to raise additional funds; however, there is no assurance that it will be able to do so.

(c) Market risk:

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

(i) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Group's revenue is denominated in US$ or Euros, its operating costs are primarily denominated in Kazakhstan Tenge, while its administrative costs are denominated in either Canadian dollars or Kazakhstan Tenge. To date, the Group has not attempted to mitigate these foreign currency risks, except for, when possible, maintaining adequate funds in the currencies required for timely payment of liabilities and to maintain efficient business operations.

(Expressed in thousands of U.S. dollars, unless otherwise stated)

CDN monetary assets and liabilities As at		September 30, 2012		December 31, 2011
Cash and cash equivalents	$	172	$	702
Trade and other receivables		97		90
Deposits and prepaid expenses		2,458		2,170
Trade and other payables		(2,659)		(2,539)
Total net monetary assets in foreign currency	$	68	$	423

For the nine months ended September 30, 2012, based on the net foreign exchange exposure at the end of the period, if the CDN$ had strengthened or weakened by 10% compared to the US$ and all other variables were held constant, the after tax net loss would have decreased or increased by approximately $7 in 2012 (Year ended December 31, 2011 – decreased or increased by approximately $42).

Kazakhstan Tenge (“T”) monetary assets and liabilities As at		September 30, 2012		December 31, 2011
Cash and cash equivalents	T	16,112	T	27,182
Trade and other receivables		292,599		94,420
Deposits and prepaid expenses		32,747		50,151
Trade and other payables		(773,847)		(767,698)
Total net monetary (liabilities) in foreign currency	T	(432,389)	T	(595,945)

For the nine months ended September 30, 2012, based on the net foreign exchange exposure at the end of the period, if the Kazakhstan Tenge had strengthened or weakened by 10% compared to the US$ and all other variables were held constant, the after tax net loss would have increased or decreased by approximately $234 (Year ended December 31 2011 – increased or decreased by approximately $321).

(ii) Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. The price of gold is impacted by economic events that dictate the levels of supply and demand for the commodity. To date the Group has not attempted to mitigate this commodity price risk.

(iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Group’s debt is all at fixed interest rates; therefore, there is no exposure to variations in interest rates except on cash balances which for the nine months ended September 30, 2012 and 2011 would have been insignificant.

(d) Fair value of financial assets and liabilities:

Financial instruments disclosure requires an explanation about how fair value is determined for assets and liabilities measured in the financial statements at fair value and establish a hierarchy for which these assets and liabilities must be grouped, based on significant levels of input as follows:

Level 1: observable inputs such as quoted prices in active markets;

Level 2: inputs, other than the quoted market prices in active markets, which are observable, either directly and/or indirectly; and

Level 3: unobservable inputs for the asset or liability in which little or no market data exists therefore require an entity to develop its own assumptions.

21. Legal challenge of tax assessment:

In 2010 Saga Creek was assessed amounts that tax authorities in Kazakhstan believed were owed by Saga Creek for Historical Costs, Mineral Extraction Tax ("MET") as well as for their disallowance of certain corporate income tax deductions for the 2006 to 2009 taxation years ("CIT"). The original amount of the assessments, including penalties and interest, was approximately $4.3 million. The Group believed that the assessments were not consistent with Kazakhstan legislation as well as the provisions of Saga Creek's foreign investment contract which governs Saga Creek's licenses. As a result, Saga Creek filed a claim in the District Economical Court ("Economical Court") seeking to have the assessment of the tax authorities, together with the applicable interest and penalties reversed. On May 13, 2011 the judge in charge of the case largely, but not wholly, rejected Saga Creek's claim, upholding the assessments. On June 2, 2011, Saga Creek appealed this decision to the Appellate Chamber of Akmola Oblast Court ("Appellate Chamber"). On August 5, 2011 the Appellate Chamber upheld the Economical Court's decision, again rejecting all Saga Creek's arguments. Saga Creek filed a further appeal to the Cassation Chamber on August 22, 2011 which is the final court of appeal prior to the Supreme Court. On September 27, 2011 the Cassation Chamber ruled on Saga Creek's appeal. Both Saga Creek and the tax authorities have one year to appeal all or part of the decision. The summary of decision of the Cassation Chamber including any recent updates is as follows:

(a) The 2009 assessment for Historical Costs amounting to approximately $1.6 million was cancelled. While the assessment was only for the 2009 year, the legislation as enacted had provided that the total obligation for Historical Costs of $15.8 million be paid in equal quarterly installments over ten (10) years beginning January 1, 2009. As a result the Group reversed the full provision of $13.8 million and an accrual of approximately $2.5 million in interest and penalties to September 30, 2011, all of which were reversed in the third quarter of 2011.

The Kazakhstan tax authorities appealed the decision of the Cassation Chamber to the Supreme Court with respect to the Historical Costs. By resolution dated September 27, 2012 the Supreme Court rendered its decision and upheld the Cassation Chamber's earlier decision in favor of Saga Creek.

(b) The assessment for CIT amounting to approximately $0.4 million was cancelled and sent back to the Specialized Inter-district Economic Court of the Akmola Oblast ("Akmola Court") for review and re-consideration by a new panel of judges. On May 10, 2012 the Akmola Court rendered its decision and reversed a substantial portion of the assessment. As at December 31, 2011 the Group had accrued a total of $0.6 million related to the CIT assessment including interest and penalties. The decision by the court reduced that amount to approximately $0.04 million. As a result the Group has recorded a recovery of approximately $0.6 million of which $0.3 million has been recorded as a recovery of current income taxes, $0.1 million has been recorded as a reduction in finance costs and $0.2 million as a reduction in administrative expenses.

The tax authorities appealed the May 10, 2012 decision of the Akmola Court to the Supreme Court of Kazakhstan. The Supreme Court reviewed the appeal and on July 26, 2012 ruled to not consider the appeal.

As a result of the May 10, 2012 decision of the courts related to the CIT assessment, the lien previously registered against the certain assets of Saga Creek has been removed.

(c) The assessment for the 2009 MET in the amount of approximately $1.0 million was upheld. A total of approximately $1.6 million related to the MET, interest and penalties has been paid by Saga Creek of which approximately $0.7 million related to interest and penalties. The Group has decided to appeal the decision of the Cassation Chamber to the Supreme Court. The appeal was filed on May 14, 2012. The Supreme Court has refused to hear the case, indicating that they believe the decisions of the lower courts were valid. Saga Creek has appealed to the Prosecutor General's office to convince the Prosecutor General to lobby the Supreme Court to actually hear the case. Saga Creek has not yet received a response from the Prosecutor General's office.

22. Government of Kazakhstan pre-emptive right:

The Subsoil and Subsoil Use Act (the "Act") in Kazakhstan grants the Government of Kazakhstan the first right of refusal to purchase any direct or indirect interest in any subsoil license or legal entity holding that license or the legal entity controlling the holder of the subsoil use license at market prices should the license or shares or instruments convertible or giving rights to shares (joint, the "Subsoil Use Assets") come up for sale. As a result, before a company can accept an offer to sell its Subsoil Use Assets, it must first get approval from the relevant Kazakhstan authority (MINT). The Act extends this obligation to require a company whose main business is connected with subsoil use in Kazakhstan to get approval should it desire to issue any common shares or issue any derivative instruments that are convertible into common shares. On April 21, 2011, the Corporation completed and filed an application with MINT to have pre-approved, any shares that may be issued upon conversion of outstanding warrants and options as well as requested that MINT pre-approve a private placement that the Corporation would contemplate doing in the near future to finance its exploration and development activities. This application was amended on August 16 and October 25, 2011 which included responses to certain questions received from MINT. On September 11, 2012 the Corporation received MINT's approval. This approval is effective for six months. Under Kazakhstan legislation the Corporation can apply to have the effective date extended for a further six months.

Alhambra's original application included a floor price for the issuance of common shares of $0.60 per share. Unfortunately, during the time period that MINT was considering the Corporation's application, the trading price of Alhambra's common shares dropped below that floor. The Corporation has applied to MINT to have that floor price reduced. The Corporation is waiting for MINT's response on this request.

23. Commercial discovery bonus:

On February 22, 2012 Saga Creek was given notice by Kazakhstan tax authorities that it was required to pay a Commercial Discovery Bonus (the "Bonus") based on the approved commercial reserves for Uzboy. According to the notification, Saga Creek is required by law to pay an amount equal to 0.1% of the commercial value of the 14,455.8 kg of gold and 48,100 kg of silver of reserves as approved under Kazakhstan legislation for Uzboy. In addition, Saga Creek will be required to pay a 50% penalty plus interest at the prescribed rate which is approximately 17.5%. Payment of the Bonus was due on May 24, 2011. Saga Creek has filed a notice of objection with the tax authorities on the basis that Clause 6.2 (b) of its Subsoil use contract explicitly defines that Saga Creek *"pays a commercial discovery bonus at a zero rate"* which in effect means that Saga Creek is not obliged to pay this bonus at all.

The tax authorities have rejected Saga Creek's notice of objection. Saga Creek intends to appeal that decision to the Kazakhstan courts. The Group anticipates that the lower courts in Kazakhstan will uphold the tax authorities' assessment which will necessitate Saga Creek filing its appeal to the Supreme Court of Kazakhstan. As the Group is uncertain at this time how the Kazakhstan courts will ultimately decide on Saga's obligation regarding the Bonus, the Group has recorded the Bonus and related interest and penalties up to September 30, 2012. The Group has estimated the amount of the Bonus to be $0.7 million and has charged this amount to intangible assets. In the nine months ended September 30, 2012 the Group accrued $0.08 million in interest related to the unpaid Bonus bringing the total interest and penalties accrued to September 30, 2012 to approximately $0.5 million.