Alhambra Resources Ltd.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the Nine Months Ended September 30, 2014 (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, 2014 and the factors reasonably expected to impact future operations and results as prepared on November 26, 2014. 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, 2014 and related notes and the audited consolidated financial statements of the Corporation for the year ended December 31, 2013 and related notes. The financial statements have been prepared in accordance with International Financial Reporting Standards. 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 26, 2014. Additional information on the Corporation is available under the Corporation's profile on SEDAR at www.sedar.com.

Forward-Looking Information

Except for the statements of historical fact contained herein, certain statements contained in this MD&A constitute "forward-looking statements" as such term is used in applicable Canadian and US laws. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. In particular, any statements concerning the Corporation's ability to continue as a going concern as described, statements concerning the Corporation's ability to raise capital to meet its obligations, statements concerning the ultimate proceeds that may be recovered on the sale of the ordinary shares of Global Resources Investment Trust plc. ("GRIT"), statements concerning 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 Corporation's liquidity and financial capacity, the Corporation's ability to find funding sources to meet various obligations, the Corporation's ability to sell the GRIT shares and timing thereof, 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 carrying value of marketable securities, 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 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.

The Corporation has been conducting mining operations 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. These mining operations have been suspended due to issues relating to the Corporation's current financial condition which Alhambra is trying to remedy by pursuing various financing options.

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

On September 26, 2008 a statement of claim ("Kazakhstan Lawsuit") was filed in the Specialized Interdistrict Economical Court of the East-Kazakhstan Oblast ("Lower Court") of the Republic of Kazakhstan ("Kazakhstan") 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 Annual Operating and Financial Information

	2014	2013
Operating (for the nine months ended September 30):		
Mining:		
Ore stacked	–	42,630
Grade of ore mined (Grams/Tonne)	–	0.43
Recoverable gold mine (Troy ounces (oz))	–	383
Gold sales (ozs)	–	1,775
Gold in work in progress (ozs)	30,000	36,365
Financial:		
Revenue ($)	–	2,493
Average gold price ($/oz)	–	1,405
Operations expenses ($)	589	1,922
Operations expenses ($/oz)	–	1,083
Net (loss) ($)	(6,610)	(2,264)
Net (loss) per share		
Basic ($/share)	(0.06)	(0.02)
Diluted ($/share)	(0.06)	(0.02)
Capital expenditures ($)	53	85
Total assets ($) (2)	62,441	72,938
Shareholders' equity ($) (2)	33,315	45,353
Common shares outstanding	104,132,059	104,132,059

Notes:

1. Recoverable gold mined is estimated to be equal to 65% of estimated total gold stacked.
2. Total assets, shareholders' equity and common shares reported for 2013 are balances as at December 31, 2013.

During the third quarter of 2014, the Corporation continued to experience financial hardships which prevent it from satisfying many of its outstanding obligations. Due to these financial constraints, the Corporation has been unable to operate its mining facilities efficiently making it difficult to operate economically. As a result, mining operations have been suspended until the Corporation can raise funds to enable mining operations to resume at more optimum levels.

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.

At December 31, 2013 the Corporation reviewed the estimated quantity of gold contained in work in progress and determined that it should reduce the amount recorded to 30,000 ozs.

During the nine months ended September 30 2014 the Corporation received 2,764,500 ordinary shares of GRIT at a deemed price of £1 per GRIT share in exchange for a CDN $5.0 million note plus the issue of 5,000,000 common share purchase warrants. In addition the Corporation issued an additional CDN$0.650 million in notes plus 650,000 warrants for total cash proceeds of $0.650 million. (see note 9 (*'Marketable securities'*), note 15 (*'Convertible notes'*) and note 18 ('*Share capital*') to the September 30, 2014 unaudited consolidated financial statements and the Marketable securities, Convertible notes and Share data sections of this MD&A).

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 loss in each of its geographic areas are disclosed in note 21 (*'Operating segments'*) to the September 30, 2014 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.

Due to the suspension of operations, the Corporation did not sell any gold and consequently there was no gold sales revenue during the nine months ended September 30, 2014.

During the nine months ended September 30, 2013 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 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.

Net smelter royalty

The net smelter royalty ranges from 2.5 to 3.0% (dependent on the price of gold) of the gross revenue. As there was no gold sales revenue in the nine months ended September 30, 2014, there also was no net smelter royalty. During the nine and three months ended September 30, 2013, the Corporation recognized $75 and $20, respectively in net smelter royalty expenses which was 3% of the revenue recognized in the period.

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 but excluding depletion and depreciation. 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.

Despite having suspended operations, the Corporation does incur some fixed operating costs. Under normal operating conditions these costs would be charged to work in progress and expensed as per the Corporation's accounting policy outlined above however with operations suspended, the costs are currently being expensed directly to cost of sales. These fixed operating costs totaled $589 and $168 for the nine months and three months ended September 30, 2014.

Operating costs for the nine months ended September 30, 2013 were $1,922 or $1,083/oz of gold sold. 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. 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

Operating costs for the three months ended September 30, 2013 were $565 or $1,117/oz of gold. 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. For the three months ended September 30, 2013, $35 or $70/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 of cash costs for the three months ended September 30, 2013.

Finance costs

	Three months ended September 30,		Nine months ended September 30	
	2014	2013	2014	2013
Interest on trade payables	$ 20	$ 20	$ 58	$ 62
Interest on promissory note	16	17	48	51
Interest on overdue taxes	4	6	13	16
Interest on convertible notes	157	–	340	–
Amortization of discount on convertible notes	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

During the nine months ended September 30, 2014 the Corporation recorded total finance expenses of $4,456 as compared to $652 for the nine months ended September 30, 2013. During the three months ended September 30, 2014 the Corporation recorded total finance expenses of $232 as compared to $318 for the three months ended September 30, 2013.

Effective February 11, 2014, the Government of Kazakhstan devalued the currency of Kazakhstan (the Tenge or "KZT") by approximately 19% to approximately 185 KZT to the US$. Saga Creek has a debt owing to Alhambra that is denominated in US$. The large foreign exchange loss charged to finance costs in the nine months ended September 30, 2014 is a result of the impact of the devaluation on this debt.

During the nine months ended September 30, 2014, the Corporation issued CDN$5.650 million in 12%, 3 year convertible notes ("Notes") (see note 15 (*'Convertible notes'*) to the September 30, 2014 unaudited consolidated financial statements and the Convertible notes section of this MD&A). Interest of $340 and amortization of discount on convertible notes of $327 related to the Notes was charged to finance costs during the nine months ended September 30, 2014. The corresponding amounts expensed for the three months ended September 30, 2014 were $157 of interest and $148 of amortization of the discount.

Administrative expenses

	Three months ended September 30,		Nine months ended September 30	
	2014	2013	2014	2013
Canada				
Share-based compensation	$ –	$ 24	$ 9	$ 131
Cash based corporate overhead costs	244	241	796	931
Total Canada	244	265	805	1,062
Kazakhstan	202	266	560	730
	$ 446	$ 531	$ 1,365	$ 1,792

Administrative expenses for the nine months ended September 30, 2014 were $1,365, a decrease of $427 over the $1,792 recorded in the nine months ended September 30, 2013. Of the totals, $560 related to the Saga Creek operations for the nine months ended September 30, 2014 as compared to $730 for the nine months ended September 30, 2013. Canadian corporate overhead accounted for the remaining $805 and $1,062 for the nine months ended September 30, 2014 and 2013, respectively.

Administrative expenses for the three months ended September 30, 2014 were $446, a decrease of $85 over the $531 recorded in the three months ended September 30, 2013. Of the totals, $202 related to the Saga Creek operations for the three months ended September 30, 2014 as compared to $266 for the three months ended September 30, 2013. Canadian corporate overhead accounted for the remaining $244 and $265 for the three months ended September 30, 2014 and 2013, respectively.

The decrease in administrative expenses is due to reduced activity resulting from Alhambra's financial limitations.

Share-based compensation totaled $9 for the nine months ended September 30, 2014 as compared to $131 for the nine months ended September 30, 2013. 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. The outstanding options are nearly fully vested which has resulted in the small size of share-based compensation in 2014.

Depletion and depreciation

Depletion and depreciation expense for the nine and three months ended September 30, 2014 was $392 and $125 respectively as compared to $770 and $226, respectively for the nine and three months ended September 30, 2013. Substantially all the amounts for both years relate to the Kazakhstan operation. With the suspension of operations, all depreciation and depletion expense for the 2014 has been charged directly to the statement of loss rather than being first charged to work in progress and then amortized as per the Corporation's accounting policies.

Equity loss

For the nine and three months ended September 30, 2014, the Corporation recorded an equity loss of $12 and $1, respectively related to the Corporation's 27% owned interest in DOT. This compares to the $27 and $23, respectively, recorded for the comparable nine and three month periods in 2013. The decrease in DOT's loss in 2014 as compared to 2013 was a result of higher share-based compensation recorded by DOT on options issued in July of 2013.

Income tax expense

Income tax expense recorded relates entirely to Saga Creek. The Corporation recorded and income tax recovery of $204 and an income tax expense of $53, for the nine and three months ended September 30, 2014, respectively as compared to income tax recoveries of $481 and $nil, respectively for the comparable periods in 2013. The income taxes recorded were all deferred income tax. Due to a reduction in operations, Saga Creek had taxable losses both 2014 and 2013.

Net loss

The Corporation recorded a net loss of $6,610 for the nine months ended September 30, 2014 compared to a net loss recorded in nine months ended September 30, 2013 of $2,264. For the three months ended September 30, 2014 the Corporation recorded a net loss of $1,025 as compared to a net loss of $1,021 for the comparable three month period ended September 30, 2013.

Kazakhstan operations for the nine months ended September 30, 2014 reported a net loss of $4,909 as compared to a net loss of $993 for the nine months ended September 30, 2013. The $3,916 increase in the loss for nine months ended September 30, 2014 from 2013 is primarily the result of the large foreign exchange loss (as detailed above).

Kazakhstan operations for the three months ended September 30, 2014 reported a net loss of $344 as compared to a net loss of $718 for the three months ended September 30, 2013.

Canadian corporate losses for the nine months ended September 30, 2014 totaled $1,701 as compared to a net loss recorded in nine months ended September 30, 2013 of $1,271. The increase in the net loss was due to additional finance costs associated with the GRIT loan.

Canadian corporate losses for the three months ended September 30, 2014 totaled $681 as compared to a net loss recorded in three months ended September 30, 2013 of $303. Again, the increase in the net loss was due to additional finance costs associated with the GRIT loan.

Based on a weighted average number of common shares of 104,132,059 for both 2014 and 2013, the Corporation's basic and diluted net loss per common share was $0.06 and $0.01, respectively for the nine and three months ended September 30, 2014 and $0.02 and $0.01, respectively for the nine and three month periods ending September 30, 2013.

For both nine months ended September 30, 2014 and 2013 years, all options and warrants outstanding together with the shares that would result from the conversion of the Notes were excluded from the dilutive earnings per share calculation as they would be considered anti-dilutive.

Summarized Cash Flows

For the nine months ended September 30,		2014		2013
Net cash (used in) operating activities	$	(4,780)	$	(1,143)
Net cash provided from financing activities		5,088		–
Net cash (used in) investing activities		(307)		333

Operating cash flow

For the nine months ended September 30, 2014, net cash used in operating activities was $4,780 which was primarily attributed to the large foreign exchange loss reported by Saga Creek in the nine months ended September 30, 2014.

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 $2,264.

Financing cash flow

For the nine months ended September 30, 2014, net cash flow provided from financing activities was $5,088 which was the result of the proceeds from the issuance of the convertible notes which consisted of GRIT ordinary shares and cash.

Investing cash flow

For the nine months ended September 30, 2014, net cash flow used in investing activities was $307 as a result of an addition of $53 to property, plant and equipment plus a $254 reduction in capital related accounts payable.

For the nine months ended September 30, 2013, net cash flow from investing activities was $248 as an addition of $85 to property, plant and equipment was offset by an increase in related trade and other payables of $333.

Selected Balance Sheet Items

Marketable securities

During the nine months ended September 30 2014 the Corporation received 2,764,500 ordinary shares of GRIT at a deemed price of £1 per GRIT share in exchange for a CDN$5.0 million note and 5 million warrants (see note 15 '*Marketable securities'* to the unaudited consolidated financial statements). 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 virtually no trading in the 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 trading subsequent to September 30, 2014. As a result the Corporation has charged to the OCI account $3,425 as the investment revaluation reserve.

Inventories

At December 31, 2013 the Corporation reviewed the estimated quantity of gold contained in work in progress and in addition performed a 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.

Trade and other payables

At September 30, 2014 the Corporation had outstanding $9,840 in trade and other payables (December 31, 2013 - $8,884). 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. The Corporation is continuing to pursue various financing alternatives from which proceeds will be used to pay down these existing obligations.

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.

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.

Provisions

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).

Deferred tax liabilities

At September 30, 2014 the Corporation has $14,542 (December 31, 2013 – $17,462) in deferred tax liabilities that relate primarily to the fair value assigned to Uzboy on the re-acquisition of control of Saga Creek. The decrease in the balance in deferred tax liabilities from December 31, 2013 to September 30, 2014 is due primarily to the change in the value of the KZT in relation to the US$ over the period. As reported the KZT was devalued by approximately 19% effective February 11, 2014.

2014 Capital Expenditure Activity

During the nine months ended September 30, 2014, 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.

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. In addition, with the suspension of operations at Saga Creek, additional external sources of cash are required to enable Alhambra to restart its operations, meet its working capital obligations and to fund its exploration and development program. 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. 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 (see note 25 (*'Government of Kazakhstan pre-emptive right'*) to the September 30, 2014 unaudited consolidated financial statements and the Government of Kazakhstan pre-emptive right section of this MD&A). The Corporation received approval from the Ministry for Investments and Development for Kazakhstan or "MID" (successor to the Ministry of Industry and New Technology or "MINT") to proceed at its discretion with the issue of common shares. As a result of an extension granted by MID this approval was effective until December 25, 2013.

On October 13, 2014, the Corporation filed an application with MID 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.

At September 30, 2014 the Corporation had a working capital deficiency of $8,338 which included $10 in cash and $8,348 in other negative working capital. This compares to a working capital deficiency of $8,299 at December 31, 2013 which included $10 in cash and $8,309 in other negative working capital.

Related party transactions

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

Financial instruments

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

Commitments

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

Because of financial limitations the Corporation is not able to estimate with any certainty the amount it will spend on exploration activities during the remainder of 2014 and into 2015. 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 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, 2014. The following table shows the detailed number of shares, options outstanding as of September 30, 2014 and changes that have occurred up to the date of this MD&A.

	As of September 30, 2014	Change in 2014	Issued in 2014	As of November 26, 2014
Common shares issued and outstanding	104,132,059	–	–	104,132,059
Common shares issuable upon exercise of stock options	4,275,000	(875,000)	–	3,400,000
Common shares issuable upon Conversion of Notes	22,600,000	–	–	22,600,000
Common shares issuable upon exercise of warrants	5,650,000	–	–	5,650,000
Common shares fully diluted	136,657,059	(875,000)	–	135,782,059

Outstanding legal challenges

(a) Legl 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 KZT 25 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 in110ding interest and state charges totals approximately KZT 202 million (approximately $1,127). 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.

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 the MID 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.

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. During 2013 the Corporation charged an additional $5 in interest on the unpaid CDB. 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 of the outstanding balance was charged to finance charges.

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 more 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 the Ministry 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.

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 audited 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.

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.

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, the Corporation re-acquired ownership of 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 Corporation access to revenue to meet its obligations. This revenue, however, has not been sufficient to enable the Corporation to meet all its obligations and carry out significant exploration and development programs. During the nine months ended September 30, 2014 the Corporation incurred a loss of $5,585. 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. During the nine months ended September 30, 2014 the Corporation issued CDN$5.65 million of convertible notes of which CDN$5 million was issued in exchange for shares of GRIT (note 15 (*'Convertible notes'*) to the unaudited consolidated financial statements and the Convertible notes section of this MD&A. In order for the Corporation to receive cash, these shares must be sold. To date none have been sold and until they are sold the Corporation does not know how much will be realized on the sale of these shares since they must be sold at the market value of such shares on the date of the sale. The carrying value of these shares has been written down by $3,425 from their originally recorded value as a result of a mark to market re-valuation. This loss has been recorded as an '*Other comprehensive loss*' and included in the '*Investment revaluation reserve*" in the Shareholders' equity section of the balance sheet.

Irrespective of how much cash will ultimately be realized on the sale of the GRIT shares, it will be necessary for the Corporation to raise additional funds to meets its obligations and continue 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 ('Government of Kazakhstan pre-emptive right') to the audited consolidated financial statements and the Government of Kazakhstan pre-emptive right in this MD&A).

Basis for Preparation

The unaudited consolidated financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* IFRS 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. Accordingly, the interim consolidated financial statements should be read in conjunction with the Corporation's most recent audited consolidated financial statements and notes.

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 the Corporation was required to record the work in progress at fair market value.

Mineral resources and reserves

A mineral resource is defined by the Canadian Institute of Mining, Metallurgy and Petroleum as a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospect for economic extraction. Mineral reserves are those parts of mineral resources which, after the application of all mining factors, estimated gold recovery and operating costs, are the estimated tonnage and grade which is the basis of an economically viable project. Proven and Probable mineral reserves differ by the degree of certainty of such reserves. By their nature, reserves are at best estimates and can only be determined once the reserves have been completely mined and the project abandoned. Changes in Proven and Probable mineral reserves impact the calculation of depletion and the evaluation for impairment as discussed in note 4 of the consolidated financial statements.

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

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 indicating that the assets may have been 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 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%.

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.

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:

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.

New standards and applications not yet effective

(a) 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.

(b) 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.

Selected Quarterly Data

	Q2 2014	Q2 2014	Q1 2014	Q4 2013
Gold sales (ozs)	–	–	–	316
Average gold price ($/oz)	$ –	$ –	$ –	$ 1,304
Revenue ($000's)	$ –	$ –	$ –	$ 412
Net profit (loss) ($000's)	$ (1,025)	$ (1,066)	$ (4,519)	$ (20,101)
Basic earnings (loss) per share	$ (0.01)	$ (0.01)	$ (0.04)	$ (0.19)
Diluted earnings (loss) per share	$ (0.01)	$ (0.01)	$ (0.04)	$ (0.19)

	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)

The large loss recorded in the first quarter of 2014 was principally the result of a foreign exchange loss recorded in the Corporation's subsidiary Saga Creek resulting from the devaluation of the Kazakhstan Tenge.

The large loss recorded in the fourth quarter of 2013 was principally the result of the write-down of inventory and the impairment loss on property, plant and equipment offset partially by a large deferred income tax recovery.

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, when active, 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.

2014 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 and the resumption of exploration and development programs. The Corporation has identified a number of exploration targets it wishes to drill once 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. However, these programs as well as the Corporation's ability to continue on as a going concern are dependent on Alhambra completing one or more of the financing transactions it is currently investigating. 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.