Alhambra Resources Ltd.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the Year Ended December 31, 2013 (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, 2013 and the factors reasonably expected to impact future operations and results as prepared on June 27, 2014. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other matters may occur which could affect the Corporation in the future. This discussion should be read in conjunction with the audited consolidated financial statements of the Corporation for the year ended December 31, 2013 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, 2014. Additional information on the Corporation is available under the Corporation's profile on SEDAR at www.sedar.com.

Forward-Looking Information

Except for the statements of historical fact contained herein, certain statements contained in this MD&A constitute "forward-looking statements" as such term is used in applicable Canadian and US laws. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. In particular, any statements concerning the Corporation's ability to continue as a going concern as described, statements concerning the 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 inventory, property, plant and equipment and exploration and evaluation assets, provisions, and assumptions used in calculating share-based compensation expense. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Business Overview

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

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

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

Since 2005, Alhambra has been exploring a number of the more than 100 exploration targets located on its licenses 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, 2013, the market trading value of the 15,000,001 DOT shares owned by Alhambra was CDN$300.

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

	2013	2012	2011
Operating (for the years ended December 31):			
Mining:			
Waste mined (Tonnes (“T”))	–	403,952	1,758,873
Ore stacked (T)	42,630	136,220	861,025
Grade of ore mined (Grams/T)	0.43	0.57	0.80
Recoverable gold mined (Troy ounces (oz)) (1)	383	1,620	14,403
Gold sales (ozs)	2,091	5,702	9,187
Gold inventory (ozs) (2)	–	–	615
Gold in work in progress (ozs)	30,000	37,757	41,224
Financial:			
Revenue ($)	2,905	9,518	15,260
Average gold price ($/oz)	1,389	1,669	1,661
Operations expenses ($)	2,298	5,029	6,646
Operations expenses ($/oz)	1,099	882	723
Write-down of inventories ($)	9,284	–	–
Impairment loss on property, plant and equipment ($)	22,644	–	–
Net (loss) ($)	(22,365)	(4,980)	(3,779)
Net (loss) per share			
Basic ($/share)	(0.21)	(0.05)	(0.04)
Diluted ($/share)	(0.21)	(0.05)	(0.04)
Capital expenditures ($)	111	917	3,979
Total assets ($)	72,938	108,539	112,339
Shareholders’ equity ($)	45,353	68,284	71,146
Common shares outstanding at year end	104,132,059	104,132,059	104,132,059

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.

During the year ended December 31, 2013, the Corporation stacked 42,630 T of stockpiled ore containing an average grade of 0.43 grams/T ("g/T"). This resulted in 383 ozs of recoverable gold stacked on the heap. There was no waste associated with the ore stacked. This compares to 136,220 T of ore stacked for the year ended December 31, 2012 which at an average grade of 0.57 g/T resulted in 1,620 ozs of recoverable gold stacked. In addition, 403,952 T of waste was mined in the year ended December 31, 2012.

During the year ended December 31, 2013 the Corporation sold a total of 2,091 ounces ("ozs") of gold for total proceeds of $2,905. This compares to sales totaling 5,702 ozs of gold for total proceeds of $9,518 for the year ended December 31, 2012. At December 31, 2012, an estimated 37,757 ozs of gold had been stacked and was in various stages of processing for sale ("work in progress"). During 2013 an additional estimated 383 ozs of gold was stacked which, after selling 2,091 ozs, resulted in an estimated balance of 36,049 ozs in work in progress at December 31, 2013. At December 31, 2013 the Corporation reviewed the estimated quantity of gold contained in work in progress and determined that it should reduce the amount recorded to 30,000 ozs from the 36,049 ozs previously recorded. (see note 11 ('Inventories') to the December 31, 2013 audited consolidated financial statements and the Write-down of inventories section of this MD&A).

During 2013 the Corporation continued to experience financial hardships which prevented it from satisfying many of its outstanding obligations. Due to these financial constraints, the Corporation has been unable to operate its mining facilities efficiently making it difficult to operate economically. As a result, mining operations have been suspended until the Corporation can raise funds to enable mining operations to resume at more optimum levels.

On December 20, 2013 the Corporation entered into agreements to issue up to CDN$5.650 million in convertible notes (the "Notes") plus 5.625 million warrants (the "Warrants"). The Notes have a term of three years from the date of issue with interest calculated using the nominal interest method at a rate of 12% per annum. Interest and principle under the notes are convertible into the common shares of the Corporation at the option of the holder at CDN$0.25 per common share during the term of the Notes. The Corporation has the right to pay interest on the Notes in cash or shares. The Corporation also has a right to force conversion of the principal and accrued and unpaid interest under the notes into the shares of Alhambra at a minimum price of US$0.20 per share. If the weighted average trading price of the Corporation's common shares for any five trading days within ten consecutive trading days equals or exceeds CDN$0.35 per common share, any outstanding balance owing on the Notes will automatically convert to common shares.

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

Subsequent to December 31, 2013 the Corporation completed the issue of the CDN$5.650 million of the Notes and the 5.650 million Warrants. In consideration for issuing the Notes and Warrants, the Corporation received CDN$0.650 million in cash and 2,764,500 ordinary shares of Global Resources Investment Trust plc ("GRIT") at a deemed price of £1 per GRIT share. GRIT is a new investment trust established to seek to exploit investment opportunities in the junior mining and natural resources sectors and whose ordinary shares trade on the London Stock Exchange's main market for listed securities. At the time the Corporation sells the 2,764,500 of GRIT ordinary shares, the terms related to CDN$0.650 in Notes require that the Corporation repay any principal balance plus accrued interest outstanding on the CDN$0.650 Notes plus CDN$0.0325 million in early redemption fees. Upon repayment, any Warrants then outstanding related to the CDN$0.650 in Notes will expire. As of June 27, 2014 the net asset value of the GRIT ordinary shares was reported by GRIT to be £0.7014 per share.

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, 2013 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 2013 the Corporation recognized $2,905 in revenue from the sale of 2,092 ozs of gold at an average price of gold $1,389/oz. 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. The decrease in revenue in 2013 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 Saga Creek does not have enough quality resin to fill all nine 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, 2013, the Corporation recognized $87 in net smelter royalty expenses as compared to $286 for the year ended December 31, 2012, which is 3% (2012 – 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, 2013 were $2,298 or $1,099/oz of gold sold as compared to $5,029 or $882/oz of gold sold for 2012. The 2013 figure includes $374 ($179/oz) of mining costs charged directly to operating costs for the months in which there was no new ore mined. This compares to $215 ($38/oz) of mining costs charged directly to operating costs for the year ended December 31, 2012.

Included in the 2013 operating cost amount is $149 or $71/oz related to the amortization of the bump-up to fair value from the estimated cost of work in progress on re-valuation on September 15, 2009. Cash operating costs were therefore $1,028/oz. In 2012, $425 or $75/oz of similar costs were included in operating costs resulting in the cash cost of gold sold for this period of $807/oz.

The $2,731 decrease in operating costs is due to the reduction in the quantity of recoverable gold sold during 2013. Of the $217/oz increase in per unit operating costs, $141/oz is a result of the increase in mining costs charged directly to cost of sale rather than to work in progress. The remainder of the increase is a result of the reduction in the Corporation's mining activities.

Administrative expenses

Years ended December 31,		2012		2012
Canada				
Share-based compensation	$	142	$	432
Cash based corporate overhead costs		1,327		4,286
Total Canada		1,469		4,718
Kazakhstan		1,474		958
	$	2,943	$	5,676

Administrative expenses for the year ended December 31, 2013 were $2,943, a decrease of $2,733 over the $5,676 recorded in the year ended December 31, 2012. Of the totals, $1,474 related to the Saga Creek operations for the year ended December 31, 2013 as compared to $958 for the year ended December 31, 2012. Included in Kazakhstan administrative expenses for 2013 was an allowance of $348 for the non-collectibility of accounts receivable related to outstanding VAT claims filed by Saga Creek (see note 25(a) ('*Credit risk*') to the December 31, 2013 audited consolidated financial statements and the Trade and other receivables section of this MD&A).

Canadian corporate overhead accounted for the remaining $1,469 and $4,718 for the years ended December 31, 2013 and 2012, respectively. While general and administrative costs in 2013 are down from 2012 reported amounts due to reduced activity resulting from Alhambra's financial limitations, the majority of the decrease comes from a charge in 2012 of $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. Once current financial issues are resolved and financial markets improve, Alhambra will consider whether such listing is suitable for the Corporation.

Share-based compensation totaled $142 for the year ended December 31, 2013 as compared to $432 for the year ended December 31, 2012. Due primarily to the high volatility of the Corporation's stock price, this calculation results in the value assigned to stock options approaching the actual option grant price. As a result, the higher the option price, the higher the value assigned to the options for purposes of share-based compensation expense. This value must be expensed separately for each vesting portion of each option and during their vesting period. Share-based compensation expense for 2013 relates primarily to amortization of the value calculated for the 900,000 options granted in the latter half of 2012 at a weighted average price of CDN$0.26 per share. For 2012, share-based compensation expense relates primarily 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.

Depletion and depreciation

Depletion and depreciation expense for the year ended December 31, 2013 was $918 as compared to $1,844 in 2012. 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 2013 as compared to 2012.

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, 2013, $918 (2012 - $1,584) 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 $666 in depletion and depreciation charged to work in progress in 2013 over 2012 was a result of the decreased volume of recoverable gold mined in 2013.

Finance costs

For the years ended December 31,		2013		2012
Extension of warrants	$	–	$	1,394
Interest on overdue taxes		21		48
Reversal of accrued interest on successful tax appeal		–		(215)
Interest on promissory note		68		53
Unwinding of the discount on provisions		2		5
Interest on trade payables		133		86
Foreign exchange loss		639		438
Total finance costs	$	863	$	1,809

During the year ended December 31, 2013 the Corporation recorded total finance expenses of $863 as compared to $1,809 for the year ended December 31, 2012.

Interest accrued on overdue taxes for the year ended December 31, 2013 was $21 as compared to $48 for the year ended December 31, 2012. Interest on overdue taxes relates to the taxes assessed by the government of Kazakhstan for which the Corporation had appealed. For 2013, $21 related to interest on the unpaid portion of the Commercial Discovery Bonus ("CDB") (2012 - $6) and $Nil on disputed amounts of assessed corporate income taxes ("CIT") (2012 - $42). 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 28 *'Commercial discovery bonus'*) to the audited consolidated financial statements and the Commercial Discovery Bonus section in this MD&A).

The 2012 credit of $215 for reversal of accrued interest on the successful tax appeal represents the recovery of the interest recorded in 2011 on the CDB and CIT.

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, 2013, the Corporation recorded a foreign exchange loss of $639 as compared to $438 for the year ended December 31, 2012. Saga Creek's operations accounted for $496 of the foreign exchange loss in 2013 (2012 - $436) as the US$ continued to strengthen relative to the Kazakhstan Tenge ("KZT") thus negatively impacting Saga Creek's net monetary liability position. The remaining amount of foreign exchange loss of $143 (2012 - $2) relates to Alhambra corporate. The US$ also strengthened against the CDN$ during the 2013 accounting for the loss.

Write-down of inventories

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

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

The total write off of work in progress inventory was $9,284.

Impairment loss on property, plant and equipment

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

An impairment test was not triggered on Intangible assets.

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, 2013, the Corporation recorded an equity loss of $45 compared to the $19 recorded for the 2012 year.

Income tax expense (recovery)

Income tax expense recorded relates entirely to Saga Creek. The Corporation recorded an income tax recovery of $13,812 for the year ended December 31, 2013 as compared to an income tax recovery of $165 in 2012.

As a result of Saga Creek's current loss position no current income tax expense has been recorded in 2013. This compares to a current tax recovery of $140 reported in 2012. 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.

During the year ended December 31, 2013 the Corporation recorded a deferred income tax recovery of $13,812 which compares to a deferred income tax recovery of $25 in 2012. The large deferred income tax recovery recorded is primarily the result of the write-down of inventory combined with the impairment loss on property, plant and equipment during the 2013 year.

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

The Corporation has Canadian non-capital losses, for which no benefit has been recognized in the financial statements, of approximately CDN$1.7 million at December 31, 2013, which commence expiring in 2014.

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$16.7 million at December 31, 2013, which commence expiring in 2014.

Net loss

The Corporation recorded a net loss of $22,385 for the year ended December 31, 2013 compared to a net loss recorded in 2012 of $4,980.

Kazakhstan mining operations for the year ended December 31, 2013 reported a net loss of $20,503 as compared to net earnings totaling $1,298 in 2012. The $21,801 increase in net loss in 2013 from 2012 is the result of a decrease in operating results, primarily the result of lower gold sales volumes and prices, the write-down of inventory and the impairment loss on property, plant and equipment.

For the year ended December 31, 2013, Canadian corporate losses totaled $1,862, a decrease of $4,416 over the $6,278 loss recorded in 2012. Lower administrative costs due to the write off of future listing costs of $2,434 and lower finance costs related to the re-valuation of warrants accounted for the decrease.

Based on a weighted average number of common shares of 104,132,059 for 2013 and 2012, the Corporation's basic and diluted net loss per common share was $0.21 for 2013 as compared to $0.05 in 2012.

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

		2013		2012
Net cash provided from operating activities	$	(549)	$	440
Net cash provided from financing activities		–		503
Net cash (used in) investing activities		(365)		(881)

Operating cash flow

For the year ended December 31, 2013, net cash utilized in operating activities was $549 which was primarily attributed to cash flow utilized from operating activities before working capital adjustments of $2,611 offset primarily by an increase in trade and other payables of $2,564.

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.

Financing cash flow

For the year ended December 31, 2013, the Corporation did not generate any net cash flow from financing activities.

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.

Investing cash flow

For the year ended December 31, 2013, net cash flow used in investing activities was $365, primarily the result of additions to property, plant and equipment of $111 together with an increase in trade and other payables related to investing activities.

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.

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, 2013 the balance outstanding on account of VAT was $272 (December 31, 2012 - $633). 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 with an additional $2 received in July 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.

During 2013 the Corporation challenged in the courts of Kazakhstan the legality of the application of the Rules however the courts sided with the tax department. The Corporation understands that if and when the VAT compliance deficiencies are corrected by the respective suppliers, the Corporation will be eligible for those refunds. While Alhambra disagrees with the applicability of the RMS and the Rules to its subsidiary it recognizes that the collection of the outstanding amount will at best be sometime in the future and is not within the control of Saga Creek. Therefore during 2013 the Corporation provided for an allowance for the non-collectibility of the $348 denied by the tax authorities

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, 2013 the Corporation calculated that there was approximately 30,000 ozs of gold in work in progress (December 31, 2012 – 37,757 ozs) at a carrying cost of $22,903 (December 31, 2012 - $31,681). The Corporation reclassifies the portion of this inventory that it does not expect to sell in the next year as non-current. Due to issues relating to the Corporation's current financial condition, mining operations at Uzboy have been suspended. While Alhambra is trying to remedy its financial issues by pursuing various financing options there is uncertainty as to if and when the operations will be resumed. As a result of this uncertainty the Corporation cannot predict whether any gold will be sold in the next fiscal year and therefor all 30,000 ozs ($22,903) have been classified as non-current. At December 31, 2012, 34,757 ozs ($28,000) of the estimated 37,757 ozs were classified as non-current.

At December 31, 2013, the Corporation also had $662 (December 31, 2012 - $1,038) of raw materials and supplies inventory which is used in its operations.

Trade and other payables

At December 31, 2013 the Corporation had outstanding $8,884 in trade and other payables (December 31, 2012 - $7,148). The credit terms that govern the Corporation's relationship with its suppliers are such that the majority of all amounts outstanding are due within one month. Many of the Corporation's trade payables have been outstanding for a significant period of time in excess of the normally allowed credit term. This has been caused by the Corporation's current financial condition. 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, 2013 the Corporation had an outstanding provision of $769 (December 31, 2012 - $743) related to future site reclamation.

The liability for site reclamation was determined using an inflation rate of 6.6% (December 31, 2012 – 6.0%) and an estimated mine life of 10 years (December 31, 2012 – 10 years) for Uzboy. A discount rate of 5.5% (December 31, 2012 – 5.5%) was used. The undiscounted value of the liability is approximately $1,315 (2012 - $707).

Deferred tax liabilities

At December 31, 2013 the Corporation has $17,462 (December 31, 2012 – $31,861) in deferred tax liabilities that relate primarily to the fair value assigned to Uzboy on the re-acquisition of control of Saga Creek. The significant decrease in deferred tax liabilities was the result of the write-down of inventory combined with the impairment loss on property plant and equipment during the 2013 year.

2013 Capital Expenditure Activity

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

As of December 30, 2013, there were 1,793 Shirotnaia assay results (1,786 core and 7 QA/QC core re-sampling) plus 2 Vasilkovskoe East rock chip sample assays pending from the laboratory. The assays will be released once the laboratory's outstanding account has been paid. In addition, 6,753 samples (including 887 QA/QC samples) were prepared for export as follows:
- Shirotnaia – 2,871 (RC samples),
- Zhusaly – 386 (RC samples) and 650 (soil samples),
- Vasilkovskoe East – 959 (soil samples),
- Dombraly East – 1,887 (soil samples).

Shirotnaia

During the third quarter of 2013, 800 assay results for three of 18 core holes (3,691 metres ("m")) completed in the first half of 2012 were received (see news release dated September 25, 2013). Diamond drilling intersected higher-grade gold mineralization in diamond drill hole 28-08 that yielded a weighted average grade of 4.75 grams per tonne gold ("g/t Au") over a core interval of 33.4 m, including 14.71 g/t Au over 10.1 m. The highest grade interval was intersected less than 100 m below surface. Together with several other drill intercepts in this area, this higher-grade interval defines a new high-grade zone of gold mineralization. These results constitute the best drill intercepts to date from Shirotnaia.

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

Diamond drill hole 52-04 intercepted four narrow zones of mineralization down to 157 m below surface. This step out drill hole targeted the deeper part of the higher grade zone established by diamond drill hole 52-01 (21.3 m @ 1.43 g/t Au), and is in an area of relatively sparse drilling. Diamond drill hole 15-14 targeted the area between the western end of the higher-grade zone and the mineralization situated farther to the west and drilled in 2007. The higher-grade mineralization comes to surface in this area, resulting in a weighted average of 8.9 m of 4.07 g/t Au in oxide to transitional material, including a 1.0 m intercept of 30.9 g/t Au from 16 to 17 m depth. This narrow high-grade interval is open to the west. Having confirmed the presence of the high-grade mineralization on the west end of the deposit, follow-up drilling will focus on identifying cross structures and other controls on this good quality mineralization.

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, 2013, administrative expenses totaled $2,943, a decrease of $2,733 over the comparable 2012 amount of $5,676. Included in these totals are $1,474 and $958 of administrative expenses related to Saga Creek operations for 2013 and 2012, respectively. Included in Kazakhstan administrative expenses for 2013 was an allowance of $348 for the non-collectibility of accounts receivable related to outstanding VAT claims filed by Saga Creek (see note 25(a) ('Credit risk') to the December 31, 2013 audited consolidated financial statements and the Trade and other receivables section of this MD&A).

The remaining $1,469 of administrative expenses for the year ended December 31, 2013 relates to corporate overhead costs which was a decrease of $3,249 over the corporate overhead costs for the year ended December 31, 2012 of $4,718. Included in these amounts were share-based compensation expenses of $142 and $432 for the years ended December 31, 2013 and 2012, respectively. The remaining $1,327 and $4,286 for the years ended December 31, 2013 and 2012, respectively relate to corporate cash overhead expenses as detailed below.

Employee costs accounted for $836 (63%) of the total corporate administrative costs for the year ended December 31, 2013 as compared to $874 (20%) for the 2012 year.

Corporate professional costs, which include legal, auditing and outside consulting fees, totaled $218 (16%) for the year ended December 31, 2013 as compared to $2,958 (69%) for the 2012 year. In 2012 the Corporation expensed $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 $118 (9%) of total corporate administrative expenses for the year ended December 31, 2013 as compared to $173 (4%) for the 2012 year. The decrease of $55 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, 2013 totaled $155 (12%) as compared to $281 (7%) for the 2012 year. The $126 decrease in office expenses was primarily the result of a reduction in various activities, principally business travel, as the Corporation attempts to minimize costs as a result of its financial difficulties.

Liquidity and capital resources

Alhambra operates in a capital intensive industry in which the demands for capital to finance exploration and development of its properties as well as its corporate overheads generally occur far in advance of projects being put on production and generating cash flow. In addition, with the suspension of operations at Saga Creek, additional external sources of cash are required to enable Alhambra to restart its operations, meet its working capital obligations and to fund its exploration and development program. As a result, the Corporation depends on the capital markets to provide funds for these activities. If the Corporation is unable to raise additional funds through these capital markets, the Corporation's ability to continue as a going concern is extremely doubtful. However, in order for the Corporation to raise funds through the issue of common shares, it must first get approval from the government of Kazakhstan to issue common shares (see note 27 (*'Government of Kazakhstan pre-emptive right'*) to the December 31, 2013 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. As a result of an extension granted by MINT, this approval was effective until December 25, 2013.

At December 31, 2013 the Corporation had a working capital deficiency of $8,299 which included $10 in cash and $8,309 in other negative working capital. This compares to a working capital deficiency of $1,101 at December 31, 2012 which included $940 in cash and $2,041 in other negative working capital. The $7,198 increase in working capital deficiency was principally the result of the write-down of inventory combined with an increase in trade and other payables and a decrease in cash balances.

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.

Compensation of key management personnel:

The remuneration of directors and other members of key management personnel during the years ended December 31, 2013 and 2012 were as follows:

For the years ended December 31,		2013		2012
Short-term employee benefits	$	763	$	781
Share-based payments		142		315
Director fees		–		–
	$	905	$	1,096

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

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 2014. The Corporation has identified at least $3,000 in exploration projects that could be completed during 2014 should financing be completed in the near future.

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

The Corporation has no other off balance sheet financing arrangements.

Share data

The Corporation is authorized to issue an unlimited number of common shares of which 104,132,059 were outstanding as of December 31, 2013. The following table shows the detailed number of shares, options and warrants outstanding as of December 31, 2013 and changes that have occurred up to the date of this MD&A.

	As of December 31, 2013	Change in 2014	Issued in 2014	As of June 27, 2014
Common shares issued and outstanding	104,132,059	–	–	104,132,059
Common shares issuable upon exercise of stock options	7,443,500	(600,000)	–	6,843,500
Common shares issuable upon conversion of notes	–	–	22,600,000	22,600,000
Common shares issuable upon exercise of warrants	–	–	5,650,000	5,650,000
Common shares fully diluted	111,575,559	(600,000)	28,250,000	139,225,559

Subsequent to the yearend, 600,000 options to two directors were canceled as a result of the directors retiring from the board. In addition, convertible notes totaling $5,650,000 together with 5,650,000 warrants were issued. The notes convert at a price of CDN$0.25 per common share and the warrants are exercisable at a price of CDN$0.30 per common share (see note 28 (*'Subsequent event'*) to the December 31, 2013 audited consolidated financial statements and the Subsequent event section of this MD&A).

Outstanding legal challenges

(a) Creditor actions:

During the year ended on December 31, 2013, certain claims from creditors totaling approximately $700 were filed in the courts of Kazakhstan against Saga Creek for the collection of outstanding accounts payable. Saga Creek's mining contractor submitted a claim to the International Arbitration Court in Kazakhstan ("IUS"), demanding payment of indebtedness of approximately $370 for the work performed. In order to securitize its claim, the contractor also applied to the Specialized Interdistrict Economic Court of Akmola Oblast ("Economic Court") and obtained the Resolution of the Economic Court to attach property of Saga Creek within the limits of the claim amount. On August 5, 2013 the hearing of the claim by the IUS took place and the decision was made in favor of the contractor. The decision came into force on the date of the hearing requiring Saga Creek to settle the outstanding amount which was done on October 31, 2013. As of December 31, 2013, mining contractor's claim was satisfied by Saga Creek in full.

Also, two of Saga Creek's exploration contractors submitted statements of claim to the Economic Court for the payment by Saga Creek of a total of approximately $330 including $45 of interest and state duty. On August 13, 2013 the Economic Court accepted the exploration contractors' claims which allowed the exploration contractors to proceed to the courts to attach property of Saga Creek within the limits of the claim amounts and eventually realize on the outstanding liabilities. During a court hearing on October 1, 2013 both plaintiffs agreed to withdraw their claims and enter into settlement agreements that would see their accounts paid by November 15, 2013. However, Saga Creek was unable to satisfy these settlement agreements. As a result, these creditors have re-initiated their legal remedies including having funds re-directed from Saga Creek's bank accounts to settle the outstanding amounts.

On April 25, 2014 Saga Creek received a court notification on a legal claim submitted by another creditor. The amount of the claim is approximately $41 including approximately $3 of interest and state duty. The first hearing was scheduled for May 13, 2014, which was subsequently re-scheduled for May 16, 2014. The court approved the creditor's claim.

(b) Legal action for unpaid salaries:

On November 29, 2013 the prosecution office in Kazakhstan requested information on unpaid salaries from Saga Creek and issued an order to pay the indebtedness to the employees. Due to financial problems Saga Creek was unable to comply with the order which resulted in the prosecution office issuing a resolution on enforcement of the prosecutor's order. Such resolution was forwarded to the court decisions execution agency, which initiated the arrest of the bank accounts and property of Saga Creek as security. The prosecutor's resolution was issued in December of 2013 specifying unpaid salaries amounting to approximately $395, which was the amount of salaries due as of the end of October 2013.

As of December 31, 2013 the amount of unpaid salaries totaled approximately $515 including approximately $291 remaining unpaid and securitized by the property under the prosecutor's resolution. Currently the amount of unpaid salaries totals approximately $565 including $146 securitized by the property of the Corporation under the prosecutor's resolution.

Government of Kazakhstan pre-emptive right

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

Alhambra's original application included a floor price for the issuance of common shares of $0.60 per share. Unfortunately, during the time period that MINT was considering the Corporation's application, the trading price of Alhambra's common shares dropped below that floor. As a result the Corporation applied to MINT to have that floor price reduced. Effective December 25, 2012 the Corporation received approval from MINT to reduce the floor price to $0.20 per common share. This approval was effective for six months. As provided for under Kazakhstan legislation, the Corporation applied for an extension. The application was submitted and accepted by MINT effectively extending the approval date to December 25, 2013.

Commercial discovery bonus ("CDB")

On February 22, 2012 Saga Creek was given notice by Kazakhstan tax authorities that it was required to pay a CDB based on the approved commercial reserves for Uzboy. According to the notification, Saga Creek is required by law to pay an amount equal to 0.1% of the commercial value of the 14,455.8 kg of gold and 48,100 kg of silver of reserves approved for Uzboy. In addition, Saga Creek will be required to pay a 50% penalty plus interest at the prescribed rate which is approximately 17.5%. Payment was due on May 24, 2011. Saga Creek filed a notice of objection with the tax authorities on the basis that Clause 6.2 (b) of the Subsoil use contract explicitly defines that Saga Creek "pays a commercial discovery bonus at a zero rate" which in effect means that Saga Creek is not obliged to pay this CDB at all.

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

As a result of the court decisions, the amount of the CDB due was reduced by $574 from $729 to $155. This difference was recorded as a decrease in intangible assets during 2012. In addition, also during 2012 the penalty and interest was reduced by $366 from $450 to $84 with the penalty portion of $288 being recorded as a reduction in administrative expenses and the interest portion of $78 being recorded as a reduction in finance charges. During 2013 the Corporation charged an additional $21 in interest on the unpaid CDB. As at December 31, 2013 the total amount of the CDB liability included in trade and other payables on the balance sheet including the tax, accrued interest and penalties totals $289.

Subsequent events

(a) Financing

On December 20, 2013 the Corporation entered into agreements to issue up to CDN$5.650 million in convertible notes (the "Notes") plus 5.625 million warrants (the "Warrants"). The Notes have a term of three years from the date of issue with interest calculated using the nominal interest method at a rate of 12% per annum. Interest and principle under the notes are convertible into the common shares of the Corporation at the option of the holder at CDN$0.25 per common share during the term of the Notes. The Corporation has the right to pay interest on the Notes in cash or shares. The Corporation also has a right to force conversion of the principal and accrued and unpaid interest under the notes into the shares of Alhambra at a minimum price of US$0.20 per share. If the weighted average trading price of the Corporation's common shares for any five trading days within ten consecutive trading days equals or exceeds CDN$0.35 per common share, any outstanding balance owing on the Notes will automatically convert to common shares.

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

Subsequent to December 31, 2013 the Corporation completed the issue of the CDN$5.650 million of the Notes and the 5.650 million Warrants. In consideration for issuing the Notes and Warrants, the Corporation received CDN$0.650 million in cash and 2,764,500 ordinary shares of Global Resources Investment Trust plc ("GRIT") at a deemed price of £1 per GRIT share. GRIT is a new investment trust established to seek to exploit investment opportunities in the junior mining and natural resources sectors and whose ordinary shares trade on the London Stock Exchange's main market for listed securities. At the time the Corporation sells the 2,764,500 of GRIT ordinary shares, the terms related to the issue for cash of the CDN$0.650 in Notes require that the Corporation repay any principal balance plus accrued interest outstanding on the CDN$0.650 Notes plus CDN$0.0325 million in early redemption fees. Upon repayment, any Warrants then outstanding related to the CDN$0.650 in Notes will expire. As of June 27, 2014 the net asset value of the GRIT ordinary shares was reported by GRIT to be £0.7014 per share.

(b) Devaluation of Kazakhstan Tenge

Effective February 11, 2014 the Government of Kazakhstan devalued the KZT by approximately 19% to approximately 185 KZT to the US$.

(c) Historical Costs

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

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

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

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

Business Risks

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

World Economic Uncertainty

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

Exploration and development

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

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

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

Operations risk

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

Kazakhstan Country risk

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

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

Regulations and mining law

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

Environmental factors

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

Permits and licenses

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

Income and other taxes

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

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

Going Concern Risk

On December 26, 2008, the Corporation lost ownership of assets that generated cash flow as a result of the unfavorable decision reached in the Kazakhstan Lawsuit, (the "Lawsuit"). With the ruling by the Supreme Court, the Corporation re-acquired ownership of Saga Creek and Goodwin Golems LLP, ("Goodwin") effective September 15, 2009. The re-acquisition of Saga Creek returned to the Corporation ownership of revenue producing assets, which has once again provided the Corporation access to revenue to meet its obligations. This revenue, however, has not been sufficient to enable the Corporation to meet all its obligations and carry out significant exploration and development programs. During the year ended December 31, 2013 the Corporation incurred a loss of $22,365. In addition, as a result of the Alhambra's financial condition, the Corporation has been unable to maintain its operations at an economically efficient level and as such has suspended these operations. As a result, no gold is currently being produced or sold and the Corporation is therefore not currently generating any cash flow. Without revenue from the sale of gold or sourcing cash from outside the Corporation, the Corporation is unable to neither satisfy obligations to creditors and employees nor settle with the government of Kazakhstan for any obligations that may come due. As a result there is significant doubt about the ability of the Group to continue as a going concern.

Alhambra recognizes the need to obtain debt or equity financing to meet its obligations and fund its exploration and development programs. Subsequent to the year end the Corporation issued CDN$5,650,000 of convertible notes of which CDN$5,000,000 was issued in exchange for shares of GRIT (note 28 (*'Subsequent event'*) to the audited consolidated financial statements and the Subsequent event section of this MD&A. In order for the Corporation to receive cash, these shares must be sold. To date none have been sold and until they are sold the Corporation does not know how much will be realized on the sale of these shares since they must be sold at the market value of such shares on the date of the sale.

Irrespective of how much cash will ultimately be realized on the sale of the GRIT shares, it will be necessary for the Corporation to raise additional funds to meets its obligations and continue its exploration and development programs. The Corporation is in discussion with potential investors, however, at this time no commitments have been made by potential investors. There is no guarantee that the Corporation will be successful in raising sufficient funds to continue as a going concern.

However, in order for the Corporation to raise funds through the issue of common shares, it must first get approval from the government of Kazakhstan to issue common shares (note 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.

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

Provisions

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

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

Share-based payments

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

Income tax accounting

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

New accounting standards and interpretations not yet adopted

The Corporation is evaluating the impact that the following standards may have on its results of operations and financial position.

(a) Financial instruments

The IASB intends to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety with IFRS 9 – Financial Instruments ("IFRS 9") which is intended to reduce the complexity in the classification and measurement of financial instruments. At present, the current version of IFRS 9 does not include a mandatory effective date. However IFRS 9 is available for early application. An effective date will be added when all phases of the project are completed.

(b) Levies imposed by governments

In May 2013, the IASB issued IFRIC 21 – Levies ("IFRIC 21"), an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The Corporation is currently evaluating the impact of applying IFRIC 21 on its consolidated financial statements.

Selected Quarterly Data

	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Gold sales (ozs)	316	506	930	339
Average gold price ($/oz)	$ 1,304	$ 1,307	$ 1,387	$ 1,599
Revenue ($000's)	$ 412	$ 662	$ 1,290	$ 541
Net (loss) ($000's)	$ (20,101)	$ (1,021)	$ (682)	$ (561)
Basic (loss) per share	$ (0.19)	$ (0.01)	$ (0.01)	$ (0.00)
Diluted (loss) per share	$ (0.19)	$ (0.01)	$ (0.01)	$ (0.00)

	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)

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

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

Operations at Saga Creek 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 2013 Results

During the fourth quarter of 2013 the Corporation recognized $412 in revenue from the sale of 316 ozs of gold at an average price of gold $1,304/oz. This compares to $1,438 in revenue from the sale of 862 ozs of gold at an average price of $1,668/oz for the fourth quarter of 2012. The $1,026 decrease in revenue in 2013 from 2012 was a due to a combination of 546 less ozs of gold sold at an average price that was $363 lower in the fourth quarter of 2013 than in the fourth quarter of 2012. The decrease in sales in 2013 versus 2012 was due to the declining operational efficiencies as reported above.

Cost of sales in the fourth quarter of 2013 was $376 as compared to $965 in the fourth quarter of 2012. The decrease is reflective of the lower gold sales in the fourth quarter of 2013 as compared to the fourth quarter of 2012.

Administration expenses for the fourth quarter of 2013 totaled $1,151 as compared to $3,434 in the fourth quarter of 2012. 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. Once current financial issues are resolved and financial markets improve, Alhambra will consider whether such listing is suitable for the Corporation.

Finance costs for the fourth quarter of 2013 were $211 as compared to $79 in the fourth quarter of 2012.

Depletion and depreciation for the fourth quarter of 2013 totaled $148, a decrease of $203 from the fourth quarter of 2012 amount of $351. The decrease was a result of the decrease in gold sales in the fourth quarter of 2013 versus the corresponding period in 2012.

The write-off of $9,284 of inventories and the $22,644 impairment loss of property, plant and equipment reported above were both recorded in the fourth quarter. These amounts were offset by a recovery of $13,812 in deferred income tax recovery. There were no comparable amounts in the fourth quarter of 2012.

In the fourth quarter of 2013 the Corporation recorded a net loss of $20,101, an increase of $16,758 over the $3,343 recorded in the corresponding quarter of 2012. This was equal to a loss per share of $0.19 for the fourth quarter of 2013 versus a loss per share of $0.03 per share for the fourth quarter of 2012. Both amounts were based on a weighted average number of outstanding shares of 104,132,059 for both periods.

2014 Objectives

Currently Alhambra's efforts are focused on arranging financing, the use of proceeds from which will be directed towards the settlement of outstanding accounts payable, the re-initiation of the stacking of ore on the heap leach pads and the resumption of exploration and development programs. The Corporation has identified a number of exploration targets it wishes to drill once funds have been raised. In addition the Corporation plans to begin a pre-feasibility study directed towards bringing into production the transitional and sulphide zones of 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.