Alhambra Resources Ltd.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the Nine Months Ended September 30, 2013 (US Dollars)

This management's discussion and analysis ("MD&A") focuses on key items from the unaudited consolidated financial statements of Alhambra Resources Ltd. (also referred to as "Alhambra" or the "Corporation") for the nine months ended September 30, 2013 and the factors reasonably expected to impact future operations and results as prepared on November 27, 2013. 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 unaudited consolidated financial statements of the Corporation for the nine months ended September 30, 2013 and the related notes. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts 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 November 27, 2013. 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 successfully complete financings on terms and conditions as described, and to continue as a going concern, statements concerning the amount of proceeds to be realized on financings, the strategy of advancing the Uzboy Gold Deposit ("Uzboy") 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 Corporations ability to complete financings on terms and conditions as described, the amount of proceeds to be realized on financings, 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.

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 assets, provisions, and assumptions used in calculating share-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

Alhambra is a Canadian based exploration and gold production corporation. Operating through its wholly owned subsidiary, Saga Creek Gold Corp LLP ("Saga Creek"), the Corporation holds the rights to two licenses that have an initial term of 25 years granted by the Republic of Kazakhstan ("Kazakhstan") in 1997. These Licenses are the subject of an exploration and exploitation contract between Saga Creek and the Republic of Kazakhstan. The initial term of these Licenses expires in the year 2022. Pursuant to the Subsoil Use laws of the Republic of Kazakhstan, the terms of these Licenses can be extended for up to an additional 20 years.

The main asset of the Corporation is its 100% working interest in the 2.4 million acres in a prolific gold belt located in north central Kazakhstan which hosts numerous world-class gold deposits. The Corporation commenced commercial operations at its 100% owned Uzboy heap leach mine effective May 1, 2006.

Current mining operations are being conducted on the oxide portions of the East zone of Uzboy that extends to a depth of approximately 50 metres below surface. The oxide layer is underlain by sulphide gold mineralization.

Since 2005, Alhambra has been exploring a number of the more than 100 exploration targets located on its license that have been identified to date.

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 September 30, 2013, the market trading value of the 15,000,001 DOT shares owned by Alhambra was CDN$900.

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 Kazakhstan by the Vendors seeking to invalidate Alhambra's ownership of its Kazakhstan Subsidiaries. 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 Vendors. 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 Vendors 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 Vendors' 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.

Selected Operating and Financial Information

The Corporation's financial hardships which were preventing it from mining fresh ore and satisfying some of its outstanding obligations continued into 2013. Due to these financial constraints, the Corporation and its principal mining contractors agreed to suspend mining of new material in June of 2012 to conserve cash until the Corporation could raise sufficient funds to pay outstanding obligations. The Corporation continues to pursue financing alternatives and subsequent to September 30, 2013 entered into a financing agreement that is expected to close prior to the end of 2013. (See note 26 (*'Subsequent event'*) to the September 30, 2013 interim financial statements and the Subsequent event section of this MD&A).

	2013	2012
Operating (for the nine months ended September 30):		
Mining:		
Waste mined (Tonnes ("T"))	–	403,952
Ore stacked (T)	42,630	136,220
Grade of ore mined (Grams/T)	0.43	0.57
Recoverable gold mined (Troy ounces (oz)) (1)	383	1,620
Gold sales (ozs)	1,775	4,840
Gold in work in progress (ozs) (2)	36,365	37,757
Financial:		
Revenue ($)	2,493	8,080
Average gold price ($/oz)	1,405	1,670
Operations expenses ($)	1,922	4,064
Operations expenses ($/oz)	1,083	840
Net (loss) ($)	(2,264)	(1,637)
Net (loss) per share		
Basic ($/share)	(0.02)	(0.02)
Diluted ($/share)	(0.02)	(0.02)
Capital expenditures ($)	85	1,447
Total assets ($)(2)	105,305	108,539
Shareholders' equity ($)(2)	65,343	68,284
Common shares outstanding at year end(2)	104,132,059	104,132,059

Notes:
1. Recoverable gold mined is estimated to be equal to 65% of estimated total gold stacked.
2. Amounts reported for 2012 were as at December 31, 2012

During the nine months ended September 30, 2013, the Corporation stacked 42,630 T of stockpiled ore containing an average grade of 0.43 grams/T ("g/T"). This resulted in 383 ozs of recoverable gold stacked on the heap. There was no waste associated with the ore stacked. This compares to 136,220 T of ore stacked for the nine months ended September 30, 2012 which at an average grade of 0.57 g/T resulted in 1,620 ozs of recoverable gold stacked. In addition, 403,952 T of waste was mined in the nine months ended September 30, 2012.

During the nine months ended September 30, 2013, the Corporation sold a total of 1,775 ozs of gold for total proceeds of $2,493. This compares to sales of 4,840 ozs of gold for total proceeds of $8,080 during the nine months ended September 30, 2012. At December 31, 2012, an estimated 37,757 ozs of gold had been stacked and was in various stages of processing for sale ("work in progress"). After the addition of 383 recoverable ozs stacked and the sale of 1,775 ozs, there remained an estimated balance of 36,365 ozs of gold in work in progress at September 30, 2013.

Financial Review

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 income or loss in each of its geographic areas are disclosed in note 19 (*'Operating segments'*) to the September 30, 2013 unaudited consolidated financial statements.

Sales revenue

Revenue is recognized from the sale of gold when the price is determinable, the product has been delivered and title has been transferred to the customer and collection of the sales price is reasonably assured. The Corporation ships cathodic sediment to 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 nine months ended September 30, 2013 the Corporation recognized $2,493 in revenue from the sale of 1,775 ozs of gold at an average price of gold $1,405/oz. During the nine months ended September 30, 2012 the Corporation recognized $8,080 in revenue from the sale of 4,840 ozs of gold at an average price of $1,670/oz. The decrease in revenue from 2012 was due to a combination of lower gold sales which was the result of the reduction in the mining of new ore and a lower average gold sales price.

During the three months ended September 30, 2013 the Corporation recognized $662 in revenue from the sale of 506 ozs of gold at an average price of $1,307/oz. During the three months ended September 30, 2012 the Corporation recognized $2,447 in revenue from the sale of 1,452 ozs of gold at an average price of $1,686/oz.

Another contributing cause of lower gold sales was the fact that, due to the lack of sufficient funds, a number of standard operating procedures which are carried out to enhance recovery of gold stacked on the pad could not be maintained. Even if there is no mining of new ore, these procedures need to be followed in order to maximize the recovery of work in progress gold inventory. These procedures are as follows:

- Work done on the pads, such as ripping and fluffing the rested pads, increases the recovery of gold substantially.
- Cyanide needs to be added at regular intervals so that cyanide concentration can be maintained at the optimum levels to increase gold recovery efficiency.
- Resin which is used to extract the gold from the cyanide solution breaks down over time such that its efficiency is significantly reduced. As the size of the individual resin beads reduce through use, their ability to extract gold from the cyanide solution is significantly reduced. New resin is needed to return the extraction process to historical levels.
- Consumed resin volumes must be replaced to maintain high efficiency recovery. The resin plant is designed with nine columns containing resin. Currently there are only 4 of the 9 columns filled with resin between stripping cycles which affects the efficiency of stripping the gold from the cyanide solution. When preparing for a stripping cycle, resin from one column is removed and shipped to the Dore plant which leaves only 3 columns in operation until the resin shipped has been returned to the plant and put back into the empty columns.

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 nine months and three months ended September 30, 2013, the Corporation recognized $75 and $20, respectively in net smelter royalty expenses as compared to $242 and $73 for the nine months and three months ended September 30, 2012, which is 3% (2012 – 3%) of the revenue recognized in these periods.

Cost of sales

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"), Mineral Extraction Tax ("MET")), transportation and refining of the cathodic sediment. Except in periods in which no new ore is being mined, 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. In those periods in which no new ore is being mined, certain direct mining costs and depreciation of mining equipment are expensed directly and not charged to work in progress.

Operating costs for the nine months ended September 30, 2013 were $1,922 or $1,083/oz of gold sold as compared to $4,064 or $840/oz of gold sold for the nine months ended September 30, 2012. The 2013 figure includes $332 ($187/oz) of mining costs charged directly to operating costs for the months in which there was no new ore mined. There was no comparable amount for the nine months ended September 30, 2012.

Included in the nine months 2013 operating cost amount is $128 or $72/oz related to the amortization of the bump-up to fair value from the estimated cost of work in progress on re-valuation on September 15, 2009. Cash operating costs were therefore $1,011/oz. In the nine months ended September 30, 2012, $360 or $74/oz of similar costs were included in operating costs resulting in the cash cost of gold sold for this period of $766/oz.

Operating costs for the three months ended September 30, 2013 were $565 or $1,117/oz of gold sold as compared to $1,206 or $831/oz of gold sold for the three months ended September 30, 2012. The 2013 figure includes $97 ($192/oz) of mining costs charged directly to operating costs for the months in which there was no new ore mined. There was no comparable amount for the three months ended September 30, 2012.

For the three months ended September 30, 2013, $35 or $70/oz (three months ended September 30, 2012 - $116 or $80/oz) related to the amortization of the bump-up to fair value from the estimated costs of work in progress resulting in $1,047/oz and $751/oz of cash costs for the three months ended September 30, 2013 and 2012, respectively.

The $2,142 and $641 decreases in operating costs for the nine month and three month periods ended September 30, 2013, respectively as compared to the corresponding periods in 2012 are due to the reduction in the quantity of recoverable gold mined and sold during 2013 together with policy adopted in the fourth quarter of 2012 to charge certain expenses directly to operating costs rather than flow them through work in progress.

The $243/oz and $286/oz increase in per unit operating costs for the nine month and three month periods ended September 30, 2013, respectively as compared to the corresponding periods in 2012 is primarily the result of the $187/oz and $192/oz of mining costs charged directly to operating expenses for the nine and three months ended September 30, 2013 instead of charging such costs to work in progress.

Depletion and depreciation

Depletion and depreciation expense for the nine months and three months ended September 30, 2013 was $770 and $226, respectively as compared to $1,493 and $526 for the comparable periods in 2012. Substantially all the amounts for both years relate to the Kazakhstan operation. The decreases are primarily due to the decrease in gold produced and sold in 2013 as compared to 2012.

Depletion and depreciation charged on the fair value assigned to mineral properties as a result of the re-acquisition on September 15, 2009 is charged to work in progress on the basis of the volume of gold produced as a percentage of total estimated gold resources. It is then expensed on the basis of the quantity of gold sold as a percentage of the quantity of gold estimated to be in work in progress. For the nine months and three months ended September 30, 2013, $762 and $334 (nine months and three ended September 30, 2012 - $1,382 and $239) of depletion and depreciation was charged to work in progress. The decrease of $620 in depletion and depreciation charged to work in progress in the nine months ended September 30, 2013 over the corresponding period nine month period in 2012 was a result of the Corporation mining significantly less new material in 2013 and in 2012. The $95 increase in the third quarter of 2013 is the result of the stacking of stockpiled ore during the third quarter of 2013 whereas no new ore was stacked during the third quarter of 2012.

Finance costs

	Three Months Ended September 30,		Nine Months Ended September 30	
	2013	2012	2013	2012
Interest on trade payables	$ 20	$ 22	$ 62	$ 64
Interest on promissory note	17	18	51	35
Interest on overdue taxes	6	6	16	6
Interest on taxes still being disputed	–	27	–	89
Extension of warrants	–	–	–	1,394
Reversal of accrued interest on successful tax appeal	–	–	–	(131)
Unwinding o discount on provisions	1	2	2	4
Foreign exchange loss	274	3	521	269
Total finance costs	$ 318	$ 78	$ 652	$ 1,730

During the nine months ended September 30, 2013 the Corporation recorded total net finance costs of $652 as compared to $1,730 for the nine months ended September 30, 2012. For the three months ended September 30, 2013 net finance costs were $318 as compared to $78 for the corresponding three month period in 2012.

The most significant variance related to the Corporation's charge of $1,394 to financing costs during the first quarter of 2012 representing the value attributed to the extension of the expiry dates of (i) 2,500,450 warrants to February 11, 2013; (ii) 5,388,690 warrants originally scheduled to expire on February 19, 2012 to February 19, 2013; and, (iii) 3,913,635 warrants originally scheduled to expire on March 28, 2012 to March 28, 2013. The warrants expired unexercised.

Interest on the promissory note relates to the CDN$500, 14% unsecured promissory note.

Interest accrued on overdue taxes for the nine months and three months ended September 30, 2013 was $16 and $6, respectively as compared to $6 and $6, respectively for the nine months and three months ended September 30, 2012. Both the 2013 and 2012 amounts relate to interest on the unpaid portion of the Commercial Discovery Bonus ("CDB") that the Government of Kazakhstan had assessed Saga Creek in February, 2012. The Corporation appealed the assessment. The Kazakhstan courts rendered a decision on December 27, 2012 significantly reducing the size of the CDB obligation and related interest. This resulting adjustment for the over accrual was made in the final quarter of 2012 while the 2013 amounts related to the adjusted obligation. (See note 24 (*'Commercial discovery bonus'*) to the September 30, 2013 interim financial statements and the Commercial discovery bonus section of this MD&A).

The credit of $131 for the nine months ended September 30, 2012 for reversal of accrued interest on the a tax assessment by the tax authorities in Kazakhstan that was reversed in 2012 as a result of a successful tax appeal. (See note 22(b) (*'Legal challenge of tax assessment'*) to the September 30, 2013 interim financial statements and the Legal challenge of tax assessment section (paragraph (b)) of this MD&A).

During the nine months and three months ended September 30, 2013, the Corporation recorded a foreign exchange loss of $521 and $274, respectively as compared to a foreign exchange loss for the comparable periods in 2012 of $269 and $3. The losses for all periods are reflective of a US$ that continues to strengthen relative to both the CDN$ and the Kazakhstan Tenge.

Administrative expenses

For the nine months ended September 30,		2013		2012
Canada				
Share-based compensation	$	131	$	410
Cash based corporate overhead costs		931		1,083
Total Canada		1,062		1,493
Kazakhstan		730		749
	$	1,792	$	2,242

For the three months ended September 30,		2013		2012
Canada				
Share-based compensation	$	24	$	81
Cash based corporate overhead costs		241		358
Total Canada		265		439
Kazakhstan		266		166
	$	531	$	605

Administrative expenses for the nine months ended September 30, 2013 were $1,792, a decrease of $450 over the $2,242 recorded in the nine months ended September 30, 2012.

Of the totals, $730 related to the Saga Creek operations for the nine months ended September 30, 2013 as compared to $749 for the nine months ended September 30, 2012. During the first quarter of 2012 a credit to administrative expenses of $157 was recorded related to the reversal of penalties accrued in 2011 for a corporate income tax assessment ("CIT") by Kazakhstan tax authorities. The Corporation had appealed the assessment and the Kazakhstan courts ruled on May 10, 2012 to reverse a substantial portion of the assessment. (See note 22(b) (*'Legal challenge of tax assessment'*) to the September 30, 2013 interim financial statements and the Legal challenge of tax assessment section (paragraph (b)) of this MD&A). The Corporation also incurred significant legal costs in defending its position regarding the tax assessment. The combination of these two offsetting factors resulted in administration costs for the nine months ended September 30, 2013 and 2012 being approximately the same.

Administrative expenses for the three months ended September 30, 2013 were $531, a decrease of $74 from the $605 recorded in the three months ended September 30, 2012. Of the totals, $266 related to Saga Creek's operations for the three months ended September 30, 2013 as compared to $166 for the comparable period in 2012. The increase in Saga Creek's administration costs was primarily the result of 2012 audit fees not being recorded until the third quarter of 2013.

Canadian corporate overhead accounted for the remaining $1,062 and $265 for the nine months and three months ended September 30, 2013, respectively. This compares to $1,493 and $439 for the comparative nine and three month periods ended September 30, 2012, respectively. A reduction in share-based compensation was primarily responsible for the decreases.

Share-based compensation totaled $131 and $24 for the nine and three months ended September 30, 2013 as compared to $410 and $81 for the nine and three months ended September 30, 2012. Due primarily to the high volatility of the Corporation's stock price, this calculation results in the value assigned to stock options approaching the actual option grant price. As a result, the higher the option price, the higher the value assigned to the options for purposes of share-based compensation expense. This value must be expensed separately for each vesting portion of each option and during their vesting period. Share-based compensation expense for 2013 relates primarily to amortization of the value calculated for the 900,000 options granted in the latter half of 2012 at a weighted average price of CDN$0.26 per share. For 2012, share-based compensation expense relates to the amortization of the value calculated for the 3,050,000 options granted in January of 2011 at a price of CDN$1.05 per share.

Income tax expense

Income tax expense recorded relates entirely to Saga Creek. As Saga Creek has been a profitable entity, it has paid income tax under Kazakhstan law. The Corporation recorded an income tax recovery of $481 and $nil for the nine months and three months ended September 30, 2013, respectively as compared to an income tax recovery of $60 for the nine months ended September 30, 2012 and an income tax expense of $322 for the three months ended September 30, 2012.

As a result of Saga Creek's current loss position no current income tax expense has been recorded in 2013. In the nine months ended September 30, 2012 Saga Creek recorded a current tax recovery of $210 while for the three months ended September 30, 2012 Saga Creek recorded an expense of $68. Included in the recovery recorded in the nine months ended September 30, 2012 was $315 related to the reversal of previously accrued income taxes that resulted from an assessment by the Kazakhstan tax authorities that was overturned on appeal. (See note 22(b) (*'Legal challenge of tax assessment'*) to the September 30, 2013 interim financial statements and the Legal challenge of tax assessment section (paragraph (b)) of this MD&A).

The $481 and $nil of income tax recovery for the nine months and three months ended September 30, 2013 was deferred income tax which compares to a $150 and $254 of deferred income tax expense for the nine months and three months ended September 30, 2012. The deferred income tax recovery recorded is a result of the amortization of the large deferred tax liability recorded on the balance sheet associated primarily with the fair value assigned to Saga Creek's assets and liabilities recorded at September 15, 2009. In 2012 Saga Creek actually reported a deferred income tax expense as a result of a retroactive adjustment to the deduction rate allowed for the amortization of exploration costs.

The corporate tax rate in Kazakhstan is currently 20%. In addition, 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$14.9 million at December 31, 2012, which commence expiring in 2014.

Net loss

The Corporation recorded a net loss of $2,264 for the nine months ended September 30, 2013 compared to a net loss recorded in the nine months ended September 30, 2012 of $1,637. For the three months ended September 30, 2013 the Corporation recorded a net loss of $1,021 as compared to a net loss of $365 for the comparable three month period ended September 30, 2012.

Mining operations produced a net loss for the nine months and three months ended September 30, 2013 of $993 and $718, respectively as compared to a net income of $1,327 and $54 for the nine months and three months ended September 30, 2012. The $2,320 and the $772 negative changes in results from mining operations in the nine and three months ended September 30, 2013 from the comparable periods in 2012 was the result of a decrease in operating results of $2,556 and $791, respectively. Lower sales volumes and lower average gold prices were the principal reasons for the decrease in operating results.

Canadian corporate losses totaled $1,271 and $303, respectively for the nine months and three months ended September 30, 2013. This compares to corporate losses of $2,964 and $419 for the corresponding periods in 2012. Higher finance charges reported in the first quarter of 2012 as a result of the value assigned to the revaluation of the warrants was the primary reason corporate losses were higher in the nine months ended September 30, 2012 than in the comparable period in 2013. The results for the third quarter of 2013 improved slightly over that of the third quarter of 2012 due to a decrease in administration expenses.

Based on a weighted average number of common shares of 104,132,059 for the nine months and three months ended September 30, 2013 and 2012, the Corporation's basic and diluted net loss per common share was $0.02 and $0.01 for the nine and three month periods ended September 30, 2013, unchanged from the basic and diluted net loss per share reported for the comparative nine and three month periods ended September 30, 2012.

All options and warrants outstanding were excluded from the dilutive earnings per share calculations in 2013 and 2012 as they would be considered anti-dilutive.

Summarized Cash Flows

For the nine months ended September 30,		2013		2012
Net cash provided from (used in) operating activities	$	(1,143)	$	1,072
Net cash provided from financing activities		–		508
Net cash provided from (used in) investing activities		248		(2,184)

Operating cash flow

For the nine months ended September 30, 2013, net cash used in operating activities was $1,143 which was primarily attributed to cash flow used in operating activities before working capital adjustments of $1,809 offset by an increase in accounts payable.

For the nine months ended September 30, 2012, net cash from operating activities was $1,072 which was attributed primarily to positive cash flow from mining operations offset primarily by the increase in work in progress inventories.

Financing cash flow

There are restrictions placed on the Corporation with respect to raising capital through the issue of common share equity because of the Government of Kazakhstan's pre-emptive right (see note 23 (*'Government of Kazakhstan pre-emptive right'*) to the September 30, 2013 unaudited consolidated financial statements and the Government of Kazakhstan pre-emptive right section of this MD&A). During 2013 the Corporation has not completed any financings. In the nine months ended September 30, 2012 the Corporation raised CDN$500 from the issue of a 14% unsecured promissory note.

Investing cash flow

For the nine months ended September 30, 2013, net cash from flow from investing activities was $248 which was comprised of additions totaling $85 to property, plant and equipment and intangible assets offset by increases in related trade and other payables of $333.

For the nine months ended September 30, 2012, net cash flow used in investing activities was $2,184, primarily as a result of the acquisition of property, plant and equipment and intangible assets of $1,447.

Selected Balance Sheet Items

Trade and other receivables

		September 30, 2013		December 31, 2012
VAT receivables	$	596	$	633
Gold sales		–		–
Other		58		35
Total	$	654	$	668

Trade and other receivables primarily represent 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 September 30, 2013 the balance outstanding on account of VAT was $596 (December 31, 2012 - $633). 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. Prior to the 2012 claim, the Corporation had been successful in collecting all material amounts due.

On February 5, 2013, Saga Creek submitted its 2012 VAT return with a request to refund the excess VAT paid in the amount of $555. Upon completion of the VAT audit on April 30, 2013, local tax authorities provided the Saga Creek with the VAT Assessment Notice outlining the results of the audit, disallowing of the claim $369. The balance of the VAT refund in the amount equal to $186 was received by the Saga Creek in May of 2013.

The vast majority of the disallowed amount, namely $354, was as a result of the application by the tax authorities of "The Rules Regarding Application of the Risk Management System for the

Purposes of Supporting the VAT Excess Amounts Submitted for Refund", approved by a resolution of the Government of the Republic of Kazakhstan on March 27, 2013 (the "Rules"). According to the Rules, companies that meet certain criteria outlined thereunder shall be subject to a Risk Management System (the "RMS") when their VAT returns are audited. The RMS provides for audit of the suppliers of all levels down the chain and, if at any level a violation of their VAT filing is discovered, the related amount of the refund is denied to a company in the chain that is eligible for such refund. In many cases, Saga Creek's refund was denied based on noncompliance by the suppliers four or five levels down the chain.

The Corporation strongly disagreed with the applicability of the RMS and as such submitted a claim to the Specialized Interdistrict Economic Court of Akmola oblast ("Economic Court") requesting the Economic Court to cancel the VAT assessment and to order the VAT refund in its entirety. In its ruling dated October 17, 2013, the Economic Court rejected Saga Creek's claim except for a further amount of $40 as a result of the fact that the deficiencies were corrected by certain suppliers.

The Corporation understands that if and when the VAT compliance deficiencies are corrected by the respective suppliers, the Corporation will be eligible for those refunds. Alhambra disagrees with applicability of the RMS and the Rules and plans to appeal the ruling to an upper Kazakhstan court.

Inventories

The Corporation's inventory comprises mostly work in progress in which, except in periods in which no new ore is being mined, 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. In those periods in which no new ore is being mined, certain direct mining costs and depreciation of mining equipment are expensed directly and are not charged to work in progress.

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.

At September 30, 2013 the Corporation calculated that there was approximately 36,365 ozs of gold in work in progress (December 31, 2012 – 37,757 ozs) at a carrying cost of $31,927 (December 31, 2012 - $31,681). The Corporation reclassifies the portion of this inventory that it does not expect to sell in the next year as non-current. At September 30, 2013, the Corporation classified 33,365 ozs ($27,889) (December 31, 2012 – 34,757 ozs and $28,000) as non-current.

At September 30, 2013, the Corporation also had $750 (December 31, 2012 - $1,038) of raw material and supplies inventory.

Trade and other payables

At September 30, 2013 the Corporation had outstanding $7,926 in trade and other payables (December 31, 2012 - $7,148). The credit terms that govern the Corporation's relationship with its suppliers are such that the majority of all amounts outstanding are due within one month. Many of the Corporation's trade payables have been outstanding for a significant period of time in excess of the normally allowed credit term. This has been caused by the Corporation's current financial condition.

Details of claims filed by certain creditors against Saga Creek are described in Note 25 (*'Legal claims against the Corporation'*) to the September 30, 2013 interim financial statements and the Legal claims against the Corporation and Going concern sections of this MD&A.

The Corporation continues to pursue financing alternatives and subsequent to September 30, 2013 entered into a financing agreement that is expected to close prior to the end of 2013. Once this financing is complete and the funds are received, the Corporation plans to start a settlement process with its creditors (See note 26 (*'Subsequent event'*) to the September 30, 2013 interim financial statements and the Subsequent event section of this MD&A).

Provisions

At September 30, 2013 the Corporation had outstanding provisions for future liabilities of $759 (December 31, 2012 - $743) related to future site reclamation.

The liability for site reclamation was determined using an inflation rate of 6% (December 31, 2012 – 6%) and an estimated mine life of 10 years (December 31, 2012 – 10 years) for Uzboy. A discount rate of 5.5% (December 31, 2012 – 5.5%) was used. The undiscounted value of the liability is approximately $707 (December 31, 2012 - $707).

Deferred tax liabilities

At September 30, 2013 the Corporation has $30,791 (December 31, 2012 – $31,861) in deferred tax liabilities that relate primarily to the fair value assigned to Uzboy on the re-acquisition of control of Saga Creek effective September 15, 2009 and will be recovered through the earnings statement as the related property is depleted.

2013 capital expenditure activity

During the nine months ended September 30, 2013, no field work was carried out in Kazakhstan. This was as a result of the Corporation's lack of financial resources as described throughout this MD&A.

As of September 30, 2013, there were 1,793 Shirotnaia assay results (1,786 core and 7 QA/QC core re-sampling) plus 2 Vasilkovskoe East rock chip sample assays pending from the laboratory. The assays will be released once the laboratory's outstanding account has been paid. In addition, 6,753 samples (including 887 QA/QC samples) were prepared for export as follows:

- Shirotnaia – 2,871 (RC samples),
- Zhusaly – 386 (RC samples) and 650 (soil samples),
- Vasilkovskoe East – 959 (soil samples),
- Dombraly East – 1,887 (soil samples).

Shirotnaia

During the third quarter of 2013, 800 assay results for three of 18 core holes (3,691 metres ("m")) completed in the first half of 2012 were received (see news release dated September 25, 2013).

Diamond drilling intersected higher-grade gold mineralization in diamond drill hole 28-08 that yielded a weighted average grade of 4.75 grams per tonne gold ("g/t Au") over a core interval of 33.4 m, including 14.71 g/t Au over 10.1 m. The highest grade interval was intersected less than 100 m below surface. Together with several other drill intercepts in this area, this higher-grade interval defines a new high-grade zone of gold mineralization. These results constitute the best drill intercepts to date from Shirotnaia.

Other significant intervals that were received are summarized in more detail below:

Diamond drill hole 52-04 intercepted four narrow zones of mineralization down to 157 m below surface. This step out drill hole targeted the deeper part of the higher grade zone established by diamond drill hole 52-01 (21.3 m @ 1.43 g/t Au), and is in an area of relatively sparse drilling.

Diamond drill hole 15-14 targeted the area between the western end of the higher-grade zone and the mineralization situated farther to the west and drilled in 2007. The higher-grade mineralization comes to surface in this area, resulting in a weighted average of 8.9 m of 4.07 g/t Au in oxide to transitional material, including a 1.0 m intercept of 30.9 g/t Au from 16 to 17 m depth. This narrow high-grade interval is open to the west. Having confirmed the presence of the high-grade mineralization on the west end of the deposit, follow-up drilling will focus on identifying cross structures and other controls on this good quality mineralization.

Administrative expenditures

For the nine month ended September 30, 2013, administrative expenses totaled $1,792, a decrease of $450 from the $2,242 incurred for the nine months ended September 30, 2012. Included in these totals were $730 and $749 of administrative expenses related to Saga Creek operations for the nine months ended September 30, 2013 and 2012, respectively.

The remaining $1,062 of administrative expenses for the nine months ended September 30, 2013 relates to corporate overhead costs which was a decrease of $431 over the corporate overhead costs for the nine months ended September 30, 2012 of $1,493. Included in these amounts were share-based compensation expenses of $131 and $410 for the nine months ended September 30, 2013 and 2012, respectively.

Cash-based corporate overhead expenses accounted for the remaining $931 and $1,083 for the nine months periods ended September 30, 2013 and 2013, respectively. The $152 reduction from 2012 to 2013 was mainly due to a reduction in activity levels as the Corporation attempts to minimize its overhead due to limited cash resources. In addition a small portion of the decrease was due to the 2% decline in the CDN$ as compared to the US$. Comparative nine month totals for major categories of cash-based corporate overhead expenses for the nine months ended September 30, 2013 and 2012 are detailed as follows:

		Nine months ended September 30, 2013			Nine months ended September 30, 2012	
		Amount	%		Amount	%
Employee costs	$	636	68	$	652	60
Professional costs		78	8		157	14
Corporate costs		101	11		139	13
Office costs		116	13		135	13
Total	$	931	100	$	1,083	100

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 Uzboy, additional funds are required to enable Alhambra to meet its working capital obligations as well as fund its exploration and development programs. As a result, the Corporation depends on the capital markets to provide funds for 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. In order for the Corporation to raise funds through the issue of common shares, it must first get approval from the government of Kazakhstan to issue common shares (see note 23 (*'Government of Kazakhstan pre-emptive right'*) to the September 30, 2013 unaudited consolidated financial statements and the Government of Kazakhstan pre-emptive right section of this MD&A). The Corporation received approval from the Kazakhstan Ministry of Industry and New Technology ("MINT") to proceed at its discretion with the issue of common shares at a floor price of $0.20 per common share. This approval is effective until December 25, 2013.

At September 30, 2013 the Corporation had $29 (December 31, 2012 – $940) in cash and a working capital deficiency of $2,825 (December 31, 2012 – working capital deficiency of $1,101). The major asset component of working capital is the cost of gold work in progress that the Corporation estimates it will sell within the next twelve months. At September 30, 2013 the Corporation estimates it will sell 3,000 ozs of gold (December 31, 2012 – 3,000 ozs) and the cost related to such volume was $4,788 (December 31, 2012 - $4,719).

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 Corporation and other related parties are disclosed below.

Compensation of key management personnel:

The remuneration of directors and other members of key management personnel during the nine months ended September 30, 2013 and 2012 were as follows:

For the nine months ended September 30,		2013		2012
Short-term employee benefits	$	576	$	585
Share-based payments		131		293
Director fees		–		–
	$	707	$	878

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

Legal claims against the Corporation

During the third quarter of 2013, certain claims from creditors totaling approximately $700 were filed in the courts of Kazakhstan against Saga Creek for the collection of outstanding accounts payable. Saga Creek's mining contractor submitted a claim to the International Arbitration Court in

Kazakhstan ("IUS"), demanding payment of indebtedness of approximately $370 for the work performed. In order to securitize its claim, the contractor also applied to the Specialized Interdistrict Economic Court of Akmola oblast ("Economic Court") and obtained the Resolution of the Economic Court to attach property of Saga Creek within the limits of the claim amount. On August 5, 2013 the hearing of the claim by the IUS took place and the decision was made in favor of the contractor. The decision came into force on the date of the hearing requiring Saga Creek to settle the outstanding amount which was done on October 31, 2013.

Also, two of Saga Creek's exploration contractors submitted statements of claim to the Economic Court for the payment by Saga Creek of a total of approximately $330. On August 13, 2013 the Economic Court accepted the exploration contractors' claims which allowed the exploration contractors to proceed to the courts to attach property of Saga Creek within the limits of the claim amounts and eventually realize on the outstanding liabilities. During a court hearing on October 1, 2013 both plaintiffs agreed to withdraw their claims and enter into settlement agreements that would see their accounts paid by November 15, 2013. However, Saga Creek was unable to satisfy these settlement agreements. As a result, these creditors have re-initiated their legal remedies including having funds re-directed from Saga Creek's bank accounts to settle the outstanding amounts. (See notes 2 (*'Going concern and Kazakhstan business risks'*) and 25 (*'Legal claims against the Corporation'*) to the September 30, 2013 interim financial statements and the Going concern section of this MD&A).

Financial instruments

The fair values of cash and cash equivalents, trade and other receivables, promissory note, 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.

Because of financial limitations, the Corporation is not able to estimate with any certainty the amount it will spend on exploration activities during 2013.

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.

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 104,132,059 were outstanding as of September 30, 2013. The following table shows the detailed number of shares, options outstanding as of September 30, 2013 and changes that have occurred up to the date of this MD&A.

	As of September 30, 2013	Change in 2013	Issued in 2013	As of November 27, 2013
Common shares issued and outstanding	104,132,059	–	–	104,132,059
Common shares issuable upon exercise of stock options	8,743,500	–	–	8,743,500
Common shares fully diluted	112,875,559	–	–	112,875,559

At December 31, 2012, the Corporation had outstanding 9,302,325 warrants which were exercisable at a price of $0.72 per share and originally scheduled to expire on or before February 19, 2012 for 5,388,690 warrants and March 28, 2012 for 3,913,635 warrants. In 2012, the Corporation sought and obtained approval from the TSX Venture Exchange 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 warrants expired unexercised.

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, MET as well as for their disallowance of certain corporate income tax deductions for the 2006 to 2009 taxation years ("CIT"). The total amount of the assessments including penalties and interest was approximately $4.3 million. The Corporation 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 the Corporation's appeal, the summary of which 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 Corporation reversed the full provision of $13.8 million (see note 17 (*'Provisions'*) to the December 31, 2012 audited consolidated financial statements) 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 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 $0.3 million was cancelled and sent back to the Specialized Inter-regional 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 Corporation had accrued a total of approximately $0.6 million related to the CIT assessment including interest and penalties. The decision by the court reduced that amount to approximately $0.07 million. As a result in 2012 the Corporation recorded a recovery of approximately $0.6 million of which approximately $0.3 million was recorded as a recovery of current income taxes, approximately $0.1 million as a reduction in finance costs and approximately $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 penalty has been paid by the Corporation of which approximately $0.7 million relates to interest and penalties. The Corporation decided to appeal the decision of the Cassation Chamber to the Supreme Court. The appeal was filed on May 14, 2012. The Supreme Court refused to hear the case, indicating that they believed the decisions of the lower courts were valid.

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 was 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 applied to MINT to have that floor price reduced to $0.20 per share. The Corporation received the approval effective December 25, 2012 and it was effective until June 25, 2013. As provided for under Kazakhstan legislation, the Corporation applied for and was granted an extension to December 25, 2013.

Commercial discovery bonus

On February 22, 2012 Saga Creek was given notice by Kazakhstan tax authorities that it was required to pay a CDB 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 approved 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 was due on May 24, 2011. Saga Creek filed a notice of objection with the tax authorities on the basis that Clause 6.2 (b) of the 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 the CDB at all.

The tax authorities rejected Saga Creek's notice of objection. Saga Creek appealed that decision to the Akmola Court which rendered their decision on December 27, 2012. While the Akmola Court ruled that Saga Creek was liable to pay the CDB, it reduced the quantity of precious metal subject to the tax to 3,336.1 kg of gold and nil kg of silver. The tax authorities appealed the decision of the Akmola Court. On March 12, 2013 the appeals court decided to uphold the decision of the Akmola Court.

As a result of the court decisions, the amount of the CDB due has been reduced by $574 from $729 to $155. This difference was recorded as a decrease in intangible assets during 2012. In addition, the penalty and interest has been reduced by $366 from $450 to $84 with the penalty portion of $288 being recorded as a reduction in administrative expenses and the interest portion of $78 being recorded as a reduction in finance charges.

The Corporation has accrued approximately $56 in finance charges related to the Bonus to September 30, 2013.

Subsequent event

Subsequent to September 30, 2013 the Corporation entered into a financing agreement with Global Resources Investment Limited ("GRIL") for a CDN$5.0 million convertible note financing. GRIL is a UK based investment trust established to seek and exploit investment opportunities in the junior mining and natural resource sectors. GRIL's investment objective is to generate medium and long term capital growth through investments in diverse portfolios of primarily small and mid-capitalized natural resources and mining companies that are listed on various global stock exchanges.

GRIL is seeking admission of its ordinary shares on the main market for listed securities on the LSE, where it proposes to re-register as a public company and constitute as a UK investment trust with the name Global Resources Investment Trust PLC ("GRIT"). GRIT expects that its ordinary shares will be listed for trading before the end of 2013.

Alhambra and GRIL have entered into a convertible secured promissory note agreement, whereby Alhambra would, assuming successful listing of the GRIT shares on the LSE, subscribe for 3,080,904 GRIT shares at a deemed value of one British pound (£1.00) per GRIT share. Alhambra will then sell the GRIT shares on the LSE to realize the private placement proceeds. The proceeds that Alhambra eventually receives will be dependent on the price that will be realized when the GRIT shares are sold.

In exchange for the issuance of the GRIT shares, the Corporation will issue to GRIT, a CDN$5.0 million convertible secured promissory note (the “Note”) and warrants. The Note will bear interest at an annual rate of 12%, will have a term of three years and will be secured by the Corporation’s work in progress gold in Kazakhstan if and when required by GRIT. GRIT has the option to convert both the principal and interest portions of the Note into common shares of the Corporation at CDN$0.25 per common share. Alhambra has the option to pay the interest in either cash or shares of the Corporation. The Note may be repaid at any time prior to maturity without penalty. The Corporation also has the option to force conversion during the term of the Note into common shares of Alhambra at a minimum of US$0.20 per share. In connection with the Note, Alhambra will issue warrants to purchase 5.0 million common shares of the Corporation (the “Warrants”). The Warrants have an exercise price of CDN$0.30 per common share and are exercisable for three years from the date of issue.

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.

Kazakhstan 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.

The consolidated financial statements and MD&A 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.

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, 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 and the effect the on financial results, if the authorities are successful in enforcing their interpretations, could be significant.

Going Concern Risk

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 the Republic of Kazakhstan ("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. During the nine months ended September 30, 2013, the Group incurred a net loss of $2,264, 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.

During the third quarter of 2013, certain claims from creditors totaling approximately $700 were filed in the courts of Kazakhstan against Saga Creek for the collection of outstanding accounts payable. One of the claims totaling $370 was settled in full on October 31, 2013 while the plaintiffs for the other claims totaling $330 agreed to withdraw their claims and enter in settlement agreements due November 15, 2013. Saga Creek has since been unable to satisfy these settlement agreements. As a result, these creditors have re-initiated their legal remedies including having funds re-directed from Saga Creek's bank accounts to settle the outstanding amounts. (See notes 2 (*'Going concern and Kazakhstan business risks'*) and 25 (*'Legal claims against the Corporation'*) to the September 30, 2013 interim financial statements and the *Legal claims against the Corporation* section of this MD&A).

The Corporation recognizes the desire of these creditors to protect their ability to collect on their outstanding liabilities and is in discussion with these creditors to defer any further action given that the Corporation is currently pursuing financing alternatives in order that the obligations to all creditors can be settled to everyone's mutual satisfaction.

The Corporation recognizes the need to obtain debt or equity financing to meet its obligations and fund its exploration and development programs. Subsequent to September 30, 2013 Alhambra announced that it had entered into agreements related to a CDN$5 million debt financing. While the Corporation does not know at this time when that financing will be completed, it is expected to close prior to the end of 2013. For the Corporation to receive funds from this financing it will have to the sell ordinary shares it receives on the London Stock Exchange ("LSE"). Until these ordinary shares are sold, the Corporation cannot determine the total proceeds that will be realized. While the Corporation expects that this financing will allow the Group to begin to deal with its outstanding obligations and begin to re-establish normal operations again, until the proceeds are actually realized, the extent to which Alhambra can satisfy these obligations is not known. In addition the funds realized will not be sufficient to settle all of the Group's debts nor resume its exploration program to the level the Corporation desires. The Corporation will continue to seek additional financing to provide the funds necessary to assure it will continue as a going concern. There is no guarantee that the Corporation will be successful in raising sufficient funds to continue as a going concern. (See note 2 (*'Going concern and Kazakhstan business risks'*) and 26 (*'Subsequent event'*) to the September 30, 2013 interim financial statements and the *Subsequent event* section of this MD&A).

In order for the Corporation to raise funds through the issue of common shares, it must first get approval from the government of Kazakhstan to issue common shares (note 23 (*'Government of Kazakhstan pre-emptive right')* to the September 30, 2013 unaudited consolidated financial statements and the *Government of Kazakhstan pre-emptive right* section in this MD&A). There is no guarantee that if a financing is arranged, such financing will be approved by the government of Kazakhstan. As detailed in note 23, the Corporation currently has approval to complete a financing up to December 25, 2013.

Critical Accounting Estimates

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 effective September 15, 2009, the Corporation was required to record the work in progress at fair market value as of that date.

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 4 of the December 31, 2012 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.

Selected Quarterly Data

	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Gold sales (ozs)	506	930	339	862
Average gold price ($/oz)	$ 1,307	$ 1,387	$ 1,599	$ 1,668
Revenue ($000's)	$ 662	$ 1,290	$ 541	$ 1,438
Net profit (loss) ($000's)	$ (1,021)	$ (682)	$ (561)	$ (3,343)
Basic earnings (loss) per share	$ (0.01)	$ (0.01)	$ (0.00)	$ (0.03)
Diluted earnings (loss) per share	$ (0.01)	$ (0.01)	$ (0.00)	$ (0.03)

	Q3 2012	Q2 2012	Q1 2012	Q4 2011
Gold sales (ozs)	1,452	1,542	1,846	1,526
Average gold price ($/oz)	$ 1,686	$ 1,625	$ 1,694	$ 1,773
Revenue ($000's)	$ 2,447	$ 2,506	$ 3,127	$ 2,705
Net profit (loss) ($000's)	$ (365)	$ (1,112)	$ (160)	$ (2,578)
Basic earnings (loss) per share	$ (0.01)	$ (0.01)	$ (0.00)	$ (0.03)
Diluted earnings (loss) per share	$ (0.01)	$ (0.01)	$ (0.00)	$ (0.03)

The large loss recorded in the fourth quarter of 2012 was principally the result of the expensing of $2,434 of costs previously recorded as prepaid expenses related to a planned initial public offering and listing on an Asian stock exchange.

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.

2013 Objectives

Currently Alhambra's efforts are focused on arranging financing, the use of proceeds from which will be directed towards the settlement of outstanding accounts payable, the re-initiation of the stacking of ore on the heap leach pads, optimization of operating processes to enhance recovery, and the resumption of exploration and development programs. The Corporation has identified a number of exploration targets it wishes to drill once additional funds have been raised. In addition the Corporation plans to begin a pre-feasibility study directed towards bringing into production the transitional and sulphide zones of Uzboy. When the financing that was announced subsequent to September 30, 2013 is completed (see note 26 (*'Subsequent event'*) to the September 30, 2013 interim financial statements and the Subsequent note section in this MD&A) and funds are realized, the Corporation can begin to recover from its current financial difficulties. However, in order for the Corporation to continue as a going concern and begin to properly develop its exploration territory, it will be necessary to complete additional financings. While the Corporation has been successful in the past, there is no guarantee that the Corporation will be successful in the future in raising sufficient funds to continue as a going concern.