Consolidated Financial Statements of

ALHAMBRA RESOURCES LTD.

Years ended December 31, 2012, and 2011

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management.

The financial statements have been prepared by management in accordance with International Financial Reporting Standards. Other financial information appearing throughout the report is presented on a basis consistent with the financial statements.

Alhambra Resources Ltd. has established procedures and systems of internal control designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced in a timely manner.

The Audit Committee of the Board of Directors has reviewed these financial statements with management and the independent auditors and reports its findings to the Board of Directors before such statements are approved by the Board of Directors.

The financial statements have been audited by KPMG LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. KPMG LLP have full and free access to the Audit Committee. The Audit Committee is responsible for determining their reappointment and the setting of their fees.

June 27, 2013

(Signed) "John J. Komarnicki"
Chairman of the Board and Chief Executive Officer

(Signed) "Donald D. McKechnie"
Vice-President Finance and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Alhambra Resources Ltd.

We have audited the accompanying consolidated financial statements of Alhambra Resources Ltd., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2012 and December 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Alhambra Resources Ltd. as at December 31, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that Alhambra Resources Ltd. has insufficient cash resources and liquidity to operate as a going concern in the near term. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about Alhambra Resources Ltd.'s ability to continue as a going concern.

(Signed) *"KPMG LLP"*

Chartered Accountants
Calgary, Canada
June 27, 2013

ALHAMBRA RESOURCES LTD.

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

As at	Note	December 31, 2012	December 31, 2011
Assets			
Current assets:			
Cash and cash equivalents	8	$ 940	$ 873
Trade and other receivables	9	668	725
Deposits and prepaid expenses	10	223	2,471
Inventories	11	4,719	14,934
Total current assets		6,550	19,003
Non-current assets:			
Property, plant and equipment	12	63,805	66,483
Intangible assets	13	9,691	8,648
Investment in equity accounted investee	14	493	501
Inventories	11	28,000	17,704
Total non-current assets		101,989	93,336
Total assets		$ 108,539	$ 112,339
Liabilities and Equity			
Current liabilities:			
Trade and other payables	15	$ 7,148	$ 7,520
Promissory note	16	503	–
Total current liabilities		7,651	7,520
Non-current liabilities:			
Provisions	17	743	283
Deferred tax liabilities	18	31,861	32,390
Total non-current liabilities		32,604	32,673
Total liabilities		40,255	40,193
Equity:			
Share capital	20	42,132	42,132
Warrants	20	3,237	2,393
Contributed surplus	20	9,999	9,017
Foreign currency translation reserve		20	728
Retained earnings		12,896	17,876
Total equity		68,284	72,146
Total liabilities and equity		$ 108,539	$ 112,339

See accompanying notes to consolidated financial statements.

APPROVED ON BEHALF OF THE BOARD:

(Signed) John J. Komarnicki, Director

(Signed) Robin M. Merrifield, Director

ALHAMBRA RESOURCES LTD.

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

For the years ended	Note	December 31, 2012	December 31, 2011
Revenue:			
Sales		$ 9,518	$ 15,260
Less net smelter royalty		(286)	(458)
		9,232	14,802
Cost of sales		5,029	6,646
Depletion and depreciation	12, 13	1,844	2,781
Gross profit		2,359	5,375
Expenses:			
Finance costs	6	1,809	583
Administrative expenses	7	5,676	6,986
		(5,126)	(2,194)
Share of loss of equity accounted investee	14	19	21
Loss before income taxes		(5,145)	(2,215)
Income tax expense (recovery)	18	(165)	1,564
Net loss for the year attributable to the equity holders of the Corporation		$ (4,980)	$ (3,779)
Loss per share:			
Basic	21	$ (0.05)	$ (0.04)
Diluted	21	$ (0.05)	$ (0.04)

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

For the years ended	December 31, 2012	December 31, 2010
Net loss for the year	$ (4,980)	$ (3,779)
Other comprehensive (loss) income:		
Foreign currency translation difference for foreign operations	(708)	(313)
Total comprehensive loss for the year	$ (5,688)	$ (4,092)

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

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

	Share Capital	Warrants	Contributed surplus	Foreign currency translation reserve	Retained earnings	Total
Balance, December 31, 2010	$ 42,075	$ 2,247	$ 6,140	$ 1,041	$ 21,655	$ 73,158
Share options exercised	31	–	–	–	–	31
Transfer on exercise of options	26	–	(26)	–	–	–
Share based payments expense	–	–	2,903	–	–	2,903
Extension of expiry date of warrants	–	146	–	–	–	146
Loss for the year	–	–	–	–	(3,779)	(3,779)
Other comprehensive income	–	–	–	(313)	–	(313)
Balance, December 31, 2011	42,132	2,393	9,017	728	17,876	72,146
Share based payments expense	–	–	432	–	–	432
Extension of expiry date of warrants	–	1,394	–	–	–	1,394
Expiry of warrants	–	(550)	550	–	–	–
Loss for the period	–	–	–	–	(4,980)	(4,980)
Other comprehensive income	–	–	–	(708)	–	(708)
Balance, December 31, 2012	$ 42,132	$ 3,237	$ 9,999	$ 20	$ 12,896	$ 68,284

For details on movement in shares please see Note 20.

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.

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

For the years ended	December 31, 2012	December 31, 2011
Cash provided by (used in):		
Cash flows from operating activities:		
Loss for the year	$ (4,980)	$ (3,779)
Adjustments for:		
Depletion and depreciation	1,844	2,781
Finance costs	1,398	153
Share of loss of equity accounted investee	19	21
Allowance for non-collectability of accounts receivable	–	747
Equity-settled share-based payment transactions	432	2,903
Deferred income tax expense	(25)	1,004
	(1,312)	3,830
Change in inventories	(787)	(3,318)
Change in trade and other receivables	48	1,613
Change in deposits and prepaid expenses	2,502	(1,511)
Change in trade and other payables	262	5,404
Interest paid	(48)	(304)
Income taxes paid	(225)	(956)
Net cash flows from operating activities	440	4,758
Cash flows from financing activities:		
Promissory note	503	–
Issuance of common shares and warrants	–	31
Net cash flows from financing activities	503	31
Cash flows from investing activities:		
Additions of property, plant and equipment and intangible assets	(917)	(3,979)
Change in non-cash working capital	36	(3,309)
Net cash flows from investing activities	(881)	(7,288)
Effect of exchange rate changes on cash and cash equivalents	5	(3)
Change in cash and cash equivalents	67	(2,502)
Cash and cash equivalents, beginning of year	873	3,375
Cash and cash equivalents, end of year	$ 940	$ 873

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 cash flow to meet its obligations. This cash flow, however, is not sufficient to enable the Group to meet all its obligations and carry out significant exploration and development programs. During the year ended December 31, 2012, the Group incurred a net loss of $4,980, and the Group is not generating a sufficient amount of cash flow from operations to cover its commitments. As a result there is significant doubt about the ability of the Group to continue as a going concern.

Alhambra recognizes the need to obtain debt or equity financing to meet its obligations and fund its exploration and development programs. The Corporation is in discussion with potential investors, however, at this time no commitments have been made by potential investors. 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 27). 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 audited 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:

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were approved by the Board of Directors on June 27, 2013.

(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 U.S. dollars ("US$") 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 11 – valuation of work in progress inventories;

Note 12 – valuation of property, plant and equipment;

Note 13 – valuation of intangible assets;

Note 17 – provisions;

Note 18 – valuation and utilization of tax losses; and

Note 20 – measurement of share-based payments.

4. Summary of significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by Group entities.

(a) Principles of consolidation and accounting for investments:

These consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation.

(i) Business combinations:

Acquisitions on or after January 1, 2008

For acquisitions on or after January 1, 2008, the Group measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisitions prior to January 1, 2008

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after January 1, 2008.

(ii) Acquisitions of non-controlling interests:

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders; therefore, no goodwill is recognized as a result of such transactions.

(iii) Subsidiaries:

Subsidiaries are entities controlled by the Corporation and its controlled subsidiaries. Control is obtained when the Corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iv) Investments in associates (equity accounted investees):

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The consolidated financial statements include the Group’s share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group’s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

The Group assesses at each reporting period whether there is any objective evidence that its interests in an investee are impaired. If impaired, the carrying value of the Group's share of the underlying assets of investee is written down to its estimated recoverable amount and the amount of the write-down is charged to the statement of income and expense.

(v) Transactions eliminated on consolidation:

Intra-group balances and transactions, and any unrealized income or expense arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency:

(i) Foreign currency transactions:

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year. Foreign currency differences arising on re-translation are recognized in profit or loss. The Kazakhstan subsidiaries have a Kazakhstan Tenge functional currency and the Corporation has a Canadian dollar functional currency.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations:

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated into US$ at exchange rates at the reporting date. The income and expenses of foreign operations are translated to US$ at exchange rates at the average rates for the quarter in which the transaction took place. Since January 1, 2008, the Group's date of transition to IFRSs, such differences have been recognized in the foreign currency translation reserve ("FCTR"). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future, are considered to form part of the net investment in a foreign operation and are recognized directly in equity in the FCTR.

(c) Financial instruments:

(i) Non-derivative financial assets:

The Group initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group may have the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss:

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group’s risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss.

Held-to-maturity financial assets:

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held to-maturity for the current and the following two financial years.

Cash and cash equivalents:

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents and trade and other receivables.

Available-for-sale financial assets:

Available-for-sale financial assets are non-derivative financial assets that are designated as available for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(ii) Non-derivative financial liabilities:

The Group initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: trade and other payables and provisions.

Such financial liabilities are classified as other liabilities and are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Share capital:

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Preferred shares

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Corporation's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Corporation's shareholders.

(iv) Compound financial instruments:

Compound financial instruments issued by the Group are comprised of convertible debentures that can be converted to share capital at the option of the holder and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognized in profit or loss. Distributions to the equity holders are recognized in equity, net of any tax benefit.

(v) Warrants:

Warrants are classified as equity. The fair value of warrants issued is measured indirectly by reference to the equity instruments granted.

(d) Revenue recognition:

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 sale is reasonably assured.

(e) Share-based payments:

The Group has a share-based payment plan for employees and non-employees as described in note 20(c).

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. In determining the fair value of the share options granted, the Black-Scholes model is used and assumptions are made regarding interest rates, underlying volatility of the Corporation's shares and expected life of the options. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service vesting conditions are met, such that the amount ultimately recognized as an expense is based on the number of awards that actually vest.

Share-based payments to non-employees are accounted for by measuring the fair value of goods or services received directly at the date the Group receives the goods or services if the fair value of goods and services can be reliably measured.

(f) Borrowing costs:

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as a part of the cost of that asset. Other borrowing costs not directly attributable to a qualifying asset are expensed in the period incurred.

(g) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(h) Earnings (loss) per share:

The Group presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise convertible debentures, warrants and share options granted to employees and non-employees.

(i) Property, plant and equipment:

(i) Recognition and measurement:

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located,
and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2008.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

Exploration and evaluation expenditures:

Pre-license costs are recognized in the statement of operations as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centers by field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units ("CGUs).

Exploration and evaluation expenditures related to areas of interest are capitalized and carried forward to the extent that:

(i) Rights to tenure of the area of interest are current; and

(ii) (a) Costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively by sale; or

(b) Where activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, active and significant operations in, or in relation to, the areas are continuing.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when measured and indicated mineral resources are determined to exist. The Group reviews and evaluates its mining properties for impairment at least annually or when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. A decision to abandon, reduce or expand activity on a specific project is based upon many factors including general and specific assessments of exploration results, anticipated future mineral prices, anticipated costs of developing and operating a producing mine and the general likelihood that the Group will continue exploration on the project. The Group does not set a pre-determined holding period for properties. However, properties which have not demonstrated positive exploration results at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and that carrying amounts are appropriate.

Depreciation on equipment utilized in the exploration and evaluation of mineral properties is capitalized to exploration and evaluation costs until such time as these properties commence commercial production. All other costs, including administrative overhead, are expensed as incurred. Revenues from the sale of minerals are credited to exploration and development costs until such time as these properties are considered to have commenced commercial production.

Plant and equipment includes office equipment in the Group's head office. Items of property, plant and equipment, which include mineral assets, include development and production costs, and construction in progress related to the Uzboy Gold Deposit ("Uzboy"), the Group's producing assets and CGU. The amount shown for exploration costs includes the direct costs of acquiring, maintaining, exploring properties, an allocation of management fees and salaries based on time spent and other costs directly related to specific properties. Mineral asset development and production assets are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGU's for impairment testing.

(ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized only when it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. All other expenditures, such as the costs of the day-to-day servicing of property, plant and equipment, are recognized in profit or loss as incurred.

Capitalized mineral assets represent costs incurred in developing proved and/or probable reserves and are accumulated on a field area basis.

(iii) Depreciation:

Once a mineral property reaches commercial production, the accumulated costs of exploration and development costs related to that mineral property are amortized to the statement of income and expense on a unit-of-production basis over the measured and indicated mineral resources determined by the Group's independent geological and engineering consultant.

Plant and equipment are recorded at cost less accumulated depreciation. These assets are depreciated using the straight-line method based on estimated useful lives, which generally range from 3 to 14 years. Where an item of plant and equipment comprises significant components with different useful lives, the components are accounted for as separate items of plant and equipment.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. Office equipment is depreciated using the declining balance method.

The estimated maximum useful lives of assets and rates of depreciation are:

Asset type	Depreciation rate	Useful life (years)
Mineral properties being depleted	Unit of production	10
Building and construction	7%	14
Plant and equipment	15% to 20%	5-7
Computer equipment	20% to 30%	3-5
Office equipment	20% to 30%	3-5

(iv) Software:

Costs incurred in developing information technology systems and acquiring software are capitalized as intangible assets. Costs capitalized include external costs of materials and services. Amortization is on a straight-line basis over the asset's useful life. Amortization is recognized in profit or loss, from the date that the assets are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are 5 years.

(j) Inventories:

(i) Work in progress:

Except in periods in which no new ore is being mined, all costs associated with the production of gold, including direct costs incurred in the mining, leaching and resin stripping processes and mineral extraction tax, as well as a portion of depreciation of equipment used in each process, and depletion of mineral assets, are charged to work in progress inventories and expensed based on the quantity of gold sold as a percentage of total 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. The quantity of gold mined is based on the estimate of gold that can be recovered from ore that is placed on leach pads. 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. The portion of work in progress inventories that is not expected to be recovered within the next year is classified as non-current. The group does not charge any overheads to inventories.

While the Group monitors the amount of gold that is recovered from the leach pads, the nature of the leaching process inherently limits the ability to precisely monitor inventory levels. The actual recovery of gold from the leach pads is not known until leaching process has concluded at the end of the mine life.

(ii) Raw materials and supplies:

Inventory of raw materials and supplies is recorded at cost, is based on the first-in first-out principle and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

(iii) Impairment:

The carrying amount of the Group's inventories is reviewed at each reporting date, or earlier if an indicator is identified, to determine whether there is impairment. Inventories are valued at the lower of cost and net realizable value and on a weighted average basis. An impairment loss is recognized if the carrying amount exceeds its net realizable value.

(k) Impairment:

(i) Financial assets:

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held to-maturity investment securities with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains / losses on available-for-sale financial assets in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

(ii) Non-financial assets:

The carrying amounts of the Group's non-financial assets, other than exploration and evaluation assets, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. Exploration and evaluation assets are assessed for impairment when they are reclassified to property, plant and equipment, as mineral assets, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

(l) Operating leases:

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in the statement of income and expense on a straight-line basis over the term of the lease.

(m) Finance income and finance costs:

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, costs related to changes in the terms of warrants, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(n) Provisions:

Provisions are recorded when a present legal or constructive obligation exists as a result of past events, where it is 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 at a pre-tax non-credit risk specific rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

The Group recognizes the fair value of site reclamation provisions in the period in which it is incurred, when a reasonable estimate of the fair value can be made. The fair value of the estimated reclamation provision is recorded as a liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on the unit-of-production method over measured and indicated resources.

The liability amount is increased each reporting period due to the passage of time and the unwinding of the discount is expensed to income in the period. Actual costs incurred upon the settlement of the reclamation provision are charged against the provision to the extent recorded. Any difference between the actual costs incurred and the reclamation provision recorded is recognized as a gain or loss in earnings in the period the costs are incurred.

(o) Segment reporting:

An operating segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's geographical segments. The Group's primary format for segment reporting, and the information presented to the chief operating decision maker, is based on geographical segments as the Group has one principal business activity, being gold exploration and production. There are no inter-segment sales.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related losses, loans and borrowings and related expenses, corporate assets (primarily the Corporation's headquarters) and head office expenses and liabilities. Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment and intangible assets.

(p) New standards and interpretations not yet adopted:

As of January 1, 2013, the Corporation will be required to adopt the following standards as issued by the International Accounting Standards Board (”IASB”). The Corporation is evaluating the impact that these standards may have on our results of operations and financial position.

(i) IFRS 10, *'Consolidated Financial Statements'* – In May 2011, the IASB issued IFRS 10 which is the IASB's project to replace Standard Interpretations Committee 12, “Consolidation – Special Purpose Entities” and the consolidation requirements of IAS 27, “Consolidated and Separate Financial Statements”. The new standard eliminates the current risk and rewards approach and established control as the single basis for determining the consolidation of and entity.

(ii) IFRS 11, *'Joint Arrangements'* – In May 2011, the IASB issued IFRS 11 to replace IAS 31, “Interest in Joint Ventures”. The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to equity accounted. Under IAS 31, joint ventures could be proportionately accounted.

(ii) IFRS 12, *'Disclosure of Interests in Other Entities'* – In May 2011, the IASB issued IFRS 12 which outlines the required disclosures for interest in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements.

(iii) IFRS 13, *'Fair Value Measurement'* – in May 2011, the IASB issued IFRS 13 which provides a common definition of fair value, established a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The Standard applies where fair value measurements are required and does not require new fair value measurements.

(iv) IFRIC 20, *'Stripping costs in the production phase of a surface mine'* – In October 2011, the IASB issued IFRIC 20 which applies to waste removal costs that are incurred in open pit mining activity during the production phase of the mine. Recognition of a stripping activity asset requires the asset to be related to an identifiable component of the ore body. Stripping costs that relate to inventory produced should be accounted for as a current production cost in accordance with IAS 2, 'Inventories'. Stripping costs that generate a benefit of improved access and meet the definition of an asset should be accounted for as an addition to an existing asset. Existing stripping costs on the balance sheet at transition that do not relate to a specific ore body should be written off to opening retained earnings. The stripping activity asset shall be depreciated on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The Corporation does not expect the adoption of IFRIC 20 to have a material impact on the consolidated financial statements as the Corporation currently applies comparable principles to those found in this interpretation.

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

As of January 1, 2015, the Corporation will be required to adopt IFRS 9, “Financial Instruments”. The IASB issued IFRS 9, which is the first phase of the IASB’s project to replace IAS 39, “Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurements models for financial asset and liabilities with a single model that has only two classification categories: amortized cost and fair value. Portions of the standard remain in development and the full impact of the standard on the Corporation’s consolidated financial statements will not be known until the project is complete.

5. Particulars of subsidiaries:

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

			Proportion of ownership interest and voting power held directly or indirectly	
			December 31	
	Principal activity	Place of incorporation and operation	2012	2011
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:

For the years ended December 31,	2012	2011
Extension of warrants (note 20(d))	$ 1,394	$ 146
Interest on overdue taxes (notes 26 and 28)	48	351
Reversal of accrued interest on successful tax appeal (note 26)	(215)	(425)
Interest on promissory note (note 16)	53	−
Unwinding of the discount on provisions (note 17)	5	7
Interest on trade payables	86	−
Foreign exchange loss	438	504
Total finance costs	$ 1,809	$ 583

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

7. Administrative Expenses:

For the years ended December 31,		2012		2011
Employee costs	$	1,927	$	4,577
Professional fees		3,029		1,499
Corporate maintenance costs		77		311
Office costs		643		599
Total administration costs	$	5,676	$	6,986

Administrative expenses include share-based payments expenses (a non-cash item) of $432 and $2,903 which have been included in employee costs for the years ended December 31, 2012 and 2011, respectively.

During 2012, the Corporation expensed to professional fees, $2,434 of costs previously recorded as prepaid expenses related to a planned initial public offering and listing on an Asian stock exchange. This plan was put on hold in 2012 initially due to the requirement to obtain approval from the government of Kazakhstan which took in excess of one and one half years. In the interim, the decline in the trading price of Alhambra's shares combined with the deterioration in the financial markets for equity issues, particularly junior mining companies, resulted in further delays in Alhambra's plans for the listing. Alhambra still has plans to proceed with this listing once market conditions are more receptive to financings and the Corporation's current financial issues are resolved.

In 2011, the Corporation determined that there is a high probability that $747 owing from its 27% affiliate DOT Resources Ltd was non-collectable and as such expensed that amount in administrative expenses as corporate maintenance costs.

As detailed in note 26, during the year ended December 31, 2010 the Group charged a total of $2,071 to corporate maintenance costs penalties potentially owing as a result of an assessment by the tax authorities of Kazakhstan for Historical Costs ($1,436), Mineral Extraction Tax ("MET") ($471) and the disallowance of certain income tax deductions ("CIT") ($164). As a result of the September 27, 2011 decision of the Cassation Chamber that no Historical Costs were payable, the Group recorded a reduction of corporate maintenance costs in the year ended December 31, 2011 in the corresponding 2010 amount of $1,436. The Cassation Chamber upheld the assessment related to MET and the penalty was therefore paid in the fourth quarter of 2011. As no decision was reached regarding CIT, the accrual for that penalty remained recorded as a liability at December 31, 2011 (note 26). This 2011 recovery was partially offset by an accrual of a $369 penalty related to a Commercial Discovery Bonus ("CBD") effective in 2011 but not assessed by the tax authorities until 2012 (note 28).

With the May 10, 2012 decision of the Akmola Court and the July 26, 2012 decision of the Supreme Court not to consider the tax authorities appeal with regards to CIT (note 26), the previously assessed penalty was reduced from $164 to $10 with the difference recorded in 2012.

The result of the decision by the Akmola Court to limit the CDB to only a portion of the Corporation's reserves (note 28) was that the penalty originally estimated in 2011 to be $369 was reduced to $78 with the reduction recorded in 2012.

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

The recording of penalties and subsequent adjustments were accounted for as corporate maintenance costs.

8. Cash and cash equivalents:

As at December 31,		2012		2011
Bank balances	$	940	$	873
Total cash and cash equivalents	$	940	$	873

9. Trade and other receivables:

The Group's trade and other receivables arise from two main sources: trade receivables due from customers for gold sales and value added tax ("VAT") and goods and services tax ("GST") receivable from various government taxation authorities. These are analyzed as follow:

As at December 31,		2012		2011
Trade receivables	$	–	$	–
VAT and GST receivables		642		641
Other receivables		26		84
Total trade and other receivables	$	668	$	725

As at December 31,		2012		2011
Less than 1 month	$	26	$	83
1 to 3 months		9		18
Over 3 months		633		624
Total trade and other receivables	$	668	$	725

Current trade and other receivables older than one month relate primarily to refundable VAT which is paid by the Group on goods and services purchased in Kazakhstan that are utilized in its operations. The Group applies for a refund of VAT in the first quarter of the following the year end for the previous year's VAT paid. The refund claim is subject to audit by the tax authorities in Kazakhstan with the refund due at the end of the second quarter. Historically the Group has been successful in collecting all amounts due.

On February 5, 2013, Saga Creek submitted the quarterly VAT return with a request to refund the excess VAT paid by the company 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 the company 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 the company 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

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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, the Alhambra's refund was denied based on noncompliance by the suppliers four or five levels down the chain.

The Corporation understands that if and when the VAT compliance deficiencies are corrected by the respective suppliers, the Corporation will be eligible for those refunds. Alhambra disagrees with applicability of the RMS and the Rules to its subsidiary and plans to request a re-audit of its application or failing that appeal the ruling to the Kazakhstan court.

10. Deposits and prepaid expenses:

As at December 31,		2012		2011
Amounts advanced as deposits on future delivery of goods and services	$	223	$	341
Future listing costs		–		2,130
Total deposits and prepaid expenses	$	223	$	2,471

Amounts advanced as deposits on future delivery of goods and services are primarily related to the Group's activities in Kazakhstan where it is often necessary to pay a deposit in advance of receipt of goods and services. Future listing costs, as part of Alhambra's proposed listing on an Asian stock exchange, were expensed during 2012 (see note 7).

11. Inventories:

As at December 31,		2012		2011
Ore	$	16,516	$	18,510
Gold in circuit		10,746		9,892
Concentrate		4,419		2,508
Total work in progress		31,681		30,910
Gold available for sale		–		654
Raw material and supplies		1,038		1,074
Total inventories		32,719		32,638
Less:				
Non-current inventories		28,000		17,704
Total current inventories	$	4,719	$	14,934

Virtually 100% of cost of goods sold reported for the years ended December 31, 2012 and 2011 are the result of the amortization of inventories based on the quantity of gold sold as a percentage of total gold mined. 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.

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

12. Property, plant and equipment:

	Machinery and equipment	Mining assets being depleted	Buildings and construction	Total
Cost:				
Balance as at December 31, 2010	$ 2,981	$ 75,544	$ 4,441	$ 82,966
Additions	79	1,431	66	1,576
Effect of foreign exchange	(20)	(435)	(25)	(480)
Balance as at December 31, 2011	3,040	76,540	4,482	84,062
Additions	24	482	16	522
Adjustment due to reduction in Commercial Discovery Bonus (note 28)	–	(574)	–	(574)
Effect of foreign exchange	(34)	(1,193)	(70)	(1,297)
Balance as at December 31, 2012	$ 3,030	$ 75,255	$ 4,428	$ 82,713
Accumulated depletion and depreciation:				
Balance as at December 31, 2010	$ 1,104	$ 9,344	$ 495	$ 10,943
Depletion and depreciation for the year	708	5,599	391	6,698
Effect of foreign exchange	(9)	(51)	(2)	(62)
Balance as at December 31, 2011	1,803	14,892	884	17,579
Depletion and depreciation for the year	594	631	388	1,613
Effect of foreign exchange	(29)	(238)	(17)	(284)
Balance as at December 31, 2011	$ 2,368	$ 15,285	$ 1,255	$ 18,908
Carrying amounts:				
At December 31, 2010	$ 1,877	$ 66,200	$ 3,946	$ 72,023
At December 31, 2011	1,237	61,648	3,598	66,483
At December 31, 2012	662	59,970	3,173	63,805

An impairment test was triggered because the carrying amount of property, plant and equipment was more than the Corporation's market capitalization at December 31, 2012 indicating that the assets may be impaired. As a result a detailed test was carried out and it was determined that based the Corporation's recoverable resources, gold prices and costs including operating administrative and capital, the value was not impaired and accordingly, no write down of property, plant and equipment was necessary.

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

13. Intangible assets:

	Exploration and evaluation expenditures	Computer software	Total
Cost:			
Balance as at December 31, 2010	$ 20,143	$ 48	$ 20,191
Additions	2,370	33	2,403
Elimination of historical cost provision as a result of court decision (note 26)	(13,780)	–	(13,780)
Effect of foreign exchange	(153)	–	(153)
Balance as at December 31, 2011	8,580	81	8,661
Additions	1,416	–	1,416
Effect of foreign exchange	(365)	–	(365)
Balance as at December 31, 2012	$ 9,631	$ 81	$ 9,712
Accumulated depreciation:			
Balance as at December 31, 2010	$ –	$ 6	$ 6
Depreciation for the year	–	7	7
Balance as at December 31, 2011	–	13	13
Depreciation for the year	–	8	8
Balance as at December 31, 2012	$ –	$ 21	$ 21
Carrying amounts:			
At December 31, 2010	$ 20,143	$ 42	$ 20,185
At December 31, 2011	8,580	68	8,648
At December 31, 2012	9,631	60	9,691

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 years presented.

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

14. Investment in equity accounted investee:

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

For the years ended December 31,	2012	2011
DOT Resources Ltd.		
Ownership	27%	27%
Current assets	$ 1	$ 7
Non-current assets	3,544	3,462
Total assets	3,545	3,469
Current liabilities	899	815
Total liabilities	899	815
Revenues	$ –	$ –
Expenses	69	71
Loss	$ (69)	(71)

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

Balance as at December 31, 2010	$ 534
Share of loss	(21)
Effect of foreign exchange	(12)
Balance as at December 31, 2011	501
Share of loss	(19)
Effect of foreign exchange	11
Balance as at December 31, 2012	$ 493

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 December 31, 2012, the market trading value of the 15,000,001 DOT shares owned by Alhambra was CDN$375.

In 2011 the Corporation wrote off $747 in amounts outstanding from DOT under an Administrative and Corporate Services Contract (note 22(b)) plus an advance made by Alhambra to DOT to help DOT meet certain obligations. The Corporation had determined that DOT's financial condition made it doubtful that DOT would be able to repay the obligation therefore Alhambra has provided an allowance for this non-collectability. The expense was charged to administration expenses.

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

15. Trade and other payables:

As at December 31,		2012		2011
Current:				
Trade payables	$	6,392	$	4,738
Accrued liabilities		113		251
Taxes payable		625		913
Other		18		1,618
Total trade and other payables	$	7,148	$	7,520

As at December 31,		2012		2011
Less than 1 month	$	616	$	4,701
1 to 3 months		239		2,283
Over 3 months		6,293		536
Total trade and other payables	$	7,148	$	7,520

16. Promissory note:

On April 1, 2012 the Corporation issued to an unrelated third party, a one year, 14% unsecured promissory note (the “Note”) for a total proceeds of CDN$500. The principle and accrued interest on the Note was originally due and payable on or before March 31, 2013 but the lender has agreed to extend the maturity date to July 19, 2013.

17. Provisions:

Changes to the provisions are as follows:

		Historical Costs		Site restoration		Total
Balance, December 31, 2010	$	13,828	$	265	$	14,093
Liabilities incurred		–		2		2
Unwinding of the discount		–		18		18
Revision		(13,828)		(2)		(13,830)
Balance, December 31, 2011		–		283		283
Liabilities incurred		–		444		444
Unwinding of the discount		–		21		21
Revision		–		(5)		(5)
Balance, December 31, 2012	$	–	$	743	$	743
Current	$	–	$	–	$	–
Non-current		–		743		743

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 December 31, 2012 is approximately $743 (December 31, 2011 - $283). The liability was determined using an inflation rate of 6% (December 31, 2011 - 5%) and an estimated life of mine of 10 years for Uzboy (December 31, 2011 - 10 years). A discount rate of 5.5% was used (December 31, 2011 – 7.5%). The undiscounted value of this liability is approximately $707 (December 31, 2011 - $352).

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

In late 2010, as the result of an audit of Saga Creek by the Kazakhstan tax authorities, the Government of Kazakhstan assessed Saga Creek for the liability plus interest and penalties for nonpayment of that portion of the Historical Cost liability related to the 2009 year. As a result the Corporation recorded the obligation plus interest and penalties for nonpayment up to June 30, 2011. The accrual also included amounts related to the 2010 year and 2011 up to June 30, 2011 that would have been payable should the Corporation ultimately be unsuccessful in its appeal of the 2009 assessment. On September 27, 2011, the Cassation Chamber of the Akmola Oblast Court in Kazakhstan ("Cassation Chamber") overturned the decision of previous courts that had upheld assessment. As a result, the Corporation reversed the provision recorded on the balance sheet of $13,828 with the offset to intangible assets (note 13) and interest and penalties accrued against earnings totaling $2,467. The tax department appealed the ruling of the Cassation Chamber to the Supreme Court of Kazakhstan. By resolution dated September 27, 2012 the Supreme Court rendered its decision and upheld the Cassation Chamber's earlier decision in favor of Saga Creek (note 26).

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

18. Income taxes:

The income tax recognized in the consolidated statement of income and expense comprises:

For the years ended December 31,	2012	2011
Current	$ (140)	$ 560
Deferred	(25)	1,004
Total income tax expense	$ (165)	$ 1,564

The Canadian federal statutory corporate income tax rate has decreased from 16.5% in 2011 to 15% in 2012. The combined federal and provincial income tax rate in 2012 is 25% (2011 – 26.5%). The tax provision differs from that which would be expected from applying the combined Canadian federal and provincial income rates to net (loss) income as follows:

For the year ended December 31,	2012	2011
Net income (loss) before taxes	(5,145)	(2,215)
Statutory tax rate	25.0%	26.5%
Expected tax recovery (expense) on profit	$ (1,286)	$ (587)
Non-deductible items	265	673
Share-based payments	108	766
Tax assets not recognized	923	864
Tax rate reduction	125	(406)
Reversal of prior year's tax accrual upon successful appeal	(328)	–
Other	28	254
Income tax expense	$ (165)	$ 1,564

Deferred liabilities are attributable to the following:

As at December 31,	2012	2011
Mineral assets	$ 31,861	$ 32,390
Deferred tax liabilities	$ 31,861	$ 32,390

The components of the Group's deferred tax assets, after applying substantively enacted corporate income tax rates are as follows:

As at December 31,	2012	2011
Tangible and intangible assets	$ 1,380	$ 1,307
Tax loss carry forwards	3,767	2,646
Investment in subsidiaries	359	491
Share issue costs	61	90
Unrecognized deferred tax assets	$ 5,567	$ 4,534

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

In Kazakhstan, the Group has unredeemed capital expenditures available for utilization against future mining taxable income of approximately $14.6 million. The Group's current tax expense is generated from the Group's operations in Kazakhstan where the current tax rate is 20%.

At December 31, 2012, the Group has non-capital losses of approximately CDN$14.9 million available to apply against future Canadian income for tax purposes. The non-capital losses expire as follows:

Expiry year		Amount (CDN$)
2014	$	182
2026		1,983
2027		24
2028		2,264
2029		1,739
2030		1,946
2031		2,265
2032		4,497
Unrecognized non capital losses	$	14,900

19. Commitments:

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

The Group anticipates spending approximately $3 million on exploration activities during 2013 subject to sufficient cash flow and suitable financing.

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)

20. 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:

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

(c) Share options (equity settled):

The Corporation has a share option plan under which directors, officers, employees and consultants of the Corporation are eligible to receive share options. The aggregate number of common shares to be issued upon the exercise of all options granted under the plan shall not exceed 10% of the issued common shares of the Corporation at the time of granting of the options. Options granted under the plan generally have a term of five years which is also the maximum term available and vest at terms to be determined by the directors at the time of grant. The exercise price of each option shall be determined by the directors at the time of grant but shall not be less than the price permitted by the policies of the stock exchanges on which the Corporation's common shares are then listed.

Share-based compensation has been recorded within Administrative Expenses (note 7).

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

	Year ended December 31, 2012		Year ended December 31, 2011	
	Number of options	Weighted average exercise price CDN$	Number of options	Weighted average exercise price CDN$
Outstanding, beginning of period	8,518,500	$ 0.62	7,731,250	$ 0.59
Granted	900,000	0.26	3,050,000	1.05
Exercised	–	–	(137,750)	0.22
Expired unexercised	(675,000)	0.61	(2,125,000)	1.15
Outstanding, end of period	8,743,500	$ 0.58	8,518,500	$ 0.62

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

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

(Weighted average)	2012	2011
Exercise price (CDN$/option)	0.26	1.05
Grant date share price (CDN$/option)	0.26	1.01
Risk-free interest rate (%)	1.37	2.53
Expected life (years)	5.00	5.00
Expected volatility (%)	150	150
Dividend rate (%)	–	–
Grant date fair value ($/option)	0.24	0.92

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

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

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

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

The following table summarizes information concerning outstanding and exercisable options at December 31, 2012:

Exercise Price (CDN$/option)	Options outstanding	Options exercisable	Remaining Contractual life (years)	Grant date fair value ($/per option)
$ 0.22	3,168,500	2,718,500	2.24	$ 0.20
$ 0.315	225,000	225,000	1.88	0.27
$ 0.34	300,000	75,000	4.80	0.23
$ 0.53	2,200,000	2,200,000	1.55	0.44
$ 0.65	100,000	100,000	0.85	0.53
$ 1.05	2,750,000	2,750,000	3.07	0.92
	8,743,500	8,068,500	2.39	$ 0.49

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

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

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

A reconciliation of contributed surplus is provided below:

	December 31, 2012	December 31, 2011
Balance, beginning of period	$ 9,017	$ 6,140
Share-based compensation expense	432	2,903
Transferred on expiry of warrants	550	–
Transferred on exercise of options	–	(26)
Balance, end of period	$ 9,999	$ 9,017

(d) Warrants:

The changes in warrants during the years ended December 31, 2012 and 2011 were as follows:

	Number of Warrants	Amount	Weighted average exercise price
Balance, December 31, 2010	11,802,775	$ 2,247	$ 0.66
Re-valuation due to extension of expiry date	–	146	–
Balance, December 31, 2011	11,802,775	2,393	0.66
Re-valuation due to extension of expiry date		1,394	–
Expired unexercised	(2,500,450)	(550)	0.45
Balance, December 31, 2012	9,302,325	$ 3,237	$ 0.72

Pursuant to a private placement competed in 2010, the Corporation issued 18,604,650 units at a purchase price of $0.43 per unit for total gross proceeds of $8,000. Each unit was comprised of one (1) common share and one-half (1/2) of a common share purchase warrant resulting in the issue of 18,604,650 common shares and 9,302,325 Warrants. Each whole warrant entitled the holder thereof to purchase one common share of the Corporation at a purchase price of $0.72 per common share on or before February 19, 2012 for 5,388,690 warrants and March 28, 2012 for 3,913,635 warrants. The Corporation sought and obtained approval from the TSX Venture Exchange (“TSXV”) to extend the expiry date of the warrants to February 19, 2013 for 5,388,690 warrants and March 28, 2013 for 3,913,635 warrants. The exercise of these warrants is subject to an approval from MINT. The Corporation received MINT's approval on September 11, 2012 (the "Approval"). The Corporation calculated the fair value of the extension of these warrants to be $1,041. Subsequent to December 31, 2012, these warrants expired unexercised.

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

During 2011 the Corporation had outstanding 2,500,450 warrants which were exercisable into common shares of the Corporation at a price of CDN$0.45 per common share and were originally set to expire on August 11, 2011 however the Corporation sought and obtained approval from the TSXV to extend the expiry date first to December 9, 2011 and then to February 8, 2012. The Corporation calculated the fair value of the two extensions obtained in 2011 to be $146. During 2012, the Corporation sought and obtained approval from the TSXV to further extend the expiry date of these warrants to the earlier of February 11, 2013 and a date which is sixty (60) days after receipt of the Approval. As the Corporation received the Approval on September 11, 2012, therefore in accordance with extension granted by the TSXV, these expiry date of these warrants was extended to November 10, 2012. The Corporation calculated the fair value of the extension received in the 2012 to be $353. These warrants expired unexercised with $550 of fair value assigned to the warrants being transferred to contributed surplus.

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

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

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

21. 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.

For the years ended December 31,	2012	2011
Weighted average number of common shares (basic)	104,132,059	104,103,679
Effect of conversion of convertible debentures	–	–
Effect of warrants outstanding	–	–
Effect of share options outstanding	–	–
Weighted average number of common shares (diluted) at December 31,	104,132,059	104,103,679

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

For the years ended December 31,	2012	2011
Options	8,743,500	8,518,500
Warrants	9,302,325	11,802,775
	18,045,825	20,321,275

22. 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 years ended December 31, 2012 and 2011 were as follows:

For the years ended December 31,	2012	2011
Short-term employee benefits	$ 781	$ 862
Share-based payments	315	2,122
Director fees	–	–
	$ 1,096	$ 2,984

In addition to their salaries, executive officers also participate in the Group's share option program (see note 20(c)).

(b) Other transaction:

On August 29, 2007, the Corporation and DOT entered into an Administrative and Corporate Services Contract (the “Contract”) whereby DOT agreed to engage the Corporation to provide management, administration and corporate services to DOT. The Contract provides for a monthly remuneration of CDN$20 plus all reasonable out of pocket expenses and is for an indefinite term but may be terminated by either party upon providing 30 days prior written notice. During the year ended December 31, 2012, the Corporation billed DOT CDN$nil (2011 - CDN$nil) under the Contract. The amount uncollected as of December 31, 2012 was CDN$359 (2011 - CDN$359). Effective January 1, 2011, the Corporation suspended billing DOT the monthly remuneration. In addition, the Corporation advanced DOT CDN$400,000 to enable DOT to meet working capital requirements while DOT is investigating options regarding financing. At this time the Corporation is not charging DOT any interest. In 2011, the Corporation determined that there is a high probability that the $747 amount owing from DOT was non-collectable and as such expensed that amount in administrative expenses as corporate maintenance costs.

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

23. 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 years ended December 31, 2012 and 2011 substantially all of the Group's gold production was sold to one customer.

2012	Kazakhstan	Canada	Total
Segment assets	$ 107,722	$ 3,246	$ 110,968
Segment liabilities	36,710	3,545	40,255
Sales	$ 9,518	$ –	$ 9,518
Net smelter royalty	(286)	–	(286)
Cost of sales	(5,029)	–	(5,029)
Depletion and depreciation	(1,838)	(6)	(1,844)
Finance costs	(274)	(1,535)	(1,809)
Administrative expenses	(958)	(4,718)	(5,676)
Share of loss of equity accounted investee	–	(19)	(19)
Income (loss) before income taxes	1,133	(6,278)	(5,145)
Income tax recovery (expense)	165	–	165
Segment income (loss)	$ 1,298	$ (6,278)	$ (4,980)
Capital expenditures	$ 916	$ 1	$ 917

2011	Kazakhstan	Canada	Total
Segment assets	$ 108,897	$ 3,442	$ 112,339
Segment liabilities	38,162	2,031	40,193
Sales	$ 15,260	$ –	$ 15,260
Net smelter royalty	(458)	–	(458)
Cost of sales	(6,646)	–	(6,646)
Depletion and depreciation	(2,774)	(7)	(2,781)
Finance costs	(380)	(203)	(583)
Administrative expenses	(1,219)	(5,767)	(6,986)
Share of loss of equity accounted investee	–	(21)	(21)
Income (loss) before income taxes	3,783	(5,998)	(2,215)
Income tax recovery (expense)	(1,564)	–	(1,564)
Segment income (loss)	$ 2,219	$ (5,998)	$ (3,779)
Capital expenditures	$ 3,976	$ 3	$ 3,979

24. 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.

To date, the Group has raised some funds through the issue of secured indebtedness however these funds were raised to fund a portion of its obligations incurred during the period in which the Group had lost its ownership of Saga Creek. Additional financing must be obtained in order to continue as a going concern (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 27).

25. 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.

The Corporation understands that if and when the VAT compliance deficiencies are corrected by the respective suppliers, the Corporation will be eligible for those refunds. Alhambra strongly disagrees with applicability of the RMS and the Rules to its subsidiary and plans to request a re-audit of its application or failing that, appeal the ruling to the Kazakhstan courts.

As at December 31, 2012 approximately 95% (December 31, 2011 - 86%) of the recorded value of accounts receivable relates to VAT.

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

Cash and cash equivalents consist of bank balances short-term deposits that are redeemable at any time at the option of the Group. The Group manages the credit exposure related to short-term investments by depositing the cash equivalents 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 December 31, 2012 the Group has provided $747 for the non-collectability of an account receivable from DOT (notes 14 and 22(b). The Group has no other allowances for doubtful accounts as at December 31, 2012.

(b) Liquidity risk:

Liquidity risk is the risk that the Group will not be able to meet its obligations as they come due. With the re-registration of the shares of the Kazakhstan Subsidiaries, Alhambra now has ownership of revenue producing assets. However, in defending the lawsuit, the Group incurred substantial liabilities and the cash generated from its properties will not be enough to meet all its obligations in addition to resuming an aggressive exploration and development program. Therefore, additional financing must still be obtained in order to continue as a going concern (note 2). The Group is currently attempting to raise additional funds; however, there is no assurance that it will be able to do so.

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

(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 As at December 31,		2012		2011
Cash and cash equivalents	$	266	$	702
Trade and other receivables		19		90
Deposits and prepaid expenses		12		2,170
Trade and other payables		(3,026)		(2,539)
Total net monetary assets in foreign currency	$	(2,729)	$	423

For the year ended December 31, 2012, based on the net foreign exchange exposure at the end of the period, if the CDN$ had strengthened or weakened by 10% compared to the US$ and all other variables were held constant, the after tax net loss would have increased or decreased, respectively by approximately $274 in 2012 (2011 – ($42)).

KZT monetary assets and liabilities As at December 31,		2012		2011
Cash and cash equivalents	KZT	101,537	KZT	27,182
Trade and other receivables		97,755		94,420
Deposits and prepaid expenses		31,765		50,151
Trade and other payables		(641,357)		(767,698)
Total net monetary (liabilities) in foreign currency	KZT	(410,300)	KZT	(595,945)

For the year ended December 31, 2012, 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 $218 (2011 - $321).

(ii) Commodity price risk

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

(iii) Interest rate risk

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

(d) Fair value of financial assets and liabilities:

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

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

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

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

26. Legal challenge of tax assessment:

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

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

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

(b) The assessment for CIT amounting to approximately $0.3 million was cancelled and sent back to the Specialized Inter-regional Economic Court of the Akmola Oblast ("Akmola Court") for review and re-consideration by a new panel of judges. On May 10, 2012 the Akmola Court rendered its decision and reversed a substantial portion of the assessment. As at December 31, 2011 the Group had accrued a total of approximately $0.6 million related to the CIT assessment including interest and penalties. The decision by the court reduced that amount to approximately $0.07 million. As a result the Group has recorded a recovery of approximately $0.6 million of which approximately $0.3 million has been recorded as a recovery of current income taxes, approximately $0.1 million has been recorded as a reduction in finance costs and approximately $0.2 million as a reduction in administrative expenses.

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

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

(c) The assessment for the 2009 MET in the amount of approximately $1.0 million was upheld. A total of approximately $1.6 million related to the MET, interest and penalties has been paid by Saga Creek of which approximately $0.7 million related to interest and penalties. The Group has decided to appeal the decision of the Cassation Chamber to the Supreme Court. The appeal was filed on May 14, 2012. The Supreme Court has refused to hear the case, indicating that they believe the decisions of the lower courts were valid.

27. Government of Kazakhstan pre-emptive right:

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

Alhambra’s original application included a floor price for the issuance of common shares of $0.60 per share. Unfortunately, during the time period that MINT was considering the Corporation’s application, the trading price of Alhambra’s common shares dropped below that floor. As a result the Corporation applied to MINT to have that floor price reduced. Effective December 25, 2012 the Corporation received approval from MINT to reduce the floor price to $0.20 per common share. This approval is effective for six months. As provided for under Kazakhstan legislation, the Corporation has applied for an extension.

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