Alhambra Resources Ltd.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the Year Ended December 31, 2012 (US Dollars)

This management's discussion and analysis ("MD&A") focuses on key items from the audited consolidated financial statements of Alhambra Resources Ltd. (also referred to as "Alhambra" or the "Corporation") for the year ended December 31, 2012 and the factors reasonably expected to impact future operations and results as prepared on June 27, 2013. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other matters may occur which could affect the Corporation in the future. This discussion should be read in conjunction with the audited consolidated financial statements of the Corporation for the year ended December 31, 2012 and the related notes. The financial statements have been prepared in accordance with International Financial Reporting Standards. All amounts are reported in US$000's except as otherwise stated.

This MD&A was reviewed and approved by the Corporation's audit committee and board of directors on June 27, 2013. Additional information on the Corporation is available under the Corporation's profile on SEDAR at www.sedar.com.

Forward-Looking Information

Except for the statements of historical fact contained herein, certain statements contained in this MD&A constitute "forward-looking statements" as such term is used in applicable Canadian and US laws. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. In particular, any statements concerning the Corporation's ability to continue as a going concern as described, statements concerning the strategy of advancing the Uzboy Gold Deposit ("Uzboy") towards pre-feasibility, the formalization of a development plan, converting Inferred resources to mineral reserves by conducting additional exploration and other factors and events described in this MD&A should be viewed as forward-looking statements to the extent that they involve estimates thereof. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and should be viewed as "forward-looking statements". Such forward-looking statements, involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and other factors include, among others, the Corporation's liquidity and financial capacity, the Corporation's funding sources to meet various obligations, advancing the project towards pre-feasibility, formalizing a development plan, lack of financing in order to convert Inferred resources to mineral reserves through additional exploration, costs and timing of exploration and production development, availability of capital to fund exploration and production development; political, social and other risks inherent in carrying on business in a foreign jurisdiction, the effects of a recessionary economy and such other business risks as discussed herein and other publicly filed disclosure documents. Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could vary or differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements contained in this MD&A.

Forward-looking statements are made based on management's beliefs, estimates and opinions on the date the statements are made and the Corporation undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change, except as required by applicable law.

Measurement Uncertainty

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those reported. Significant areas requiring the use of management estimates include the determination of impairment of property, plant and equipment and exploration and evaluation assets, provisions, and assumptions used in calculating share-based compensation expense. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Business Overview

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

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

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

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

The Corporation was incorporated on January 27, 1993 and amalgamated with its wholly-owned subsidiaries, Signature Capital Corp. and Tarco Oil & Gas Ltd., effective January 1, 2002.

On July 31, 2007 the Corporation's shareholders approved a reorganization by way of an arrangement under the *Business Corporations Act* (Alberta) (the "Arrangement") involving the Corporation, its shareholders and a newly incorporated corporation, DOT Resources Ltd. ("DOT").

Under the Arrangement, which became effective on August 29, 2007, the Corporation divided its mineral assets between two separate publicly traded corporations. Except for the period from December 26, 2008 through September 15, 2009, the Corporation continued to hold and operate its gold producing assets situated in Kazakhstan. DOT holds and conducts exploration activities on the Corporation's former Canadian DOT property, situated near Kamloops, British Columbia ("DOT Property").

Pursuant to the Arrangement, the DOT Property was transferred to DOT at its carrying amount of $944,666 in exchange for 30,000,000 common shares. Every shareholder of the Corporation received one (1) new common share and 0.21153 of a DOT common share for every one (1) common share of the Corporation held on the effective date of the Arrangement resulting in 15,000,000 DOT common shares held by Alhambra being distributed to Alhambra shareholders on a pro rata basis. As a result of the Arrangement, Alhambra holds 15,000,001 shares of DOT which represents approximately 27% of the 55,734,333 common shares of DOT currently outstanding. At December 31, 2012, the market trading value of the 15,000,001 DOT shares owned by Alhambra was CDN$375.

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

Kazakhstan ("Kazakhstan") by the Vendors seeking to invalidate Alhambra's ownership of its Kazakhstan Subsidiaries. The basis for the claim was that the Corporation's 100% owned subsidiary, Alhambra Overseas Limited, incorporated to hold Alhambra's interest in the Kazakhstan Subsidiaries, was not incorporated at the time the Agreement was initially entered into, despite the fact that such incorporation was subsequently completed soon thereafter. Alhambra applied to the Lower Court to have the litigation dismissed for the lack of jurisdiction, however, such application was denied as was the appeal to the Civil Cases Review Board of the East-Kazakhstan Oblast Court (the "Review Board"). As a result, hearings in the Lower Court on the merits of the case began on November 17, 2008 and were completed on November 24, 2008. On November 25, 2008 the Lower Court rendered its decision in favor of the Vendors. The Corporation appealed the Lower Court's decision to the Review Board, but on December 26, 2008 the Review Board issued its ruling upholding the Lower Court's decision. The Corporation appealed to the next level of the court system in Kazakhstan which was the Supervisory Chamber of the East-Kazakhstan Oblast Court whose decision, rendered on February 27, 2009, again upheld the decisions of the previous courts. On January 27, 2009 the ownership of the Kazakhstan Subsidiaries was re-registered back in the names of the Vendors giving effect to the court decisions. As a result of the decision, the assets and liabilities related to the Kazakhstan mineral operations were written off as of December 26, 2008 as the Corporation ceased to control the Kazakhstan Subsidiaries.

On April 16, 2009 the Corporation filed an appeal with the Supreme Court of Kazakhstan asking the Supreme Court to overturn the decisions of the lower courts. The Supreme Court hearing was held on August 12, 2009 at which time the Supreme Court reversed the decisions of the Lower Courts and dismissed the Vendors' claim. On September 15, 2009 the ownership of the shares of the Kazakhstan Subsidiaries was re-registered in the name of Alhambra and the Corporation commenced operations on that date.

Selected Annual Operating and Financial Information

	2012	2011	2010
Operating (for the years ended December 31):			
Mining:			
Waste mined (Tonnes ("T"))	403,952	1,758,873	2,374,398
Ore stacked (T)	136,220	861,025	1,023,853
Grade of ore mined (Grams/T)	0.57	0.80	0.85
Recoverable gold mined (Troy ounces (oz)) (1)	1,620	14,403	18,192
Gold sales (ozs)	5,702	9,187	12,663
Gold inventory (ozs) (2)	–	615	–
Gold in work in progress (ozs)	37,757	41,224	36,623
Financial:			
Revenue ($)	9,518	15,260	15,991
Average gold price ($/oz)	1,669	1,661	1,263
Operations expenses ($)	5,029	6,646	10,118
Operations expenses ($/oz)	882	723	799
Net (loss) ($)	(4,980)	(3,779)	(5,042)
Net (loss) per share			
Basic ($/share)	(0.05)	(0.04)	(0.06)
Diluted ($/share)	(0.05)	(0.04)	(0.06)
Capital expenditures ($)	917	3,979	16,093
Total assets ($)	108,539	112,339	125,801
Shareholders' equity ($)	68,284	71,146	73,158
Common shares outstanding at year end	104,132,059	104,132,059	103,994,309

Notes:

1. Recoverable gold mined is estimated to be equal to 65% of estimated total gold stacked.
2. Gold inventory as at December 31, 2011 represents 615 ounces of gold in transit to the refinery for final processing and sale.

Substantially all the ore mined during 2012 came from the East zone of Uzboy. During the year ended December 31, 2012, the Corporation sold a total of 5,702 ounces ("ozs") of gold for total proceeds of $9,518. This compares to sales of 9,187 ozs and $15,260 of sales during the year ended December 31, 2011. At December 31, 2011, an estimated 41,224 ozs of gold had been stacked and was in various stages of processing for sale ("work in progress") and 615 ozs was in transit to the refinery. During 2012 an additional estimated 1,620 ozs of gold was stacked which, after selling 5,702 ozs, resulted in an estimated balance of 37,757 ozs in work in progress at December 31, 2012.

During 2012, the Corporation mined a total of 403,952 T of waste and stacked 136,220 T of ore at an average gold grade of 0.57 grams/T ("g/t"). This compares to 1,758,873 T of waste mined and 861,025 T of ore stacked at an average gold grade of 0.80 g/t during the year ended December 31, 2011.

During 2012 the Corporation was experiencing financial hardships which prevented it from satisfying some of its outstanding obligations. Due to these financial constraints, the Corporation and its principal mining contractors agreed to suspend mining of new material to conserve cash until the Corporation could raise sufficient funds to pay outstanding obligations. The Corporation continues to pursue financing alternatives and has executed a non-binding term sheet. Due diligence is currently proceeding on various financing alternatives. Should a financing be completed, a portion of the proceeds will go towards the resumption of the mining of ore.

Financial Review

Segmented information

The Corporation and its subsidiaries operate in one reportable segment, the exploration for and development of mineral properties in Kazakhstan and therefore presentation geographically is the most appropriate. Identifiable assets, revenues and net loss in each of its geographic areas are disclosed in note 23 (*'Operating segments'*) to the December 31, 2012 audited consolidated financial statements.

Sales revenue

Revenue is recognized from the sale of gold when the price is determinable, the product has been delivered and title has been transferred to the customer and collection of the sales price is reasonably assured. The Corporation ships cathodic sediment to a refinery in Italy where the final refining process takes place and the gold is sold. The Corporation sells all of its gold to one supplier.

During 2012 the Corporation recognized $9,518 in revenue from the sale of 5,702 ozs of gold at an average price of gold $1,669/oz. During 2011 the Corporation recognized $15,260 in revenue from the sale of 9,187 ozs of gold at an average price of $1,661/oz. The decrease in revenue in 2012 was primarily due to lower gold sales which was the result of the reduction in the mining of new ore.

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

- Work done on the pads, such as ripping and fluffing the rested pads, increases the recovery of gold substantially.

- Cyanide needs to be added at regular intervals so that cyanide concentration can be maintained at the optimum levels to increase gold recovery efficiency.

- Resin which is used to extract the gold from the cyanide solution breaks down over time such that its efficiency is significantly reduced. As the size of the individual resin beads reduce through use, their ability to extract the gold from the cyanide solution is significantly reduced. New resin is needed to return the extraction process to historical levels.

- Consumed resin volumes must be replaced to maintain high efficiency recovery. The resin plant is designed with nine columns containing resin. Currently there are only 7 of the 9 columns filled with resin between stripping cycles which affects the efficiency of stripping the gold from the cyanide solution. When preparing for a stripping cycle, resin from 2 columns is removed and shipped to the Dore plant which leaves only 5 columns in operation until the resin shipped has been returned to the plant and put back into the empty columns.

Net smelter royalty

The net smelter royalty ranges from 2.5 to 3.0% (dependent on the price of gold) of the gross revenue. During the year ended December 31, 2012, the Corporation recognized $286 in net smelter royalty expenses as compared to $458 for the year ended December 31, 2011, which is 3% (2011 – 3%) of the revenue recognized in the period.

Cost of sales

Operating expenses consist of all costs associated with the production of gold, (including direct costs incurred in the mining, leaching and resin stripping processes ("process operating costs"), Mineral Extraction Tax ("MET")), transportation and refining of the cathodic sediment but excluding depletion and depreciation. Except in periods in which no new ore is being mined, all process operating costs are charged to work in progress and are expensed on the basis of the quantity of gold sold as a percentage of total recoverable gold mined. In those periods in which no new ore is being mined, certain direct mining costs and depreciation of mining equipment are expensed directly and not charged to work in progress.

Operating costs for the year ended December 31, 2012 were $5,029 or $882/oz of gold sold as compared to $6,646 or $723/oz of gold sold for 2011. The 2012 figure includes $215 ($38/oz) of mining costs charged directly to operating costs for the months in which there was no new ore mined. There was not comparable amount in 2011.

Included in the 2012 operating cost amount is $425 or $75/oz related to the amortization of the bump-up to fair value from the estimated cost of work in progress on re-valuation on September 15, 2009. Cash operating costs were therefore $807/oz. In 2011, $1,131 or $123/oz of similar costs were included in operating costs resulting in the cash cost of gold sold for this period of $600/oz.

The $1,617 decrease in operating costs is due to the reduction in the quantity of recoverable gold sold during 2012. The $159/oz increase in per unit operating costs is a result of two factors. The first is a decrease in the grade of the ore mined to 0.57 g/t in 2012 as compared to 0.80 g/t in 2011. As mining costs are based on the volume of ore mined and not the grade of that ore, a reduction in grade will result in an increase in the cost per oz of gold mined and sold. The second factor is that even if mining of ore is curtailed, there remains a fixed component of mining costs that are still incurred which results in a higher per unit operating costs.

Administrative expenses

Years ended December 31,		2012		2011
Canada				
Share-based compensation	$	432	$	2,903
Non-collectable account receivable		–		747
Cash based corporate overhead costs		4,286		2,117
Total Canada		4,718		5,767
Kazakhstan		958		1,219
	$	5,676	$	6,986

Administrative expenses for the year ended December 31, 2012 were $5,676, a decrease of $1,310 over the $6,986 recorded in the year ended December 31, 2011. Of the totals, $958 related to the Saga Creek operations for the year ended December 31, 2012 as compared to $1,219 for the year ended December 31, 2011. Canadian corporate overhead accounted for the remaining $4,718 and $5,767 for the years ended December 31, 2012 and 2011, respectively.

While general and administrative costs in 2012 are down from 2011 reported amounts due to reduced activity resulting from Alhambra's financial limitations, the majority of the decrease comes from lower share-based compensation expense combined with the 2011 allowance for non-collectability of an account receivable of $727 owing from the Corporation's 27% affiliate DOT.

These amounts were offset by a charge in 2012 of $2,434 whereby Alhambra 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.

Share-based compensation totaled $432 for the year ended December 31, 2012 as compared to $2,903 for the year ended December 31, 2011. Due primarily to the high volatility of the Corporation's stock price, this calculation results in the value assigned to stock options approaching the actual option grant price. As a result, the higher the option price, the higher the value assigned to the options for purposes of share-based compensation expense. This value must be expensed separately for each vesting portion of each option and during their vesting period. Share-based compensation expense for 2012 relates primarily to amortization of the value calculated for the 900,000 options granted in the latter half of 2012 at a weighted average price of CDN$0.26 per share. For 2011, share-based compensation expense relates to the amortization of the value calculated for the 3,050,000 options granted in January of 2011 at a price of CDN$1.05 per share.

The allowance for non-collectability of the DOT account receivable comes from the belief that there is a high probability that DOT will not be able to re-pay the obligation and as such a provision for non-collectability has been charged to administrative expenses.

Depletion and depreciation

Depletion and depreciation expense for the year ended December 31, 2012 was $1,844 as compared to $2,781 in 2011. Substantially all the amounts for both years relate to the Kazakhstan operation. The decrease is primarily due to the decrease in gold produced and sold in 2012 as compared to 2011.

Depletion and depreciation charged on the fair value assigned to mineral properties as a result of the re-acquisition at September 15, 2009 is charged to work in progress on the basis of the volume of gold produced as a percentage of total estimated gold resources. It is then expensed on the basis of the quantity of gold sold as a percentage of the quantity of gold estimated to be in work in progress. For the year ended December 31, 2012, $1,584 (2011 - $6,729) of depletion and depreciation was charged to work in progress. Generally, the major component of this cost is the depletion of the revaluation amount assigned to the carrying cost of mineral assets in September of 2009. This significant decrease of $5,145 in depletion and depreciation charged to work in progress in 2012 over 2011 was a result of the decreased volume of recoverable gold mined in 2012.

Finance costs

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

During the year ended December 31, 2012 the Corporation recorded total finance expenses of $1,809 as compared to $583 for the year ended December 31, 2011.

During the year ended December 31, 2012 the Corporation charged $1,394 to financing costs representing the value attributed to the extension of the expiry dates of (i) 2,500,450 warrants to February 11, 2013; (ii) 5,388,690 warrants originally scheduled to expire on February 19, 2012 to February 19, 2013; and, (iii) 3,913,635 warrants originally scheduled to expire on March 28, 2012 to March 28, 2013 During the year ended December 31, 2011 the Corporation charged $146 to financing costs representing the value attributed to the extension of the expiry date of 2,500,450 warrants originally scheduled to expire on August 11, 2011 (see note 20(d) ('Warrants') to the audited consolidated financial statements and the Share data section of this MD&A). These warrants expired unexercised.

Interest accrued on overdue taxes for the year ended December 31, 2012 was $48 as compared to $351 for the year ended December 31, 2011. Interest on overdue taxes relates to the taxes assessed by the government of Kazakhstan for which the Corporation had appealed. For 2012, $6 related to interest on the unpaid portion of the Commercial Discovery Bonus ("CDB") (2011 - $85) and $42 on disputed amounts of assessed corporate income taxes ("CIT") (2011 - $133). Both of these issues were in dispute and the disputes were settled in 2012 with the 2012 amounts being the resulting amounts owing. (see note 26 *'Legal challenge of tax assessment'* to the December 31, 2012 audited financial statements and the Legal challenge of tax assessment section of this MD&A and note 28 *'Commercial discovery bonus'*) to the audited consolidated financial statements and the Commercial discovery bonus section in this MD&A). The 2011 amounts were the Corporation's accrual of the liability had the appeal been unsuccessful. The remaining 2011 portion of $131 relates to interest on unpaid MET. The Corporation had appealed the tax department's assessment on MET and the final decision of the court was rendered on September 27, 2011.

The 2012 credit of $214 for reversal of accrued interest on the successful tax appeal represents the recovery of the interest recorded in 2011 on the CDB and CIT. The 2011 credit of $425 relates to the reversal of accrued interest originally recorded in 2010 for the successful appeal of the Historical cost assessment (see note 25 (*'Legal challenge of tax assessment'*) to the December 31, 2012 audited consolidated financial statements and the Legal challenge of tax assessment sections of this MD&A).

During the year ended December 31, 2012, the Corporation recorded a foreign exchange loss of $438 as compared to $504 for the year ended December 31, 2011. Saga Creek's operations accounted for $436 of the foreign exchange loss in 2012 (2011 - $449) as the US$ continued to strengthened relative to the Kazakhstan Tenge ("KZT") thus negatively impacting Saga Creek's net monetary liability position.

Equity loss

The Corporation accounts for its ownership of the common shares of DOT using the equity method of accounting. On September 23, 2009 DOT issued additional common share equity that reduced Alhambra ownership to 27% from the 36% owned prior to the DOT issue. For the year ended December 31, 2012, the Corporation recorded an equity loss of $19 compared to the $21 recorded for the 2011 year.

Income tax expense

Income tax expense recorded relates entirely to Saga Creek. As Saga Creek is a profitable entity, it pays income tax under Kazakhstan law. The Corporation recorded an income tax recovery of $165 for the year ended December 31, 2012 as compared to an income tax expense of $1,564 in 2011. Saga Creek incurred a current tax recovery of $140 in 2012 as compared to $560 reported in 2011. In 2012 Saga Creek had an actual current income tax expense of $198. This amount was offset by an accrued income tax expense from prior years of $338 related to the CIT assessment which the Corporation had appealed. The appeal was successful such that the over accrual from prior years was reversed in 2012 (see note 26 'Legal challenge of tax assessment' to the December 31, 2012 audited financial statements and the Legal challenge of tax assessment section of this MD&A).

The remaining $25 of income tax recovery for the 2012 year is deferred income tax which compares to $1,004 in 2011.

Effective January 1, 2009 the corporate tax rate in Kazakhstan was reduced to 20% from the previous rate of 30%. Also effective January 1, 2009 the Government of Kazakhstan introduced an excess profits tax. This tax is a progressive tax in that as profits increase, the rate of tax on the increment in excess profits, as defined, also increases. The Corporation has not yet been subject to any excess profits tax.

The Corporation has Canadian non-capital losses, for which no benefit has been recognized in the financial statements, of approximately CDN$14.9 million at December 31, 2012, which commence expiring in 2014.

Net loss

The Corporation recorded a net loss of $4,980 for the year ended December 31, 2012 compared to a net loss recorded in 2011 of $3,779.

Kazakhstan mining operations for the year ended December 31, 2012 reported net earnings of $1,298 as compared to net earnings totaling $2,219 in 2011. The $921 decrease in 2012 from 2011 is the result of a decrease in operating results of $3,017, the result of lower sales volumes, partially offset by decreases in administrative, financing and income tax expenses.

For the year ended December 31, 2012, Canadian corporate losses totaled $6,278, an increase of $280 over the $5,998 recorded in 2011. Higher administrative costs due to the write off of future listing costs of $2,434 and higher finance costs related to the re-valuation of warrants were offset by decreases in share based compensation expense and cash overhead expenses.

Based on a weighted average number of common shares of 104,132,059 for 2012 and 104,103,679 in 2011, the Corporation’s basic and diluted net loss per common share was $0.05 for 2012 as compared to $0.04 in 2011.

For both the 2012 and 2011 years, all options and warrants outstanding were excluded from the dilutive earnings per share calculation as they would be considered anti-dilutive.

Summarized Cash Flows

		2012		2011
Net cash provided from operating activities	$	440	$	4,758
Net cash provided from financing activities		503		31
Net cash (used in) investing activities		(881)		(7,288)

Operating cash flow

For the year ended December 31, 2012, net cash from operating activities was $440 which was primarily attributed to cash flow utilized from operating activities before working capital adjustments of $1,312 plus an increase in inventories of $787 offset by decrease in deposits and prepaid expenses of $2,502.

For the year ended December 31, 2011, net cash from operating activities was $4,758 which was primarily attributed to a positive cash flow from operating activities before working capital adjustments of $3,830. Changes in various working capital items added a further $928 of cash flow which came primarily from an increase in accounts payable.

Financing cash flow

For the year ended December 31, 2012, net cash flow provided from financing activities was $503 which was the result of the proceeds from the issuance of a promissory note.

For the year ended December 31, 2011, net cash flow provided from financing activities was $31 which was the result of the exercise of 137,750 stock options.

Investing cash flow

For the year ended December 31, 2012, net cash flow used in investing activities was $881, primarily the result of additions to property, plant and equipment of $917.

For the year ended December 31, 2011, net cash flow used in investing activities was $7,288, primarily as a result of the acquisition of property, plant and equipment of $3,979 plus a decrease in related trade and other payables of $3,309.

Selected Balance Sheet Items

Trade and other receivables

Accounts receivable primarily represents refundable Value Added Tax (“VAT”) and amounts owing on the sale of gold. VAT is paid by the Corporation on goods and services purchased in Kazakhstan and utilized in its operations. At December 31, 2012 the balance outstanding on account of VAT was $633 (December 31, 2011 - $624). The Corporation applies for a refund of VAT in the first quarter following the end of the year for which the VAT had been paid. The refund claim is subject to audit by the tax authorities in Kazakhstan with the refund due at the end of the second quarter. Until 2011, the Corporation had been successful in collecting all material amounts due.

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

It is the Corporation’s understanding 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 courts.

Deposits and prepaid expenses

Prepaid expenses arise in Kazakhstan as the Corporation is often required to place a deposit down upon signing of a contract.

The decrease in deposits and prepaid expenses is the result of the expensing to professional fees, of $2,434 of costs related to a planned initial public offering and listing on an Asian stock exchange.

Inventories

The Corporation’s inventory comprises mostly work in progress in which, except in periods in which no new ore is being mined, all costs associated with the production of gold, including direct costs incurred in the mining, leaching and resin stripping processes, as well as a portion of depreciation of equipment used in each process, and depletion on mineral assets, are charged to work in progress inventory and expensed based on the quantity of gold sold as a percentage of gold mined. In those periods in which no new ore is being mined, certain direct mining costs and depreciation of mining equipment are expensed directly and not charged to work in progress.

While the Corporation performs tests to estimate the recoverability of gold as well as uses various sampling techniques to measure the daily quantity of gold either stacked on or recovered from the heaps in each process, the actual quantity of recoverable gold can only be determined with certainty after the reserves have been completely mined and the project abandoned.

At December 31, 2012 the Corporation calculated that there was approximately 37,757 ozs of gold in work in progress (December 31, 2011 – 41,224 ozs) at a carrying cost of $31,681 (December 31, 2011 - $30,910). The Corporation reclassifies the portion of this inventory that it does not expect to sell in the next year as non-current. At December 31, 2012, the Corporation classified 34,757 ozs ($28,000) (December 31, 2011 – 31,224 ozs and $17,704) as non-current.

At December 31, 2012, the Corporation also had $1,038 (December 31, 2011 - $1,074) of raw materials and supplies inventory which is used in its operations and $nil (December 31, 2011 - $654) which represents the cost of ozs of gold that was in transit to the refinery for final processing and sale at December 31, 2012.

Impairment test on property, plant and equipment and intangible assets.

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 upon 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.

An impairment test was not triggered for intangible assets.

Trade and other payables

At December 31, 2012 the Corporation had outstanding $7,148 in trade and other payables (December 31, 2011 - $7,520). The credit terms that govern the Corporation's relationship with its suppliers are such that the majority of all amounts outstanding are due within one month. Many of the Corporation's trade payables have been outstanding for a significant period of time in excess of the normally allowed credit term. This has been caused by the Corporation's current financial condition. The Corporation is continuing to pursue various financing alternatives in which proceeds will be used to pay down these existing obligations.

Provisions

At December 31, 2012 the Corporation had outstanding provisions for future liabilities of $743 (December 31, 2011 - $283) related to future site reclamation.

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

In 2010 the Corporation recorded a provision 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. Effective January 1, 2009 the Government of Kazakhstan enacted legislation that required those companies that had acquired the Historical Data begin paying to the Government of Kazakhstan the unpaid amounts beginning on January 1, 2009 in equal quarterly installments over ten (10) years. It was the opinion of the Corporation that it was not liable for the liability as the obligation is not recorded in the contract governing foreign investment 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 rejecting the Corporation's appeal of the assessment. The Corporation filed a claim in the economic court in Kazakhstan seeking to have the decision of the tax authorities reversed together with the obligation and related interest and penalties. On September 27, 2011 the courts of Kazakhstan ruled in Saga Creek's favor and the Corporation reversed all amounts accrued relating to the Historical cost provision penalties and interest. (see note 25 *'Legal challenge of tax assessment'* to the audited consolidated financial statements for the year ended December 31, 2011 and the Legal challenge of tax assessment section of this MD&A).

Deferred tax liabilities

At December 31, 2012 the Corporation has $31,861 (December 31, 2011 – $32,390) in deferred tax liabilities that relate primarily to the fair value assigned to Uzboy on the re-acquisition of control of Saga Creek.

2012 Capital Expenditure Activity

During the year ended December 31, 2012 the Corporation recorded capital expenditures of $917 of which $916 related to activities in Kazakhstan. Of that total approximately $40 relates to buildings, machinery and equipment used in the operations in Kazakhstan. In 2012 the Corporation had recorded $729 of exploration costs as a result of the assessment by the tax authorities for the CDB. The Corporation appealed the ruling and as a result of the March 12, 2013 decision by the appeals court, the CDB was reduced to $155. This $574 reduction was accounted for in 2012 as a reduction in capital expenditure. The remaining $1,450 relates to the Corporations 2012 exploration program which is detailed below.

In 2012, Alhambra received the results of two initial independent National Instrument ("NI") 43-101 gold resource estimates for its 100% owned Dombraly gold deposit ("Dombraly") and Shirotnaia gold project ("Shirotnaia"), both being advanced exploration projects. The results, based on limited drilling data, were very encouraging.

During 2012 Alhambra completed 7,904 metres ("m") of exploration drilling, 5,140 m of core drilling and 2,764 m of reverse circulation ("RC") drilling. The core drilling was focused on two projects, the first being to delineate additional gold resources at Shirotnaia, and the second being Zhanatobe, one of the Corporation's early stage exploration projects. The RC drilling was focused on two projects, Shirotnaia, and the second being Zhusaly, another one of its early stage exploration projects. As well, soil sampling programs were completed at Zhusaly, Vasilkovskoe East and Dombraly East.

Two batches of core drill samples (totaling 5,146 samples) from Shirotnaia and Zhanatobe were sent to the Kyrgyzstan Stewart Group laboratory for assaying in 2012. However, as of December 31, 2012, there were 2,593 Shirotnaia assay results pending (2,586 core and 7 QA/QC core re-sampling) from the laboratory, and in addition, 6,755 samples (including 887 QA/QC samples) were being prepared for export as follows:

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

Dombraly

In February 2012, Alhambra received the results of an initial independent NI 43-101 gold resource estimate (the "Dombraly Estimate") for Dombraly. The resources identified in the initial Dombraly Estimate were 301,000 ounces ("ozs") of Inferred current mineral resources contained in 9.3 million tonnes grading 1.01 g/t Au and an additional 22,000 ozs of Indicated current mineral resources contained in 0.60 million tonnes grading 1.22 grams per tonne gold ("g/t Au") using natural cut-off grades of 0.13 g/t Au, 0.10 g/t Au and 0.20 g/t Au for the low grade stockpile, pit infill and in-situ mineralized zones respectively.

The Dombraly Estimate included the results of 23 core holes (5,835 m) and 37 RC holes (880 m). Due to the timing of the estimate, the Dombraly Estimate did not incorporate the analytical results for the 32 core hole (5,528 m) drilling program which was completed at the end of October 2011. These drill samples were assayed in January 2012 and the results have been received, interpreted and released in late April 2012. Two new zones (i.e. lenses) of gold mineralization were discovered and at least five known zones – significantly extended and upgraded, the best mineralized intervals in the known zones being 17.29 g/t over 3.9 m, 4.40 g/t over 14.1 m and 3.57 g/t Au over 14.7 m. A northern extension of the mineralized lens 1 was identified as being about 120 m long. The intercepts in this part of the lens range from 0.77 g/t Au over 20.8 m to 9.95 g/t Au over 1.5 m. Drilling of the southern part of the same lens discovered 14.7 m of oxide mineralization grading 3.57 g/t Au. Three of four mineralized zones located on the southern edge of the deposit were extended by at least 60 m and remain open to the south. The best result returned here by one of the zones was 1.52 g/t Au over 3.0 m of oxide mineralization. Several new parts of mineralized lens 2 were discovered which have extended the mineralization by at least 240 m along strike and by 65 to 140 m along the dip. The best intercepts were 4.40 g/t Au over 14.1 m and 2.01 g/t Au over 9.0 m. Two new mineralized lenses have been discovered returning intercepts of 4.0 m at 1.18 g/t Au and 8.2 m at 1.66 g/t Au and remaining open along strike in the northerly direction.

Shirotnaia

In February 2012, Alhambra received the results of an initial independent NI 43-101 gold resource estimate (the "Shirotnaia Estimate") for Shirotnaia. The resources identified in the initial Shirotnaia Estimate were 645,000 ozs of Inferred mineral resources contained in 34.6 million tonnes grading 0.58 g/t Au and an additional 71,000 ozs of Indicated mineral resources contained in 2.9 million tonnes grading 0.76 g/t Au. These resources were identified using natural cut-off grades of 0.1 g/t Au for oxide material and 0.2 g/t Au for transitional and primary mineralized zones respectively. The Shirotnaia Estimate included the results of 73 core holes (9,597 m) and 43 RC holes (2,249 m). Due to the timing of the Estimate, it does not incorporate the analytical results for three core holes (489 m) from the 2011 drilling program as these drill samples were still in the process of being assayed. The assay results for the three core holes were received in January 2012, have been interpreted and are now being released. These three holes returned 12 mineralized intervals ranging in width from 1.0 to 29.5 m that had grades higher than 0.2 g/t Au. The best intercepts were 2.44 g/t Au over 3.0 m and 1.11 g/t Au over 2.7 m. The results will be included in the current geological model and in the next Shirotnaia resource estimate.

The 2012 drilling program at Shirotnaia consisted of an 18 diamond drill hole program (3,691 m) and a 26 hole (2,434 m) RC drilling program.

Of the 18 diamond holes drilled, assay results from eight holes (1,596 samples) were received, interpreted and reported. The remaining 10 holes have not yet been assayed. All drill holes encountered intervals of strong chlorite sericite alteration and sulphide mineralization as well as intervals of carbonate-quartz veins and veinlets. The eight diamond drill holes reported intersected higher-grade gold mineralization (+1.0 g/t Au) over core intervals ranging from 6.4 m to 135.6 m (down-hole). These higher-grade intervals define a core gold mineralization zone interpreted to be at least 1,200 m long enveloped by an aureole of lower grade (<1.0 g/t) gold mineralization with dimensions of 1,800 m by 750 m which remains open in three directions and at depth. These assay results included one of the best drill holes to date on the project which entered strong mineralization from surface and returned an interval of 135.6 m averaging 1.12 g/t Au. Seven of the holes returned intercepts with gold grades greater than 1.0 g/t Au and in four of the holes these grade intervals have core lengths greater than 6.0 m. Thirty eight mineralized intervals (of variable widths) with gold grades of greater than 0.2 g/t Au were intersected in the eight holes assayed. The best mineralization intersected included: 1.12 g/t Au over 135.6 m, 1.47 g/t Au over 27.4 m, 1.73 g/t over 17.5 m and 1.56 g/t Au over 18.2 m.

The objective of the 26 hole RC drilling program was to check for possible extensions of gold mineralization to the north where it is marked on the surface by anomalous soil and trench samples taken earlier. This area has significant potential according to the recently prepared structural model. The 2,446 samples taken have been prepared for export and assaying.

Uzboy

In 2012, Alhambra's independent consultants (Micromine and ACA Howe International) continued to work on updating the Uzboy NI 43-101 resource estimate and Preliminary Economic Assessment. Upon completion of these studies, the Corporation will press release the study results.

Zhanatobe

In January 2012, Alhambra began its first core drilling program at Zhanatobe. The objective of this program was to check for the presence of gold at depth and to determine the geometry and style of the gold mineralization located in both the Central and Northern areas of Zhanatobe as a result of the shallow rotary air-blast ("RAB") drilling conducted in 2010 and 2011. Nine core holes (1,449 m) were drilled which intersected significant gold mineralization at depth in both the Northern and Central areas. The samples were assayed and the results were reported.

Four of nine holes intersected mineralized intervals grading greater than 0.5 g/t Au located with broad intervals of lower-grade gold mineralization. In the Central area, gold mineralization was discovered at depth returning 2.11 g/t Au over 5.0 m and 1.98 g/t Au over 3.0 m, and was hosted by silicified sandstone and andesite. Gold mineralization was traced by diamond drill holes for about 600 m along strike remaining open in both directions (NE and SW) and to depth. In the Northern area, gold mineralization was also discovered at depth returning 0.86 g/t Au over 11.0 m (including 1.37 g/t Au over 5.30 m). The gold mineralization discovered is open in all directions, and in both the Central and Northern areas, gold grades become significantly higher at depth when compared to previous shallow RAB drilling results.

Zhusaly

Zhusaly is situated about six kilometres ("kms") NE along the main mineralization trend from Shirotnaia and has very similar geological settings to that of Shirotnaia.

In 2012, the results of a soil sampling program completed at Zhusaly in 2011 were interpreted and released and a new 2012 follow-up soil sampling program was completed.

The goal of the 2011 soil sampling program was to check for possible continuity of the mineralization from Shirotnaia as well as to establish the exact size of the Zhusaly mineralization. A total of 576 samples were taken along 16 lines. The assay results were received in early 2012 and were interpreted and released in May 2012. At least two very interesting gold soil anomalies were established as a result of the 2011 program. The first one grading from 20 to 505 ppb gold extended the known Zhusaly vein mineralization by about 500 m to the SE. It is supported by elevated grades of Ba, Hg and Sb which suggest just slightly eroded gold mineralization (or the upper levels of the mineralized system). The second soil anomaly, developed on the contact between the granitoid intrusion and the volcano-sediment sequence is elongated in a NE direction and ranges from 20 to 351 ppb gold over an area of 2.0 by 0.35 kms and remains open to the NE and NW. This anomaly suggests a new zone of gold mineralization of significant size.

The goal of the follow-up 2012 soil sampling program at Zhusaly was to check the soil anomaly established in 2011 and for the possible continuity of the mineralization from Shirotnaia. The 572 samples taken along 15 lines have been prepared for export and assaying.

A seven hole (1,050 m) RC drilling program was initiated at Zhusaly prior to the end of the third quarter of 2012. The purpose of this drill program was to check the soil anomaly established in 2011. Two NW orientated RC lines were planned. The drill lines are 250 m apart with the planned distance between holes being 150 m along the SW line (scissor holes) and 75 m along the NE line (fence holes). Due to technical drill rig problems, drilling was stopped at the end of November after the completion of three holes (330 m) and will be continued in 2013 once all technical problems have been resolved.

Vasilkovskoe East

A soil sampling program on the Vasilkovskoe East early stage project was completed in 2012. This project included three soil sampling areas – Western, Alexandrovsky and Vasilkovskoe Northeast. In the Western area as a result of the 2011 exploration program, several gold anomalies in soil were established. More detail sampling around these anomalies was completed with 196 samples taken along 6 lines. In the Alexandrovsky area, 3 lines were sampled (183 samples taken) and completed. More detailed sampling was also carried out in this area (245 samples along 4 lines). Sampling in the Vasilkovskoe Northeast area targeted to check the ASTER anomalies established there. 221 soil samples were collected along 9 separate lines. In total, 845 soil samples and two rock chip samples were taken from the Vasilkovskoe East project. The samples have been prepared for export and assaying.

Dombraly East

Soil sampling of a new area called Dombraly East, situated five kms east of the Dombraly deposit was completed in November. This area was chosen because of numerous intersecting magnetic and gravity lineaments and several ASTER anomalies.

A 23 line program was completed, each 3,500 m long and 250 m apart. The distance between samples along the line was 50 m. The 1,661 soil samples taken have been prepared for export and assaying.

Remote Sensing and Gravity and Magnetic Survey

In mid April 2012, the interpretation of the 1,360 km2 (Phase one) ground gravity and magnetic surveys over the Dombraly-Shirotnaia gold trend was completed and resulted in outlining numerous oriented lineaments and areas of low magnetic signature leading to the identification of 18 new primary exploration targets which were overlaid with the results of an ASTER satellite imagery analysis combined with historically known gold showings.

These 18 new primary targets were prioritized, with five of them deemed as being high priority. The soil sampling program followed by a RC drilling program has already commenced at four of five high priority targets (Zhusaly, Kontaktovy and two at Dombraly East). The remainder will be implemented in the future.

Resources By Deposit

Alhambra's current total corporate NI 43-101 gold resources are as noted below:

	Measured (M)			Indicated (I)			M + I			Inferred		
Project	Tonnes	Grade (g/t)	Ounces	Tonnes	Grade (g/t)	Ounces	Tonnes	Grade (g/t)	Ounces	Tonnes	Grade (g/t)	Ounces
Uzboy (1)	14,317,200	1.52	700,000	7,009,500	1.22	275,500	21,326,700	1.42	975,500	11,258,200	1.17	421,700
Dombraly (2)	-		-	559,000	1.22	22,000	559,000	1.22	22,000	9,317,000	1.01	301,000
Shirotnaia (3)	-		-	2,900,000	0.76	71,000	2,900,000	0.76	71,000	34,577,000	0.58	645,000
TOTAL	14,317,200	1.52	700,000	10,468,500	1.09	368,500	24,785,700	1.34	1,068,500	55,152,200	0.77	1,367,700

(1) Effective as of Dec 31/07 as per ACA Howe per news release dated Apr 8/08 at a 0.40 g/t cut-off.
(2) Effective as of Nov 27/11 as per ACA Howe per news release dated Feb 7/12 using natural cut-off grades of 0.13 g/t, 0.1 g/t and 0.2 g/t for the low grade stockpile, pit infill and in-situ mineralized zones respectively.
(3) Effective as of Jan 9/12 as per ACA Howe per news release dated Feb 28/12 using cut-off grades of 0.1 g/t for oxide gold mineralization and 0.2 g/t for transitional and primary gold mineralization respectively.

Administrative expenditures

For the year ended December 31, 2012, administrative expenses totaled $5,676, a decrease of $1,310 over the comparable 2011 amount of $6,986. Included in these totals are $958 and $1,219 of administrative expenses related to Saga Creek operations for 2012 and 2011, respectively. The decrease of $261 from 2011 to 2012 is primarily the result of reduction of costs associated with the Corporation's legal actions related to the tax assessments that were substantially completed in late 2011 (see note 26 *'Legal challenge of tax assessment'* to the December 31, 20112 audited financial statements and the Legal challenge of tax assessment section of this MD&A).

The remaining $4,718 of administrative expenses for the year ended December 31, 2012 relates to corporate overhead costs which was a decrease of $1,049 over the corporate overhead costs for the year ended December 31, 2011 of $5,767. Included in these amounts were share-based compensation expenses of $432 and $2,903 for the years ended December 31, 2012 and 2011, respectively. In addition, in 2011 the Corporation recorded a $747 allowance for the non-collectability of an account receivable. There was no comparable amount in 2012. The remaining $4,286 and $2,117 for the years ended December 31, 2012 and 2011, respectively relate to corporate cash overhead expenses as detailed below.

Employee costs accounted for $874 (20%) of the total corporate administrative costs for the year ended December 31, 2012 as compared to $1,057 (50%) for the 2011 year. The decrease of $183 from 2011 to 2012 was the result of bonuses paid to employees in 2011 which were not paid in 2010 plus the reduction in consulting costs with the completion in May of 2011 of the IFRS conversion project.

Corporate professional costs, which include legal, auditing and outside consulting fees, totaled $2,958 (69%) for the year ended December 31, 2012 as compared to $573 (27%) for the 2011 year. The significant increase in 2012 is a result of the expensing of $2,434 of costs previously recorded as prepaid expenses related to a planned initial public offering and listing on an Asian stock exchange.

Costs related to the maintenance of Alhambra as a public Corporation including investor relations, stock exchange and corporate trust services and annual and quarterly report costs accounted for $173 (4%) of total corporate administrative expenses for the year ended December 31, 2012 as compared to $326 (15%) for the 2011 year. The decrease of $153 was the result of a reduction in investor relations activities as the Corporation reduced non-essential expenses to preserve cash.

Office expenses for the year ended December 31, 2012 totaled $281 (7%) as compared to $161 (8%) for the 2011 year. The $120 increase in office expenses was the result of two factors. The first was higher travel costs to meet with potential investors in an effort to raise funds. The second was related to the payment of rent in 2012. In 2011 the Corporation had an arrangement to utilize a small amount of space at no cost. This arrangement ended on December 31, 2011.

Liquidity and capital resources

Alhambra operates in a capital intensive industry in which the demands for capital to finance exploration and development of its properties as well as its corporate overheads generally occur far in advance of projects being put on production and generating cash flow. While the Corporation generates cash flow from the operations of the oxide zone of Uzboy, additional funds are required to enable Alhambra to meet its working capital obligations and fund its exploration and development program. As a result, the Corporation depends on the capital markets to provide funds for these activities. If the Corporation is unable to raise additional funds through these capital markets, the Corporation's ability to continue as a going concern is extremely doubtful. However, in order for the Corporation to raise funds through the issue of common shares, it must first get approval from the government of Kazakhstan to issue common shares (see note 27 (*'Government of Kazakhstan pre-emptive right'*) to the December 31, 2012 audited consolidated financial statements and the Government of Kazakhstan pre-emptive right section of this MD&A). The Corporation received approval from the Kazakhstan Ministry of Industry and New Technology ("MINT") to proceed at its discretion with the issue of common shares. This approval is effective until June 25, 2013. As provided for under Kazakhstan legislation, the Corporation has applied for an extension.

At December 31, 2012 the Corporation had a working capital deficiency of $1,101 which included $940 in cash and $2,041 in other negative working capital. This compares to a positive working capital of $11,483 at December 31, 2011 which included $873 in cash and $10,610 in other working capital. The $12,584 decrease in working capital was principally the result of a decrease in the current portion of work in progress from 2012 to 2011 together with the expensing in 2012 of the Asian listing costs recorded as a prepaid expense. In 2011 the volume of gold that the Corporation had estimated it was going to sell during 2012 was 10,000 ozs and the cost related to such volume was $13,206. As noted above, gold sales for 2012 were only 5,702 as a result of the reduction in the mining of new ore and lower than optimal operating practices due to financial constraints. As it is uncertain as to when mining of new ore will resume, the Corporation is estimating that the amount of gold to be sold during 2013 will be 3,000 ozs. The cost associated by this volume and included in other working capital is $3,681.

Related party transactions

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

(a) Compensation of key management personnel:

The remuneration of directors and other members of key management personnel during the 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.

(b) Other transactions:

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 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.

Financial instruments

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

Commitments

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

Because of financial limitations the Corporation is not able to estimate with any certainty the amount it will spend on exploration activities during 2013. The Corporation has identified at least $3,000 in exploration projects that could be completed during 2013 should financing be completed in the near future.

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

The Corporation has no other off balance sheet financing arrangements.

Share data

The Corporation is authorized to issue an unlimited number of common shares of which were outstanding as of December 31, 2012. The following table shows the detailed number of shares, options and warrants outstanding as of December 31, 2012 and changes that have occurred up to the date of this MD&A.

	As of December 31, 2012	Change in 2013	Issued in 2013	As of June 27, 2013
Common shares issued and outstanding	104,132,059	–	–	104,132,059
Common shares issuable upon exercise of stock options	8,743,500	–	–	8,743,500
Common shares issuable upon exercise of warrants	9,302,325	(9,302,325)	–	–
Common shares fully diluted	122,177,884	(9,302,325)	–	112,875,559

The 9,302,325 warrants, which were exercisable at a price of $0.72 per share, were originally scheduled to expire on or before February 19, 2012 for 5,388,690 warrants and March 28, 2012 for 3,913,635 warrants. In 2012, the Corporation sought and obtained approval from the Exchange to extend the expiry date of the warrants to February 19, 2013 for 5,388,690 warrants and March 28, 2013 for 3,913,635 warrants. The warrants expired unexercised.

Legal challenge of tax assessment

In 2010 Saga Creek was assessed amounts that tax authorities in Kazakhstan believed were owed by Saga Creek for Historical Costs, MET as well as for their disallowance of certain corporate income tax deductions for the 2006 to 2009 taxation years ("CIT"). The total amount of the assessments including penalties and interest was approximately $4.3 million. The Corporation believed that the assessments were not consistent with Kazakhstan legislation as well as the provisions of Saga Creek's foreign investment contract which governs the Saga Creek's licenses. As a result, Saga Creek filed a claim in the District Economical Court ("Economical Court") seeking to have the assessment of the tax authorities, together with the applicable interest and penalties reversed. On May 13, 2011 the judge in charge of the case largely, but not wholly, rejected Saga Creek's claim, upholding the assessments. On June 2, 2011, Saga Creek appealed this decision to the Appellate Chamber of Akmola Oblast Court ("Appellate Chamber"). On August 5, 2011 the

Appellate Chamber upheld the Economical Court's decision, again rejecting all Saga Creek's arguments. Saga Creek filed a further appeal to the Cassation Chamber on August 22, 2011 which is the final court of appeal prior to the Supreme Court. On September 27, 2011 the Cassation Chamber ruled on the Corporation's appeal, the summary of which is as follows:

(a) The 2009 assessment for Historical Costs amounting to approximately $1.6 million was cancelled. While the assessment was only for the 2009 year, the legislation as enacted had provided that the total obligation for Historical Costs of $15.8 million be paid in equal quarterly installments over ten (10) years beginning January 1, 2009. As a result the Corporation reversed the full provision of $13.8 million (see note 16 (*'Provisions'*) to the December 31, 2011 audited consolidated financial statements) and an accrual of approximately $2.5 million in interest and penalties to September 30, 2011, all of which were reversed in the third quarter of 2011.

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

(b) The assessment for CIT amounting to approximately $0.3 million was cancelled and sent back to the Specialized Inter-regional Economic Court of the Akmola Oblast ("Akmola Court") for review and re-consideration by a new panel of judges. On May 10, 2012 the Akmola Court rendered its decision and reversed a substantial portion of the assessment. As at December 31, 2011 the Corporation had accrued a total of approximately $0.6 million related to the CIT assessment including interest and penalties. The decision by the Akmola Court reduced that amount to approximately $0.07 million. As a result the Corporation 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 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 penalty has been paid by the Corporation of which approximately $0.7 million relates to interest and penalties. The Corporation decided to appeal the decision of the Cassation Chamber to the Supreme Court. The appeal was filed on May 14, 2012. The Supreme Court refused to hear the case, indicating that they believed the decisions of the lower courts were valid.

Government of Kazakhstan pre-emptive right

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

Alhambra's original application included a floor price for the issuance of common shares of $0.60 per share. Unfortunately, during the time period that MINT was considering the Corporation's application, the trading price of Alhambra's common shares dropped below that floor. The Corporation applied to MINT to have that floor price reduced to $0.20 per common share. The Corporation received the approval effective December 25, 2012 and it is effective until June 25, 2013. As provided for under Kazakhstan legislation, the Corporation has applied for an extension.

Commercial discovery bonus

On February 22, 2012 Saga Creek was given notice by Kazakhstan tax authorities that it was required to pay 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.

Business Risks

The following describes the types of risks that the Corporation is exposed to in its operations and how it manages those risks.

World Economic Uncertainty

While certain economies and business sectors are recovering from the recent economic slowdown, there still remains stock market uncertainty and an international credit crisis that could adversely impact the Corporation's ability to raise sufficient working capital to sustain operations. The Corporation can neither predict the impact how this uncertainty will have on future results.

Exploration and development

The mining industry in general is inherently risky in nature. Mineral properties are often non-productive for reasons that cannot be anticipated in advance and a company may be subject to risks from operations, mining law, environmental regulations, permits and licenses and financing.

Focusing exploration efforts in areas in which a company has existing knowledge and expertise helps in its efforts to find reserves. Exploration activities rely on the exploration results collected at that time and on the professional judgment of people involved in the exploration business. There is no assurance that exploration programs will result in a discovery being made. In the event that a discovery is made, no assurance can be given that the discovery will result in either resources or reserves being established on the property. If reserves are established, it may take a number of years and substantial expenditures until production is achieved, during which time the economic feasibility of the project may change.

The long-term profitability of a company's operation will, in part, be directly related to the success of its exploration programs in finding additional reserves, which may be affected by a number of factors that are beyond the control of the company.

Operations risk

Operational risk relates to the ability to recover metal from an established mineral reserve. Using skilled and experienced professional staff helps to reduce this risk. Using the latest technologies and controlling costs to maximize profitability also assist in minimization of this risk. Other possible risks include changes in metal prices, unstable ground conditions, procurement of reagents, supplies and fuels and qualified operating personnel as well as severe weather conditions. Maintaining insurance can help to mitigate some of the operational risks.

Kazakhstan Country risk

When operating in a country such as Kazakhstan, a company is subject to economic, political and social risks inherent in doing business in that country. These risks include matters arising out of the policies of the government, economic conditions, imposition of, or changes to, taxes and regulations, foreign currency exchange fluctuations and the enforceability of contract rights.

The audited consolidated financial statements and MD&A reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Corporation. The future business environment may differ from management's assessment.

Regulations and mining law

Mining operations and exploration activities are subject to the laws and regulations of a country in which a company does business. There is no assurance that these laws will not change in the future.

Environmental factors

All phases of a company's operations are subject to environmental regulations in the country in which it operates. Environmental legislation may continue to evolve in a manner which requires stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. While a company may take the steps necessary to protect the environment around its operations, there is no assurance that future changes in environmental regulation, if any, will not adversely affect a company's operations or result in substantial costs and liabilities in the future.

Permits and licenses

The operation of a company requires permits from the government of the country in which the company operates. There can be no assurance that a company will be able to obtain all necessary permits that may be required to carry out its operations in the future.

Income and other taxes

As in many emerging markets, the taxation system in Kazakhstan is relatively new and is characterized by numerous taxes and frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

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

Going Concern Risk

On December 26, 2008, the Corporation lost ownership of assets that generated cash flow as a result of the unfavorable decision reached in the Kazakhstan Lawsuit, (the “Lawsuit”). With the ruling by the Supreme Court, the Corporation re-acquired ownership of Saga Creek and Goodwin Golems LLP, (“Goodwin”) effective September 15, 2009. The re-acquisition of Saga Creek returned to the Corporation ownership of revenue producing assets, which has once again provided the Corporation access to cash flow to meet its obligations. This cash flow, however, is not sufficient to enable the Corporation to meet all its obligations and carry out significant exploration and development programs. During the year ended December 31, 2012, the Corporation incurred a net loss of $4,980, and the Corporation 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 *‘Government of Kazakhstan pre-emptive right’* to the audited consolidated financial statements and the Government of Kazakhstan pre-emptive right in this MD&A).

Critical Accounting Estimates

The significant accounting policies used by the Corporation are disclosed in the notes to the Corporation’s audited consolidated financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The following discussion outlines such accounting policies and is included in this MD&A to aid the reader in assessing the significant accounting policies and practices of the Corporation and likelihood of materially different results being reported. The Corporation’s management reviews its estimates regularly.

The following significant accounting policies outline the major policies involving critical estimates.

Work in progress

Work in progress is determined by estimating the quantity of recoverable gold at the various stages of the production process. While the Corporation performs tests to estimate the recoverability of gold as well as uses various sampling techniques to measure the daily quantity of gold either stacked on or recovered from the heaps in each process, the actual quantity of recoverable gold can only be determined with certainty after the reserves have been completely mined and the project abandoned. Work in progress was written off at December 26, 2008 as a result of the loss of control of the Kazakhstan Subsidiaries. Upon re-gaining control the Corporation was required to record the work in progress at fair market value.

Mineral resources and reserves

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

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

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are determined by discounting the expected future cash flows and therefore require an estimate to be made of the future liability plus the discount rate applicable.

Share-based payments

Compensation costs attributable to stock options granted by the Corporation are charged to earnings over the vesting periods of the options. The fair value calculation method adopted by the Corporation is the Black-Scholes model, which requires management to estimate interest rates, the expected life of the options and the expected volatility of the Corporation's share price over the life of the options. These estimates may be different than the actual interest rates, life and volatility.

Income tax accounting

The determination of the Corporation's income tax assets and liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax assets and liabilities may differ significantly from that estimated and recorded by management. This is further complicated by the fact that the taxation system in Kazakhstan is relatively new and characterized by frequent changes in legislation, official pronouncements and court decisions.

Accounting standards issued but not yet effective

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.

(a) 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.

(b) 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.

(c) 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.

(d) 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.

(e) 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.

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.

Selected Quarterly Data

	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Gold sales (ozs)	862	1,452	1,542	1,846
Average gold price ($/oz)	$ 1,668	$ 1,686	$ 1,625	$ 1,694
Revenue ($000's)	$ 1,438	$ 2,447	$ 2,506	$ 3,127
Net profit (loss) ($000's)	$ (3,343)	$ (365)	$ (1,112)	$ (160)
Basic earnings (loss) per share	$ (0.03)	$ (0.01)	$ (0.01)	$ (0.00)
Diluted earnings (loss) per share	$ (0.03)	$ (0.01)	$ (0.01)	$ (0.00)

	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Gold sales (ozs)	1,526	3,858	2,033	1,770
Average gold price ($/oz)	$ 1,773	$ 1,817	$ 1,514	$ 1,392
Revenue ($000's)	$ 2,705	$ 7,012	$ 3,077	$ 2,466
Net profit (loss) ($000's)	$ (2,578)	$ 2,550	$ (2,065)	$ (1,686)
Basic earnings (loss) per share	$ (0.03)	$ 0.02	$ (0.02)	$ (0.01)
Diluted earnings (loss) per share	$ (0.03)	$ 0.02	$ (0.02)	$ (0.01)

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

The net profit recorded in the third quarter of 2011 is primarily the result of the reversal of accrued interest and penalties related to the assessment by the Kazakhstan tax authorities for Historical Costs.

Operations at Saga Creek are seasonal such that given no other major operational issues, it is expected that the gold sales during the cold weather months will be less than other months. As a result, monthly sales of gold during the months of December through May will be less than during other months of the year. The Corporation does heat the leaching solution to help offset some of the effects of the cold winters.

Summary of Fourth Quarter 2012 Results

During the fourth quarter of 2012 the Corporation recognized $1,438 in revenue from the sale of 862 ozs of gold at an average price of gold $1,668/oz. This compares to $2,705 in revenue from the sale of 1,520 ozs of gold at an average price of $1,780/oz for the fourth quarter of 2011. The $1,267 decrease in revenue in 2012 was a due to a combination of 658 less ozs of gold sold at an average price that was $112 lower in 2012 than in 2011. The decrease in sales in 2012 versus 2011 was due to the Corporation not stacking any new ore in the fourth quarter of 2012.

Cost of sales in the fourth quarter of 2012 was $965 as compared to $113 in the fourth quarter of 2011. In 2011 the Corporation adjusted its accounting for MET whereby MET was charged to work in progress as a mining expense and amortized to costs of sales on the basis of the quantity of gold sold as a percentage of the total recoverable gold mined rather than directly to expense as in previous years. The adjustment for 2011 year was made entirely in the fourth quarter. The total of the adjustment in the quarter was $699. While the impact of this change on operating expenses was large in the fourth quarter, when taken on an annual basis it was not considered material.

Administration expenses for the fourth quarter of 2012 totaled $3,434 as compared to $2,521 in the fourth quarter of 2011. Included in the 2012 amount was a charge of $2,434 to professional fees for expenses that had been 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. There was no comparable amount in fourth quarter of 2011.

In the fourth quarter of 2011 the Corporation provided an allowance for the potential non-collection of $747 owed to Alhambra by DOT. There was no similar provision in the fourth quarter of 2012. In addition, in the fourth quarter of 2011, the Corporation expensed $326 of share-based compensation related to the amortization of the value assigned to stock options. The comparable amount in the fourth quarter of 2011 was only $23.

Finance costs for the fourth quarter of 2012 were $79 as compared to $401 in the fourth quarter of 2011. The difference of $322 is due primarily to interest accrued on taxes that at the time were being appealed (CIT and CDB) or where the Corporation had received a final ruling on its appeal (MET). By the fourth quarter of 2012 only the CDB appeal remained outstanding and it was settled on December 27, 2012.

Depletion and depreciation for the fourth quarter of 2012 totaled $351, a decrease of $303 from the fourth quarter of 2011 amount of $654. The decrease was a result of the decrease in gold sales from 2011 to 2012.

In the fourth quarter of 2012 the Corporation recorded a net loss of $3,343, an increase of $765 from the $2,578 recorded in the corresponding quarter of 2011. For both quarters this was equivalent to a $0.03 per share loss based on a weighted average number of outstanding shares of 104,132,059.

2013 Objectives

Currently Alhambra's efforts are focused on arranging financing, the use of proceeds from which will be directed towards the settlement of outstanding accounts payable, the re-initiation of the stacking of ore on the heap leach pads and the resumption of exploration and development programs. The Corporation has identified a number of exploration targets it wishes to drill once funds have been raised. In addition the Corporation plans to begin a pre-feasibility study directed towards bringing into production the transitional and sulphide zones of the Uzboy gold deposit. However, these programs as well as the Corporation's ability to continue on as a going concern are dependent on Alhambra completing one or more of the financing transactions it is currently investigating. While the Corporation has been successful in the past, there is no guarantee that the Corporation will be successful in the future in raising sufficient funds to continue as a going concern.