Interim Unaudited Consolidated Financial Statements of

ALHAMBRA RESOURCES LTD.

Nine Months Ended September 30, 2014, and 2013

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, 2014 and 2013.

ALHAMBRA RESOURCES LTD.

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

As at	Note	September 30, 2014	December 31, 2013
Assets			
Current assets:			
Cash and cash equivalents	8	$ 10	$ 10
Marketable securities	9	1,121	–
Trade and other receivables		226	326
Deposits and prepaid expenses		40	57
Inventories	10	551	662
Total current assets		1,948	1,055
Non-current assets:			
Property, plant and equipment	11	32,540	38,994
Intangible assets	12	8,228	9,569
Investment in equity accounted investee	13	384	417
Inventories	10	19,341	22,903
Total non-current assets		60,493	71,883
Total assets		$ 62,441	$ 72,938
Liabilities and Equity			
Current liabilities:			
Trade and other payables		$ 9,840	$ 8,884
Promissory note	14	446	470
Total current liabilities		10,286	9,354
Non-current liabilities:			
Convertible notes	15	3,648	–
Provisions	16	650	769
Deferred tax liabilities		14,542	17,462
Total non-current liabilities		18,840	18,231
Total liabilities		29,126	27,585
Equity:			
Share capital	18	42,132	42,132
Warrants	18	325	–
Contributed surplus	18	13,387	13,378
Equity portion of convertible notes	15, 18	1,402	–
Foreign currency translation reserve		(4,427)	(688)
Investment revaluation reserve		(3,425)	–
Deficit		(16,079)	(9,469)
Total equity		33,315	45,353
Total liabilities and equity		$ 62,441	$ 72,938

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

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

	Note	Three Months Ended September 30 2014	Three Months Ended September 30 2013	Nine Months Ended September 30 2014	Nine Months Ended September 30 2013
Revenue:					
Sales		$ –	$ 662	$ –	$ 2,493
Less net smelter royalty		–	20	–	75
		–	642	–	2,418
Cost of sales		168	565	589	1,922
Depletion and depreciation	11, 12	125	226	392	770
Gross profit (loss)		(293)	(149)	(981)	(274)
Expenses:					
Finance costs	6	232	318	4,456	652
Administrative expenses	7	446	531	1,365	1,792
		(971)	(998)	(6,802)	(2,718)
Share of loss of equity accounted investee	13	1	23	12	27
Loss before income taxes		(972)	(1,021)	(6,814)	(2,745)
Income tax expense (recovery)		53	–	(204)	(481)
Net loss for the year attributable to the equity holders of the Corporation		$ (1,025)	$ (1,021)	$ (6,610)	$ (2,264)
Loss per share:					
Basic	19	$ (0.01)	$ (0.01)	$ (0.06)	$ (0.02)
Diluted	19	(0.01)	(0.01)	(0.06)	(0.02)

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

	Three Months Ended September 30 2014	Three Months Ended September 30 2013	Nine Months Ended September 30 2014	Nine Months Ended September 30 2013
Net loss for the period	$ (1,025)	$ (1,021)	$ (6,610)	$ (2,264)
Other comprehensive (loss) income:				
Foreign currency translation difference for foreign operations	468	(649)	(3,739)	(808)
Mark-to-market losses on available-for-sale securities	(238)	–	(3,425)	–
Total comprehensive loss for the period	$ (795)	$ (1,670)	$ (13,774)	$ (3,072)

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

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

	Share Capital	Warrants	Contributed surplus	Equity portion of convertible notes	Foreign Currency translation reserve	Investment revaluation reserve	Retained earnings (deficit)	Total
Balance, December 31, 2012	$ 42,132	$ 3,237	$ 9,999	$ –	$ 20	$ –	$ 12,896	$ 68,284
Share-based payments expense	–	–	142	–	–	–	–	142
Expiry of warrants	–	(3,237)	3,237	–	–	–	–	–
Loss for the period	–	–	–	–	–	–	(22,365)	(22,365)
Other comprehensive income	–	–	–	–	(708)	–	–	(708)
Balance, December 31, 2013	42,132	–	13,378	–	(688)	–	(9,469)	45,353
Share-based payments expense	–	–	9	–	–	–	–	9
Issue of convertible notes and warrants	–	325	–	1,402	–	–	–	1,727
Loss for the period	–	–	–	–	–	–	(6,610)	(6,610)
Other comprehensive loss	–	–	–	–	(3,739)	(3,425)	–	(7,164)
Balance, September 30, 2014	$ 42,132	$ 325	$ 13,387	$ 1,402	$ (4,427)	$ (3,425)	$ (16,079)	$ 33,315

For details on movement in shares please see Note 18.

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

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

For the nine months ended	September 30, 2014	September 30, 2013
Cash provided by (used in):		
Cash flows from operating activities:		
Loss for the period	$ (6,610)	$ (2,264)
Adjustments for:		
Depletion and depreciation	392	770
Finance costs	327	2
Share of loss of equity accounted investee	12	27
Equity-settled share-based payment transactions	9	131
Deferred income tax expense	(204)	(481)
Write off of property, plant and equipment	–	6
	(6,074)	(1,809)
Change in non-cash working capital	1,294	666
Net cash flows from operating activities	(4,780)	(1,143)
Cash flows from financing activities:		
Convertible notes	5,088	–
Net cash flows from financing activities	5,088	–
Cash flows from investing activities:		
Additions of property, plant and equipment and intangible assets	(53)	(85)
Change in non-cash working capital	(254)	333
Net cash flows from investing activities	(307)	248
Effect of exchange rate changes on cash and cash equivalents	(1)	(16)
Change in cash and cash equivalents	–	(911)
Cash and cash equivalents, beginning of period	10	940
Cash and cash equivalents, end of period	$ 10	$ 29

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 5) ("Alhambra" or the "Group") is engaged in exploration for and development of mineral properties in Kazakhstan. In addition to its exploration and development activities, Alhambra also produces gold from a pilot project on a portion of its Kazakhstan license, the Uzboy gold deposit, which 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 financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"). 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 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 revenue to meet its obligations. This revenue, however, has not been 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, 2014, the Group incurred a net loss of $6,610. In addition, as a result of the Alhambra's financial condition, the Corporation has been unable to maintain its operations at an economically efficient level and as such has suspended these operations. As a result, no gold is currently being produced or sold and the Corporation is therefore not currently generating any revenue. Without revenue from the sale of gold or sourcing cash from outside the Corporation, the Corporation is unable to either satisfy obligations to creditors and employees or settle with the government of Kazakhstan for any obligations that may come due. 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. There is no guarantee that the Corporation will be successful in raising sufficient funds to continue as a going concern. However, 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 25). There is no guarantee that if a financing is arranged, such financing will be approved by the government of Kazakhstan.

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.

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

3. Basis of preparation:

(a) Statement of compliance:

These unaudited consolidated financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in annual financial statements prepared in according with IFRS as issued by the IASB have been condensed or omitted. These unaudited consolidated financial statements were approved by the Board of Directors on November 26, 2014.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the financial instruments at fair value through profit or loss, which are measured at fair value.

(c) Functional and presentation currency:

These consolidated financial statements are presented in thousands of U.S. dollars ("US$") (unless otherwise indicated) which is the functional currency of the subsidiaries (note 5) other than Saga Creek and Goodwin, for which the functional currency for each is the Kazakhstan Tenge ("KZT"). The functional currency of the Corporation is the Canadian dollar. A U.S. dollar presentation currency is used as this is the primary currency of global gold producing companies.

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

(i) Critical judgments in applying accounting policies

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

The application of the Corporation's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found.

(ii) Key sources of estimation uncertainty

Information about significant areas of estimation uncertainty that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

Note 9 – Valuation of marketable securities

Note 10 – valuation and quantity of work in progress inventories;

Note 11 – valuation of property, plant and equipment;

Note 12 – valuation of intangible assets;

Note 16 – provisions;

Note 18 – measurement of share-based payments, valuation of warrants and valuation of equity portion of convertible notes.

4. 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, 2013. The interim consolidated financial statements include all adjustments necessary to present fairly the results for the interim period ended September 30, 2014. 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.

(a) Application of new and revised accounting standards

The Corporation has applied the following new interpretations and amendments to existing IFRSs in its unaudited consolidated financial statements:

(i) IFRIC 21 - Levies

IFRIC 21 sets out the accounting for an obligation to pay a levy imposed by governments that is not an income tax. IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The application of IFRIC 21 did not result in an adjustment to the Corporation's unaudited consolidated financial statements.

(b) New standards and applications not yet effective

(i) IFRS 9 Financial Instruments

In July, 2014 the IASB issued the final version of IFRS 9 that will replace IAS 39 *Financial Instruments: Recognition and Measurement* and intends to reduce the complexity in the classification and measurement of financial instruments. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation is currently assessing the impact that the final standard will have on its consolidated financial statements.

(ii) IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 which covers principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2017, with earlier application permitted. The Corporation is currently assessing the impact that the final standard will have on its consolidated financial statements.

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

5. Particulars of subsidiaries:

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

	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held directly or indirectly September 30 2014	2013
Saga Creek Gold Company LLP	Mining	Kazakhstan	100%	100%
Goodwin Golems LLP	Holding Company	Kazakhstan	100%	100%
Alhambra Overseas Ltd.	Holding Company	Cyprus	100%	100%
Alhambra Cooperatief U.A.	Holding Company	Netherlands	100%	100%
1450165 Alberta Ltd.	Holding Company	Canada	100%	100%

6. Finance costs:

	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Interest on trade payables	$ 20	$ 20	$ 58	$ 62
Interest on promissory note (note 14)	16	17	48	51
Interest on overdue taxes (note 26)	4	6	13	16
Interest on convertible notes (note 15)	157	−	340	−
Amortization of discount on convertible notes (note 15)	148	−	327	−
Unwinding of discount on provisions	−	1	−	2
Foreign exchange loss	(113)	274	3,670	521
Total finance costs	$ 232	$ 318	4,456	$ 652

7. Administrative Expenses:

	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Employee costs	$ 249	$ 357	$ 829	$ 1,185
Professional fees	98	57	148	205
Corporate maintenance costs	22	42	107	133
Office costs	77	75	281	269
	$ 446	$ 531	$ 1,365	$ 1,792

Administrative expenses include share-based payments expenses (a non-cash item) of $9 and $131 which have been included in employee costs for the nine months ended September 30, 2014 and 2013, respectively.

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

8. Cash and cash equivalents:

	September 30, 2014	December 31, 2013
Bank balances	$ 10	$ 10
Total cash and cash equivalents	$ 10	$ 10

9. Marketable securities:

During the nine months ended September 30 2014 the Corporation received 2,764,500 ordinary shares of Global Resources Investment Trust plc ("GRIT") at a deemed price of £1 per GRIT share in exchange for a CDN$5.0 million convertible note plus 5 million warrants (note 15). GRIT is a new investment trust established to seek to exploit investment opportunities in the junior mining and natural resources sectors and whose ordinary shares trade on the London Stock Exchange's ("LSE") main market for listed securities.

While to date there have been some trades of GRIT shares on the LSE, the trading activity has been very limited and sporadic. GRIT does however report publicly its unaudited net asset value per share ("NAV") daily. As of September 30 and November 26, 2014 the NAV of the GRIT ordinary shares as reported by GRIT was £0.6111 and £0.5303 per share, respectively. The GRIT shares however have actually traded at prices ranging from £0.25 and £0.70 per share with the majority of ordinary shares trading at or near the bottom of that range.

The Corporation's investment in the GRIT shares is classified as available-for-sale and is measured with mark-to-market gains and losses recognized in other comprehensive income ("OCI") and accumulated in the investment revaluation reserve within equity until the GRIT ordinary shares are derecognized or there is objective evidence that the GRIT shares are impaired. When the investment in GRIT shares is derecognized, the cumulative mark-to-market gains or losses that had been previously recognized in OCI are reclassified to loss for the period. When there is objective evidence that the value of the GRIT ordinary shares is impaired, the cumulative loss that had been previously recognized in OCI is reclassified to loss for the period. While there has been a very limited market for trading of GRIT ordinary shares during the nine months ended September 30, 2014, the Corporation has used £0.25 as the price in determining the carrying value of its investment in GRIT ordinary shares which is reflective of recent trades of reasonable magnitude. As a result the Corporation has charged to the OCI account $3,425 as the investment revaluation reserve.

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

10. Inventories:

	September 30, 2014	December 31, 2013
Ore	$ 19,341	$ 22,903
Gold in circuit	–	–
Concentrate	–	–
Total work in progress	19,341	22,903
Raw material and supplies	551	662
Total inventories	19,892	23,565
Less:		
Non-current inventories	19,341	22,903
Total current inventories	$ 551	$ 662

At December 31, 2013 the Corporation reviewed the estimated quantity of gold contained in work in progress and in addition performed the net realizable test on the value of that gold. As mining operations had been suspended due to issues relating to the Corporation's current financial condition, the Corporation was better able to analyze the quantity of gold contained in various processes more specifically, gold in circuit and in concentrate. The Corporation determined that it should reduce the quantity of gold in work in progress to 30,000 ozs from the 36,050 ozs previously recorded. This write down is reflective of an estimated recovery rate of 65% for gold that is mined and stacked on the heap leach pads. The Corporation had adjusted the recovery from 70% to 65% on September 15, 2009 when the assets were revalued in connection with the court decision which returned the assets to the Corporation. Up until that date the recovery rate used was 70%. The Corporation reported a loss of $7,744 in connection with this adjustment in the fourth quarter of 2013.

In addition to the adjustment made related to gold contained in work in progress, the Corporation determined that the net realizable value of the work in progress required a further adjustment to reflect current gold prices. As a result an additional write off of $1,540 was taken at December 31, 2013. This write down reflects the decrease in estimated gold price. The gold price assumed in the net realizable value analysis was $1,255 per oz.

The total write off of work in progress inventory made in the fourth quarter of 2013 was $9,284.

As the Corporation has suspended operations, no expenses related to operating costs are being charged to work in progress. These costs are being expensed directly to cost of sales expense. The decrease in the balance in work in progress from December 31, 2013 to September 30, 2014 is due to the change in the value of the KZT in relation to the US$ over the period. As reported the KZT was devalued by approximately 19% effective February 11, 2014.

At September 30, 2014, the Corporation also had $552 (December 31, 2013 - $662) of raw materials and supplies inventory which is used in its operations.

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

11. Property, plant and equipment:

	Machinery and equipment	Mining assets being depleted	Buildings and construction	Total
Cost:				
Balance as at December 31, 2012	$ 3,030	$ 75,255	$ 4,428	$ 82,713
Additions	1	2	–	3
Effect of foreign exchange	(146)	(1,400)	(83)	(1,629)
Balance as at December 31, 2013	2,885	73,857	4,345	81,087
Effect of foreign exchange	(453)	(11,603)	(683)	(12,739)
Balance as at September 30, 2014	$ 2,432	$ 62,254	$ 3,662	$ 68,348
Accumulated depletion and depreciation:				
Balance as at December 31, 2012	$ 2,368	$ 15,285	$ 1,255	$ 18,908
Impairment	–	22,644	–	22,644
Depletion and depreciation for the year	454	146	385	985
Effect of foreign exchange	(131)	(286)	(27)	(444)
Balance as at December 31, 2013	2,691	37,789	1,613	42,093
Depletion and depreciation for the year	148	–	241	389
Effect of foreign exchange	(446)	(5,937)	(291)	(6,674)
Balance as at September 30, 2014	$ 2,393	$ 31,852	$ 1,563	$ 35,808
Carrying amounts:				
At December 31, 2012	$ 662	$ 59,970	$ 3,173	$ 63,805
At December 31, 2013	194	36,068	2,732	38,994
At September 30, 2014	39	30,402	2,099	32,540

At December 31, 2013, an impairment test was triggered because the carrying amount of property, plant and equipment was more than the Corporation's market capitalization on that date indicating that the assets may be impaired. As a result a detailed test was carried out and based on the results of the test, the Corporation recorded an impairment charge of $22,644 in the fourth quarter of 2013. The impairment was primarily the result of a delay in timing of the planned development of the transitional and sulphide zones of the Uzboy gold deposit ("Uzboy") due to the Corporation's financial condition together with general market conditions that are impacting junior gold mining companies. Another factor that impacted the impairment test was the recent decline in the Corporation's long term gold price assumption. The key assumptions and estimates used in the impairment test to determine the net asset value are commodity prices, discount rates, operating costs, exchange rates and capital expenditures. For purposes of the test for impairment at December 31, 2013, the Corporation assumed a gold price of $1,250 per oz for 2014 and $1,300 per oz thereafter and an after tax discount rate of 14%.

The Corporation has temporarily suspended operations due to issues relating to the Corporation's current financial condition. As a result all depreciation and depletion recorded is charged directly to earnings and does not get charged to work in progress. The decrease in the balance in property, plant and equipment from December 31, 2013 to September 30, 2014 is due to the change in the value of the KZT in relation to the US$ over the period. As reported the KZT was devalued by approximately 19% effective February 11, 2014.

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

12. Intangible assets:

	Exploration and evaluation expenditures	Computer software	Total
Cost:			
Balance as at December 31, 2012	$ 9,631	$ 81	$ 9,712
Additions	108	–	108
Effect of foreign exchange	(223)	(1)	(224)
Balance as at December 31, 2013	9,516	80	9,596
Additions	53	–	53
Effect of foreign exchange	(1,383)	(12)	(1,395)
Balance as at September 30, 2014	$ 8,186	$ 68	$ 8,254
Accumulated depreciation:			
Balance as at December 31, 2012	$ –	$ 21	$ 21
Depreciation for the year	–	6	6
Balance as at December 31, 2013	–	27	27
Depreciation	–	3	3
Effect of foreign exchange	–	(4)	(4)
Balance as at September 30, 2014	$ –	$ 26	$ 26
Carrying amounts:			
At December 31, 2012	$ 9,631	$ 60	$ 9,691
At December 31, 2013	9,516	53	9,569
At September 30, 2014	8,186	42	8,228

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. The decrease in the balance in intangible assets from December 31, 2013 to September 30, 2014 is due to the change in the value of the KZT in relation to the US$ over the period. As reported the KZT was devalued by approximately 19% effective February 11, 2014.

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

13. Investment in equity accounted investee:

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

	September 30, 2014	December 31, 2013
DOT Resources Ltd.		
Ownership	27%	27%
Current assets	$ 1	$ 1
Non-current assets	3,204	3,372
Total assets	3,205	3,373
Current liabilities	925	954
Total liabilities	925	954
Revenues	$ –	$ –
Expenses	46	168
Loss	$ (46)	$ (168)

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

Balance as at December 31, 2012	$ 493
Share of loss	(45)
Effect of foreign exchange	(31)
Balance as at December 31, 2013	417
Share of loss	(12)
Effect of foreign exchange	(21)
Balance as at September 30, 2014	$ 384

Pursuant to a Plan of 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.

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, 2014, the market trading value of the 15,000,001 DOT shares owned by Alhambra was CDN$0.900 million.

14. Promissory note:

On April 1, 2012 the Corporation issued to an unrelated third party, a one year, 14% unsecured promissory note (the "Promissory Note") for a total proceeds of CDN$0.5 million. The principle and accrued interest on the Promissory Note was originally due and payable on or before March 31, 2013 but the lender agreed to extend the maturity date to July 19, 2013. The Corporation is in discussion with the holder of the Promissory Note to further extend the maturity date. To date the lender has not taken any action to force collection.

15. Convertible notes:

On December 20, 2013 the Corporation entered into agreements to issue up to CDN$5.650 million in convertible notes (the "Notes") plus 5.650 million warrants (the "Warrants"). The Notes have a term of three years from the date of issue with interest calculated using the nominal interest method at a rate of 12% per annum. Interest and principle under the Notes are convertible into the common shares of the Corporation at the option of the holder at CDN$0.25 per common share during the term of the Notes. The Corporation has the right to pay interest on the Notes in cash or shares. The Corporation also has the right to force conversion of the principal and accrued and unpaid interest under the Notes into the shares of Alhambra at a minimum price of US$0.20 per share. If the weighted average trading price of the Corporation's common shares for any five trading days within ten consecutive trading days equals or exceeds CDN$0.35 per common share, any outstanding balance owing on the Notes will automatically convert to common shares.

The Warrants have an exercise price of CDN$0.30 per common share and are exercisable for three years from the date of issue of related Notes. Similar to the terms attached to the Notes, if the weighted average trading price of the Corporation's common shares for any five trading days within ten consecutive trading days equals or exceeds CDN$0.35 per common share, the Warrant holder is required to convert any Warrants outstanding at that time.

During the nine months ended September 30, 2014 the Corporation completed the issue of CDN$5.650 million of Notes and 5.650 million Warrants. In consideration for issuing the Notes and Warrants, the Corporation received CDN$0.650 million in cash and 2,764,500 ordinary shares of GRIT at a deemed price of £1 per GRIT share. At the time the Corporation sells the 2,764,500 of GRIT ordinary shares, the terms related to CDN$0.650 million in Notes that were issued for cash require that the Corporation repay any principal balance plus accrued interest outstanding plus CDN$0.0325 million in early redemption fees. Upon repayment, any Warrants then outstanding related to the CDN$0.650 million in Notes will expire.

The Notes were classified as long-term liabilities on the consolidated statement of financial position with $1,402 and $325 allocated to the fair value of the conversion feature and the Warrants, respectively. The carrying values of the Notes are being accreted to the original face values of the obligations over the three year term of the Notes. Accretion expense of $327 was charged to finance costs during the nine months ended September 30, 2014.

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

16. Provisions:

Changes to the provisions are as follows:

		Site restoration
Balance, December 31, 2012	$	743
Liabilities incurred		24
Unwinding of the discount		2
Balance, December 31, 2013		769
Liabilities incurred		(119)
Unwinding of the discount		–
Balance, September 30, 2014	$	650
Current	$	–
Non-current		650

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, 2014 is approximately $650 (December 31, 2013 - $769). The liability was determined using an inflation rate of 6.6% (December 31, 2013 – 6.6%) and an estimated life of mine of 10 years for Uzboy (December 31, 2013 - 10 years). A discount rate of 5.5% was used (December 31, 2013 – 5.5%). The undiscounted value of this liability is approximately $1,315 (December 31, 2013 - $1,315).

17. 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.

Because of financial limitations the Corporation is not able to estimate with any certainty the amount it will spend on exploration activities during the next year. The Corporation has identified at least $3,000 in exploration projects that could be completed during the next twelve months should financing be completed in the near future.

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)

18. 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, 2014			Year ended December 31, 2013		
	Number		Amount	Number		Amount
Common shares						
Balance, beginning of period	104,132,059	$	42,132	104,132,059	$	42,132
Share option exercised	–		–	–		–
Transfer on exercise of option	–		–	–		–
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.

Share-based compensation has been included as part of employee costs within Administrative Expenses (note 7).

A summary of the status of the Corporation's share option plan as at September 30, 2014 and December 31, 2013 and changes during the periods then ended are as follows:

	Nine months ended September 30, 2014			Year ended December 31, 2013		
	Number of options		Weighted average exercise price CDN$	Number of options		Weighted average exercise price CDN$
Outstanding, beginning of period	7,443,500	$	0.58	8,743,500	$	0.58
Granted	–		–	–		–
Forfeited/expired	(3,168,500)		0.22	(1,300,000)		0.54
Outstanding, end of period	4,275,000	$	0.84	7,443,500	$	0.58

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

Share options outstanding:

(i) The following table summarizes information concerning outstanding and exercisable options at September 30, 2014:

Exercise Price (CDN$/option)	Options outstanding	Options exercisable	Remaining Contractual life (years)	Grant date fair value ($/per option)
$ 0.315	225,000	225,000	0.14	0.27
$ 0.34	300,000	300,000	3.05	0.23
$ 0.53	1,000,000	1,000,000	0.81	0.44
$ 1.05	2,750,000	2,750,000	1.32	0.92
	4,275,000	4,275,000	1.26	$ 0.53

(ii) The following table summarizes information concerning outstanding and exercisable options at December 31, 2013:

Exercise Price (CDN$/option)	Options outstanding	Options exercisable	Remaining Contractual life (years)	Grant date fair value ($/per option)
$ 0.22	3,168,500	3,018,500	1.24	$ 0.20
$ 0.315	225,000	225,000	0.88	0.27
$ 0.34	300,000	255,000	3.80	0.23
$ 0.53	1,000,000	1,000,000	1.56	0.44
$ 1.05	2,750,000	2,750,000	2.07	0.92
	7,443,500	7,218,500	1.68	$ 0.49

A reconciliation of contributed surplus is provided below:

	Nine months ended September 30, 2014	Year ended December 31, 2013
Balance, beginning of period	$ 13,378	$ 9,999
Share-based compensation expense	9	142
Transferred on expiry of warrants	–	3,237
Balance, end of period	$ 13,387	$ 13,378

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

(d) Warrants:

The changes in warrants during the nine months ended September 30, 2014 and the year ended December 31, 2013 were as follows:

	Number of Warrants		Amount		Weighted average exercise price
Balance, December 31, 2012	9,302,325	$	3,237	$	0.72
Re-valuation due to extension of expiry date	–		–		–
Expired unexercised	(9,302,325)		(3,237)		0.72
Balance, December 31, 2013	–		–		–
Pursuant to Notes (note 15)	5,650,000		325		0.27
Balance, September 30, 2014	5,650,000	$	325	$	0.27

During the first quarter of 2014, the Corporation issued 5,650,000 warrants in connection with the issue of the Notes (note 15). The fair value of the warrants was estimated on the dates that the warrants were issued using the Black-Scholes option pricing model. The weighted average fair value of the warrants was calculated to be $325 using the following weighted-average assumptions:

	2014
Fair value of warrants granted (CDN$/share)	0.06
Expected life (years)	3.0
Risk free interest rate (%)	1.22
Expected volatility (%)	100
Expected dividend yield (%)	–

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 the Ministry for Investments and Development for Kazakhstan or "MID" (successor to the Ministry of Industry and New Technology or "MINT")). The Corporation received MID's approval on September 11, 2012 (the "Approval"). The Corporation calculated the fair value of the extension of these warrants to be $1,041. These warrants expired unexercised in 2013 on their extended expiry dates.

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

(e) Equity portion of convertible notes:

The Corporation determined the fair value of the conversion feature granted as part of the Notes (note 15) on the dates the Notes were issued using the Black-Scholes option pricing model. The weighted average fair value of the conversion feature was calculated to be $1,402 using the following weighted-average assumptions:

	2014
Fair value of equity portion of Notes (CDN$/share)	0.07
Expected life (years)	3.0
Risk free interest rate (%)	1.22
Expected volatility (%)	100
Expected dividend yield (%)	–

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

19. 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, 2014	2013	Nine Months Ended September 30, 2014	2013
Weighted average number of common shares (basic)	104,132,059	104,132,059	104,132,059	104,132,059
Effect of share options outstanding	–	–	–	–
Effect of warrants outstanding	–	–	–	–
Effect of conversion of Notes	–	–	–	–
Weighted average number of Common shares (diluted)	104,032,059	104,132,059	104,132,059	104,132,059

The following potential ordinary shares, outstanding at the period-end 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,	2014	2013
Options	4,275,000	8,743,500
Warrants	5,650,000	–
Shares issuable upon conversion of Notes	22,600,000	–
	32,525,000	8,743,500

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

20. Related party transactions:

Balances and transactions between the Group 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 and three months ended September 30, 2014 and 2013 were as follows:

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Short-term employee benefits	$ 175	$ 188	$ 531	$ 576
Share-based payments	–	24	9	131
Director fees	–	–	–	–
	$ 175	$ 212	$ 540	$ 707

In addition to their salaries, executive officers also participate in the Group's share option program (see Note 18(c)).

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

21. 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, 2014 the Group had no gold production or sales. For the nine months ended September 30, 2013 substantially all of the Group's gold production was sold to one customer.

	Kazakhstan	Canada	Total
As at September 30, 2014:			
Segment assets	$ 60,834	$ 1,607	$ 62,441
Segment liabilities	19,919	9,207	29,126
For the nine months ended September 30, 2014:			
Sales	$ –	$ –	$ –
Net smelter royalty	–	–	–
Cost of sales	(589)	–	(589)
Depletion and depreciation	(389)	(3)	(392)
Finance costs	(3,575)	(881)	(4,456)
Administrative expenses	(560)	(805)	(1,365)
Share of loss of equity accounted investee	–	(12)	(12)
Income (loss) before income taxes	(5,113)	(1,701)	(6,814)
Income tax recovery (expense)	204	–	204
Segment income (loss)	$ (4,909)	$ (1,701)	$ (6,610)
Capital expenditures	$ 53	$ –	$ 53

	Kazakhstan	Canada	Total
As at September 30, 2013:			
Segment assets	$ 104,739	$ 566	$ 105,305
Segment liabilities	35,765	4,197	39,962
For the nine months ended September 30, 2013:			
Sales	$ 2,493	$ –	$ 2,493
Net smelter royalty	(75)	–	(75)
Cost of sales	(1,922)	–	(1,922)
Depletion and depreciation	(766)	(4)	(770)
Finance costs	(474)	(178)	(652)
Administrative expenses	(730)	(1,062)	(1,792)
Share of loss of equity accounted investee	–	(27)	(27)
Income (loss) before income taxes	(1,474)	(1,271)	(2,745)
Income tax recovery (expense)	481	–	481
Segment income (loss)	$ (993)	$ (1,271)	$ (2,264)
Capital expenditures	$ 85	$ –	$ 85

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

	Kazakhstan	Canada	Total
As at September 30, 2014:			
Segment assets	$ 60,834	$ 1,607	$ 62,441
Segment liabilities	19,919	9,206	29,125
For the three months ended September 30, 2014:			
Sales	$ –	$ –	$ –
Net smelter royalty	–	–	–
Cost of sales	(168)	–	(168)
Depletion and depreciation	(124)	(1)	(125)
Finance costs	203	(435)	(232)
Administrative expenses	(202)	(244)	(446)
Share of loss of equity accounted investee	–	(1)	(1)
Income (loss) before income taxes	(291)	(681)	(972)
Income tax recovery (expense)	(53)	–	(53)
Segment income (loss)	$ (344)	$ (681)	$ (1,025)
Capital expenditures	$ 17	$ –	$ 17

	Kazakhstan	Canada	Total
As at September 30, 2013:			
Segment assets	$ 104,739	$ 566	$ 105,305
Segment liabilities	35,765	4,197	39,962
For the three months ended September 30, 2013:			
Sales	$ 662	$ –	$ 662
Net smelter royalty	(20)	–	(20)
Cost of sales	(565)	–	(565)
Depletion and depreciation	(224)	(2)	(226)
Finance costs	(305)	(13)	(318)
Administrative expenses	(266)	(265)	(531)
Share of loss of equity accounted investee	–	(23)	(23)
Income (loss) before income taxes	(718)	(303)	(1,021)
Income tax recovery (expense)	–	–	–
Segment income (loss)	$ (718)	$ (303)	$ (1,021)
Capital expenditures	$ 24	$ –	$ 24

22. 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 maintain its operations and carry out its capital expenditure programs. In addition, Alhambra's mining operations are currently suspended due to issues relating to the Group's financial condition. As a result, Alhambra is not selling any gold nor is it generating any revenue.

In order for Alhambra to continue as a going concern the Corporation must complete financings (note 2). 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 requirement except to the extent that any issue of common shares must first be approved by the government of Kazakhstan (note 25).

23. 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. Up until 2011, Saga Creek had been successful in collecting all material amounts due and owing.

On February 5, 2013, Saga Creek submitted its annual VAT return with a request to refund the excess VAT paid during the fiscal year ended December 31, 2012, in the amount of $555. Upon completion of the VAT audit on April 30, 2013, local tax authorities provided Saga Creek with the VAT Assessment Notice outlining the results of the audit, and disallowed $369. The balance of the VAT refund in the amount equal to $186 was received by Saga Creek in May of 2013.

The vast majority of the disallowed amount, namely $354, was as a result of 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.

During 2013 the Corporation challenged in the courts of Kazakhstan the legality of the application of the Rules however the courts sided with the tax department. 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. While Alhambra disagrees with applicability of the RMS and the Rules to its subsidiary it recognizes that the collection of the outstanding amount will at best be sometime in the future and is not within the control of Saga Creek. Therefore during the fourth quarter of 2013 the Corporation provided for an allowance for the non-collectibility of the $348 denied by the tax authorities.

As at September 30, 2014 approximately 78% (December 31, 2013 - 83%) of the recorded value of accounts receivable relates to VAT.

When Saga Creek is operating it 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. As Saga Creek is not currently operating and producing and gold for sale, there are not accounts receivable relating to the sale of gold.

Cash and cash equivalents consist of bank balances that are redeemable at any time at the option of the Group. The Group manages the credit exposure related to its cash deposits by depositing them only with large banks within a particular region 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, 2014 the Group has provided $675 for the non-collectibility of an account receivable from DOT and $294 for the non-collectibility by Saga Creek of VAT receivable from the Government of Kazakhstan based on foreign exchange rates on that date. The Group has no other allowances for doubtful accounts as at September 30, 2014.

(b) Liquidity risk:

Liquidity risk is the risk that the Group will not be able to meet its obligations as they come due. As a result of the Alhambra's financial condition, the Corporation has been unable to maintain its operations at an economically efficient level and as such has suspended these operations. As a result, no gold is currently being produced or sold and the Corporation is therefore not currently generating any revenue. Without revenue from the sale of gold or sourcing cash from outside the Corporation, the Corporation is unable to either satisfy obligations to creditors and employees or settle with the government of Kazakhstan for any obligations that may come due. As a result there is significant doubt about the ability of the Group to continue as a going concern without additional financing (note 2). 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 maintaining adequate funds in the currencies required for timely payment of liabilities and to maintain efficient business operations.

CDN monetary assets and liabilities (CDN$000's) As at		September 30, 2014		December 31, 2013
Cash and cash equivalents	$	10	$	10
Trade and other receivables		77		47
Deposits and prepaid expenses		12		6
Trade and other payables		(5,671)		(4,339)
Note		(500)		(500)
Convertible notes		(5,650)		–
Total net monetary assets in foreign currency	$	(11,722)	$	(4,776)

For the nine months ended September 30, 2014, 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 increased or decreased, respectively by approximately $1,046 for the nine months ended September 30, 2014 (year ended December 31, 2013 – $448).

CDN monetary assets and liabilities As at		September 30, 2014		December 31, 2013
Cash and cash equivalents	KZT	177	KZT	194
Trade and other receivables		28,725		43,285
Deposits and prepaid expenses		5,429		8,017
Trade and other payables		(887,157)		(752,754)
Total net monetary (liabilities) in foreign currency	KZT	(852,826)	KZT	(701,258)

For the nine months ended September 30, 2014, based on the net foreign exchange exposure at the end of the period, if the KZT 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, respectively by approximately $375 for the nine months ended September 30, 2014 (year ended December 31, 2013 – $365).

In addition the Corporation holds marketable securities consisting of 2,764,500 ordinary shares of GRIT which are valued at £0.25 per ordinary share. For the nine months ended September 30, 2014, 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 Euro and all other variables were held constant, the after tax net loss would have decreased or increased respectively by $112.

(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, 2014 and 2013 were 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.

24. Outstanding legal challenges:

(a) Legal action for unpaid salaries:

As of September 30, 2014 the amount owing related to unpaid salaries to Saga Creek employees totaled approximately KZT 151 million (approximately $830) including government taxes of approximately KZT257 million (approximately $137). Of this amount formal claims for unpaid salaries totaling approximately KZT 79 million (approximately $435) have been submitted to the

Kazakhstan courts on behalf of a number of employees of Saga Creek. Acceptance of the claims by the courts allows the court execution agency to attach and sell property of Saga Creek within the limits of the claim amounts including having any funds that come available and are deposited into Saga Creek's bank accounts paid to the employees. As a result the court execution agency has initiated execution proceedings to collect the amount claimed which includes an assessment of Saga Creek's assets for potential future sale.

(b) Creditor actions:

A number of creditors have filed legal actions with the Kazakhstan courts related to amounts owing by Saga Creek for unpaid goods and services provided by these creditors. The amount claimed by these creditors including interest and state charges, totals approximately KZT 202 million (approximately $1,110). While some of these claims are still being heard by the relevant courts in Kazakhstan, the Corporation believes that they represent legitimate obligations of Saga Creek. Similar to the actions related to unpaid salaries, acceptance of the claims by the courts allows the creditors to attach and sell property of Saga Creek within the limits of the claim amounts including having any funds that come available and are deposited into Saga Creek's bank accounts redirected to the creditors' accounts to settle the outstanding amounts. However claims by employees for unpaid salaries must be paid first before these creditor claims can be settled.

25. 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 MID. 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 MID to have pre-approved, any shares that may be issued upon conversion of outstanding warrants and options as well as requested that MID 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 MID. On September 11, 2012 the Corporation received MID's approval. This approval was effective for nine 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 MID was considering the Corporation's application, the trading price of Alhambra's common shares dropped below that floor. As a result the Corporation applied to MID to have that floor price reduced. Effective December 25, 2012 the Corporation received approval from MID to reduce the floor price to $0.20 per common share. This approval was effective for nine months. As provided for under Kazakhstan legislation, the Corporation applied for an extension. The application was submitted and accepted by MID effectively extending the approval date to December 25, 2013.

On October 13, 2014, the Corporation filed an application with, to issue up to 150,000,000 common shares and/or instruments conferring rights to such common shares or convertible to such common shares, in one or more tranches at prices ranging between CDN$0.05 and CDN$1.00 per common share. The application requests that the Government of Kazakhstan exercise or waive its pre-emptive right and provide the necessary approvals. The appropriate agencies within the government are currently reviewing Alhambra's application.

26. 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 this 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 was reduced by $574 from $729 to $155. This difference was recorded as a decrease in intangible assets during 2012. In addition, also during 2012 the penalty and interest was 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. As at September 30, 2014 the total amount of the CDB liability included in trade and other payables on the balance sheet including the tax, accrued interest and penalties totals $240 (based on the US$/KZT foreign exchange rate at September 30, 2014). During the nine months ended September 30, 2014, $13 of interest on the outstanding balance was charged to finance charges.

27. Historical costs:

In 2010, the local tax authority assessed Saga Creek with Historical Costs in the amount of US$15.8 million payable by equal annual installments starting from 2009 until 2019. Saga Creek disagreed with that assessment and appealed it to the court. After a series of court hearings, on September 27, 2011, the Cassation Chamber of the Akmola Oblast Court rendered a decision (the "Decision") in favor of Saga Creek holding that the assessment of Historical Costs in the amount of US$15.8 million was against the law because, among others, (i) the subsoil use contract and other contracts to which Saga Creek was a party did not impose an obligation on Saga Creek to pay Historical Costs; and (ii) the legislation which introduced Historical Costs as a tax did not apply to the subsoil use contract of Saga Creek. On September 27, 2012, the Decision was upheld on appeal by the Supreme Court of Kazakhstan. Consequently, the Decision became final and the issue of Historical Costs can no longer be raised or questioned by the tax authorities.

However, ignoring the Decision, in January 2014, the local tax authority sent a new notification to Saga Creek claiming that it missed the deadline for paying Historical Costs due in 2009-2013. The tax authority relied on certain technical changes with respect to Historical Costs introduced to the Tax Code of Kazakhstan on December 5, 2013. In the Corporation's opinion, after taking appropriate legal advice, these legislative changes do not affect the result reached in the Decision and do not apply to the subsoil use contract of Saga Creek. Accordingly, Saga Creek appealed the notification to the superior tax authority relying on the Decision. As of the date of these financial statements, the appeal has not yet been disposed of. Saga Creek is going to appeal the notification to the court in the event the superior tax authority refuses the appeal.

In addition, throughout 2013 and 2014, Saga Creek received a number of notifications from MID demanding that Saga Creek sign an amendment to the subsoil use contract introducing an obligation to pay Historical Costs. In the Corporation's opinion, after taking appropriate legal advice, amending of the subsoil use contract requires Saga Creek's prior consent. On that basis, Saga Creek responded to MID that it did not consent to amending the contract, especially after the issue of Historical Costs had been finally resolved by the Decision.

In light of the above developments and the general risks of doing business in Kazakhstan as described herein, there is no guarantee that the tax authorities and/or MID will not bring new claims against Saga Creek that it is liable to pay Historical Costs. In the Corporation's opinion, after taking appropriate legal advice, the risk of such claims being made and that they would succeed is possible but likely not probable. Therefore, no provision for Historical Costs has been recognized in these financial statements.