AREHADA MINING LIMITED
(FORMERLY DRAGON CAPITAL CORPORATION)

Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

For the three-month period ended March 31, 2008 and 2007

Auditors' involvement

The independent auditors of Arehada Mining Limited have not performed an audit or a review of the interim consolidated financial statements for the three-month period ended March 31, 2008.

Arehada Mining Limited (Formerly Dragon Capital Corporation)
Consolidated Balance Sheet

Stated in Canadian dollars		March 31 2008		December 31 2007
		(unaudited)		(audited)
ASSETS				
Current assets				
Cash (Note 6)	$	1,180,953	$	648,603
Accounts receivable		2,405,536		2,017,156
Prepayment, deposits and other receivables (Note 7)		3,571,737		3,520,569
Due from related parties (Note 12)		11,779,771		10,747,865
Inventories (Note 5)		2,112,410		1,640,555
		21,050,407		18,574,748
Due from related parties (Note 12)		-		
Mining properties and property, plant and equipment (Note 8)		35,284,652		31,260,973
Other assets (Note 9)		2,489,553		2,060,425
	$	58,824,612	$	51,896,146
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	$	4,077,996		3,745,272
Other payable (Note 12)		699,027		942,806
Short-term loans (Note 10)		571,481		871,729
Due to related parties (Note 12)		24,041		534,837
Income tax payable		647,842		403,109
Current portion of long-term bank loan (Note 14)		2,932,000		2,706,000
Deferred revenue (Note 13)		1,829,304		427,865
Total current liabilities		10,781,691		9,631,618
Long-term bank loan (Note 14)		12,461,000		11,500,500
Total liabilities		23,242,691		21,132,118
SHAREHOLDERS' EQUITY				
Share capital (Note 11)		25,610,915		25,610,915
Share investment (Note 11)		-		-
Contributed surplus (Note 11)		1,849,716		1,849,716
Statutory reserves (Note 17)		696,493		696,493
Accumulated other comprehensive (loss) income		903,783		(1,955,592)
Retained earnings		6,521,014		4,562,496
Total shareholders' equity		35,581,921		30,764,028
	$	58,824,612	$	51,896,146

Approved on behalf of the Board "Christopher J.F. Harrop", Director "Jack Duffy", Director

See accompanying notes to the consolidated financial statements

Arehada Mining Limited (Formerly Dragon Capital Corporation)
Consolidated Statement of Operations and Retained Earnings
For the three month periods ended March 31

		2008		2007
		(unaudited)		(unaudited)
Sales (Note 12)	$	5,259,365	$	4,611,000
Cost of sales		1,841,913		1,393,687
Amortization		200,244		178,782
		2,042,157		1,572,469
Earnings from mining operations		3,217,208		3,038,531
Expenses				
General and administrative		943,172		230,304
Amortization		242,764		28,000
Interest on long-term debt		10,368		-
Interest income (Note 12)		(185,286)		-
Other expenses		24,610		(8,827)
		1,035,629		267,131
Income before income taxes	$	2,181,579	$	2,771,400
Income tax - current (Note 15)		223,062		415,708
Net income	$	1,958,518	$	2,355,692
Retained earnings , beginning of the period		4,562,496		705,456
Retained earnings, end of the period	$	6,521,014	$	3,061,148
Earnings per share - basic	$	0.011	$	0.0153
Earnings per share - diluted	$	0.011	$	0.0152
Weighted average number of shares outstanding – basic		172,073,557		153,581,197
Weighted average number of shares outstanding - diluted		172,073,557		155,153,197

See accompanying notes to the consolidated financial statements

Arehada Mining Limited (Formerly Dragon Capital Corporation)
Consolidated Statement of Comprehensive Income
For the three month periods ended March 31

		2008		2007
Net income	$	1,958,518	$	2,355,692
Other comprehensive income				
Net unrealized gain on translation of net self-sustaining foreign subsidiary		2,859,375		407,571
Total comprehensive income	$	4,817,893	$	2,763,263

See accompanying notes to the consolidated financial statements

Arehada Mining Limited (Formerly Dragon Capital Corporation)
Consolidated Statements of Cash Flow
For the three month periods ended March 31

		2008		2007
		(unaudited)		(unaudited)
Cash flows from operating activities				
Net income for the year	$	1,958,517	$	2,355,692
Add (deduct) items not affecting cash:				
Amortization		443,008		206,782
Stock based compensation				-
Net change in non-cash operating assets and liabilities				
Accounts receivable		(224,401)		(3,233,728)
Prepayment, deposits and other receivables		242,239		(3,136,580)
Inventories		104,962		(554,759)
Accounts payable and accrued liabilities		(547,655)		1,664,548
Other payables		(1,021,547)		698,703
Income tax payable		211,066		195,763
Deferred revenue		1,365,704		8,500
Cash provided by operating activities		2,531,893		2,088,536
Cash flows from investing activities				
Property, plant and equipment net		(1,682,001)		(2,264,077)
Due from related parties		(134,264)		(782,981)
Loan receivable				(489,107
Additions to other assets		(111,105)		(4,199)
Cash used in investing activities		(1,927,371)		(1,476,897)
Cash flows from financing activities				
Due to related parties		(555,464)		3,552,368
Short term loan		325,974		
(Repayment) proceeds of bank loan				195,500
Share investment				
Issuance of common shares and warrants for cash				-
Cash provided by financing activities		(229,490)		2,378,590
Effect of exchange rate change on cash		157,318		407,571
(Decrease) increase in cash		375,032		779,272
Cash, beginning of period		648,603		3,320,520
Cash, end of period	$	1,180,953	$	2,541,248

Supplemental information

Interest paid	$	370,355	$	246,334
Income tax paid	$	nil	$	415,708

See accompanying notes to the consolidated financial statements

1. Nature of operations:

Arehada Mining Limited (the "**Company**"), formerly Dragon Capital Corporation ("**Dragon**"), through its 100% owned subsidiary, Arehada Mining Corporation ("**Arehada**"), is engaged in the exploration, development, extraction and processing of base metals, predominately zinc-lead-silver, in Dongwuzhumuqinqi, located in Inner Mongolia, the People's Republic of China.

The ore being mined by the Company is predominately zinc, lead and silver. The Company has completed construction of a zinc plant in the same geographic region as the mine. The plant will process zinc concentrate produced internally and will also process third party zinc concentrate.

2. Reverse take-over of Dragon Capital Corporation

On July 4, 2006, Arehada entered into an agreement with Dragon Capital Corporation, a Capital Pool Company listed on the TSX Venture Exchange, to effect a business combination.

Dragon acquired all of the issued and outstanding shares of Arehada. After the merger and immediately prior to any financing, the shareholders of Arehada owned 93.5% of the total issued and outstanding shares of the merged Company and existing shareholders of Dragon owned 6.5% of the merged Company, excluding any Dragon options outstanding at the time of the merger.

During 2007, Arehada completed its reverse take-over of Dragon. The reverse take-over transaction was completed based on a 'one to one' basis, excluding share purchase options, resulting in an additional 141,832,308 common shares issued by Dragon to shareholders of Arehada.

Prior year results and comparatives balance are those of Arehada. Although legally, the Company (formerly Dragon) is regarded as the parent or continuing company, Arehada, whose shareholders now hold more than 50% of the voting shares of the Company, is treated as the acquirer under Canadian generally accepted accounting principles. Consequently, the Company (formerly Dragon) is deemed a continuation of Arehada and control of the assets and business of the Company (formerly Dragon) is deemed to have been acquired in consideration for the issuance of the shares.

Concurrent with the closing of the reverse take-over transaction, the Company completed a brokered private placement of 10 million Units at $0.50 per Unit for gross proceeds of $5 million. Each Unit is comprised of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of $1.00 per share expiring on March 14, 2009. The private placement units issued were subject to a four month and one day hold period, expiring on July 15, 2007. In connection with the completion of the qualifying transactions, there is a 10% penalty of additional units (one share and one warrant per unit) if the aggregate after tax earnings for the year 2007 and the first six months of 2008 is less than Cdn$20,000,000. In addition, agents will also receive 10% additional penalty broker units.

The Company's common shares commenced trading on the Toronto Stock Exchange on March 16, 2007 under the ticker symbol AHD.

Capital transaction

These consolidated financial statements include the completion of the reverse take over (the "**RTO**") transaction recorded in the period. Arehada, the continuing entity for accounting purposes, is considered to have acquired the assets and liabilities of Dragon Capital Corporation in a capital transaction on March 14, 2007. The comparative figures that are presented in the consolidated financial statements are those of Arehada.

The net identifiable assets of Dragon Capital at March 14, 2007 were as follows:

Cash and cash equivalents	$ 134,667
Prepaid and other receivable	1,047,651
Accounts payable and accrued liabilities	155,028
Net assets acquired	$1,027,290

Qualifying transaction costs of $471,534 were charged to equity and eliminated on completion of the transaction.

3. Basis of Presentation and Significant Accounting Policies:

Basis of Presentation

The consolidated financial statements have been prepared by management in accordance with Canadian general accepted accounting principles (GAAP) and include the accounts of the Company and its wholly owned subsidiary, Arehada Mining Corporation. All material inter-company balances and transactions have been eliminated.

Change in Accounting Policies

Effective January 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). The new standards and accounting policy changes are as follows:

a) Inventories

In June 2007, CICA issued Handbook Section 3031 "Inventories" which replaces Section 3030 "Inventories". Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of the "lower of cost and market". The new section contains guidance on the determination of cost and also requires reversal of any write-downs previously recognized should market value increase. Certain minimum disclosures are required, including the accounting policies used, carrying amounts, and amounts recognized as expenses, write-downs, and the amount of any reversal of any write-downs recognized as a reduction in expenses. The new standard became effective on January 1st, 2008 for the Company. The adoption of this new section had no impact on the on the consolidated financial statements.

b) Capital disclosures

CICA Handbook Section 1535 "Capital Disclosures", issued in December 2006, establishes standards for disclosures about capital that are effective for fiscal years beginning on or after October 1, 2007. It requires an entity to disclose its objectives, policies and processes for managing capital and to disclose quantitative data about what it considers to be capital. It also requires an entity to disclose whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance. The Company adopted this section effectively on January 1, 2008. The new standards are not expected to have impact on the Company's financial statements beyond the additional disclosure.

c) Financial Instruments

In December 2006, the Canadian Accounting Standards Board (AcSB) issued two new Sections in relation to financial instruments: Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The Company adopted both sections effectively on January 1, 2008 and there is no impact on the consolidated financial statements beyond the additional disclosure.

Significant accounting policies

(a) Inventories:

(i) Finished goods inventory are metal concentrates available for sale and are stated at the lower of average cost and net realizable value. The cost of finished goods inventory includes (i) direct production costs, such as mining, crushing, processing, (ii) direct non-production costs, such as royalties and severance taxes, and (iii) allocated non-cash costs, such as depreciation and depletion of mining and processing equipment and facilities.

(ii) Work-in-progress inventory, which consists of crushed ore, in-circuit material at properties with milling operations as well as metal concentrates that will be used for processing at the smelter plant, are valued at the lower of average production costs or net realizable value. Production costs relate to the cost of placing the ore into the mill circuit and include direct mining, crushing, agglomerating and conveying costs, as applicable, for the different mine operations. These costs are charged to operations in cost of sales on the basis of pounds of metal recovered. Crushed ore stockpiles are valued at mining plus crushing costs. Based upon actual metal recoveries and operating plans, the Company regularly evaluates and refines estimates used in determining the costs charged to operations and the carrying value of costs associated with the ore on the ground or in process at the mill.

(iii) Supplies and spare parts inventory include the cost of consumables used in operations, such as fuel, chemicals, reagents and repair parts, and are stated at the lower of average cost and realizable value .

(b) Pre-operating expenses:

The Company defers expenses net of incremental revenues related to the operations of new businesses in the period prior to the new business being capable of consistently providing its intended product and/or service.

Deferral occurs where the expenses are related directly to placing the new business into commercial service, are incremental in nature and are considered by the Company to be recoverable from the future operations of the new business. Deferral ceases at the earlier of the achievement of a specified commercial activity level or the passage of a specified period of time. Amortization of the deferred expenses related to the operations of new businesses is based on the lower of their expected period of benefit and five years. The Company periodically evaluates the recoverability of the deferred expenses from future cash flows from operations to determine whether any write-down of such deferred expenses to net recoverable amounts is required.

(c) Mining properties:

Mining properties acquisitions and mine development costs:

The Company holds interests in mining properties in various forms, including land fees, patented or unpatented mining claims, prospecting licenses, exploration and exploitation concessions, mineral leases and surface rights. All of the costs to acquire the interests are capitalized as mining property acquisition costs.

(i) Property acquisitions are recorded at cost and amortized by the unit-of-production method based on estimated proven reserves of minerals of the areas. If it is determined that the deferred costs related to a property are not recoverable over its productive life, those costs will be written down to fair value as a charge to operations in the period such determination is made.

(ii) Mine development costs for current production, including stripping of waste material during the production phase, are included in mining costs, initially included in work-in-process inventory and expensed through cost of sales. Mine development costs incurred to expand operating capacity, develop new ore bodies or develop mine

areas in advance of current production are deferred and then amortized on a unit-of-production basis. General and administrative costs are expensed as incurred.

(iii) Interest on project financing for mine development is capitalized as mine development costs while construction and development activities at the property are in progress. When the property is placed into production, those costs are amortized as part of mine development costs.

(iv) Exploration expenditures on properties not advanced enough to identify their development potential are charged to operations as incurred. Expenditures incurred on non-producing properties identified as having development potential, as evidenced by a positive economic analysis of the project, are deferred.

(d) Property, plant and equipment:

Property, plant and equipment is stated at cost less accumulated amortization. Mills, mining equipment and other asset categories are depreciated using the straight-line method over their estimated useful lives. Replacements and major improvements are capitalized. Capital spares are recorded in plant and equipment and depreciated, as appropriate, when placed into service. The annual amortization rates are as follows:

Motor Vehicle: 20% straight-line basis
Mining equipment and machinery: 10% to 20% straight-line basis
Plant and building: 4% to 10% straight-line basis
Construction in progress: is transferred to plant and building, and mining equipment when placed in use.

(e) Land use rights:

The land use rights are licenses of land for the mining sites and refinery plant and are stated at cost less accumulated amortization. The cost of land use rights of the mining site is amortized by the unit-of-production method based on estimated proven reserve of minerals in the areas.

(f) Construction in progress:

Cost of construction in progress includes the cost of materials, direct labour and overhead directly attributable to the construction of plant and building. Construction in progress is transferred to plant and building once completed and then amortized.

(g) Impairment of long-lived assets:

The Company assesses the impairment of long-lived assets, which consist primarily of mining properties, property, plant and equipment, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used are measured by a comparison of the carrying value of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the amount of the impairment is measured as the amount by which the carrying amount of the asset exceeds its fair value.

(h) Site closure and reclamation costs:

The Company will recognize the fair value of a liability for an asset retirement obligation, such as site closure and reclamation costs, in the period in which it is incurred if a reasonable estimate of costs can be made. The Company will record the present value of estimated future cash flows associated with site closure and reclamation as a liability when the liability is incurred with an offsetting amount being recognized as an increase in the carrying value of the related assets for that amount. Subsequently, these capitalized asset retirement costs will be amortized over the life of the related assets using the unit-of-production method. At the end of each period, the liability will be increased to reflect the passage of time (accretion expense, included in other operating expenses) and changes in the estimated

future cash flows underlying any initial fair value measurements (additional asset retirement costs).

It is possible that the Company's estimates of its ultimate mine site retirement liabilities could change as a result of changes in regulations or the extent of environmental remediation. Changes in estimates are accounted for prospectively from the period the estimate is revised.

The Company has not recorded a liability for its asset retirement obligations as the Company currently pays an annual environmental fee to the local government in lieu of any future reclamation obligations. This fee is paid based on the government policy and is expensed as incurred.

(i) Revenue recognition:

Revenue from the sale of metal concentrate is recognized when risk and title passes to the customer, the price is fixed and determinable and collection of the proceeds is reasonably assured. The passing of title and risks occurs based on the terms of the sales contract. The price is based on the formula in the sales contract that includes market price and the price factor determined by the grade level of concentrate.

Amounts received in advance of recognition as revenue are included in deferred revenue.

(j) Income taxes:

The Company accounts for income taxes using the asset and liability method. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences), and losses carried forward. Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is substantively enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

(k) Use of Estimates.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of mineral resources, site closure and reclamation obligations, impairment of long-lived assets, useful lives for depreciation, depletion and amortization, measurement of work-in-process and finished goods inventory, valuation allowances for future income tax assets, and the calculation of the fair value of stock based compensation and warrants. Actual results could differ from those estimates.

(l) Foreign currency translation

The Company conducts substantially all its business in the People's Republic of China in Chinese Renminbi ('RMB'). The reporting currency of the financial statements is Canadian dollars.

The Company records foreign currency-denominated transactions at the Canadian dollar equivalent at the date of the transaction and translates foreign currency-denominated monetary assets and liabilities at year-end exchange rate. Exchange gains and losses are included in earnings.

The Company's foreign subsidiary is defined as self-sustaining. Assets and liabilities denominated in RMB are translated into Canadian dollars using exchange rate in effect on the balance sheet date. Operating revenue and expenses are translated at average rates prevailing during the periods. Foreign currency gains and losses arising from translation of the balances are disclosed separately as comprehensive income or loss. The accumulated

foreign exchange gains or losses are reported as a separate component of shareholders' equity as the accumulated other comprehensive income or loss.

(m) Earnings per share

Basic earnings per share is calculated using the weighted average number of shares outstanding. Diluted earnings per share is calculated using the treasury stock method. In order to determine diluted earnings per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted earnings per share calculation. The diluted earnings per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. (i.e. would be anti-dilutive)

(n) Stock based compensation

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to share capital. For stock options granted to employees, officers and directors, the Company records compensation expense and contributed surplus over the vesting period of the options based on the fair value method of accounting.

Accounting standards implemented in 2007:

Effective January 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). The new standards and accounting policy changes are as follows:

a) Financial Instruments – Recognition and Measurement

This standard prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether fair value or cost-based methods are used to measure the recorded amounts. It also specifies how financial instrument gains and losses are to be presented. All derivatives are recorded on the balance sheet at fair value. Mark-to-market adjustments on these instruments are included in net income, unless the instruments are designated as part of a cash flow hedge relationship.

Section 3855 requires all financial assets and financial liabilities to be classified as one of five categories. Financial assets are to be classified as either held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are to be classified as either held for trading or other financial liabilities. All financial assets and financial liabilities are to be carried at fair value in the consolidated balance sheet, except held to maturity, loans and receivables and other financial liabilities which are carried at amortized cost. Subsequent accounting for changes in fair value will depend on initial classification. Realized and unrealized gains and losses on financial assets and liabilities that are held for trading will continue to be recorded in the consolidated statement of earnings. Unrealized gains and losses on financial assets that are held as available for sale are to be recorded in other comprehensive income until realized, at which time they will be recorded in the consolidated statement of operations.

All other financial instruments will be recorded at cost or amortized cost, subject to impairment reviews. The criteria for assessing other than temporary impairment remain unchanged. Transaction costs incurred to acquire financial instruments are included in the underlying balance. Regular-way purchases and sales of financial assets are accounted for on the trade date.

b) Comprehensive Income

Section 1530 requires the presentation of a statement of comprehensive income and its components. Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on available for sale investments, gains and losses on certain derivative instruments and foreign currency gains and losses relating to translating financial statements of self-sustaining foreign operations.

Movement in the accumulated other comprehensive loss during the year results primarily from changes of the translation rate in foreign currency denominated net assets.

c) Hedges

Section 3865 is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the previous AcG-13 "Hedging Relationships" and Section 1650 "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Company currently does not have any instruments that are covered under this standard.

Upon adoption of these new standards, the Company designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable, other receivables, due from related parties and loan receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities, other payable, short-term loans, due to related parties and bank loan are classified as other financial liabilities, which are measured at amortized cost.

The company adopted the above standards retroactively without restatement, with the exception of the presentation of foreign currency translation of self-sustaining foreign operations.

d) Accounting Changes

Effective January 1, 2007, the Company adopted revised CICA Section 1506 “Accounting Changes”, which requires that: a) a voluntary change in accounting policies can be made if, and only if, the changes result in more reliable and relevant information; b) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change; and c) for changes in estimates, the nature and amount of the change should be disclosed. The Company has not made any voluntary change in accounting policies since the adoption of the revised standard.

Future accounting standards:

In February 2008, the CICA released Section 3064, Goodwill and Other Intangible Assets, which is required to be adopted for fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the impact of this new section on the consolidated financial statements and will adopt the section commencing fiscal 2009.

In January 2006, the CICA Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards (“IFRS”) effective for fiscal periods beginning on or after January 1, 2011. The Company continues to monitor the convergence of Canadian GAAP and IFRS and has not yet assessed the impact of these prospective changes on the financial statements of the Company.

4. Financial instruments and financial risk management

(a) Hedging:

The Company has no formal policy concerning hedging its positions at present. The Company may in the future establish a hedge policy or enter into forward contracts to protect the Company’s exposure to future price

fluctuation.

(b) Fair value of financial instruments:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, other receivables, loan receivable, accounts payable and accrued liabilities, other payables, short-term loans, bank loan, due to related parties and due from related parties.

The carrying amounts of cash, accounts receivable, other receivables, accounts payable and accrued liabilities, short-term loans, other payables, and due to related parties approximate their fair values due to their short-term nature.

The carrying value of the bank loan approximates its fair value as the interest rate approximates the current market rate for similar instruments.

The fair value of cash is based on reported market value. The fair values of accounts receivables, other receivables, accounts payable and accrued liabilities due to their short-term nature and normal trade credit terms, approximate their carrying value. The fair values of long-term debt were determined using discounted cash flows at prevailing market rates of interest for a similar instrument with a similar credit rating. The fair value of short-term loans was determined using discounted cash flows at prevailing market rates and the fair value is considered to approximate carrying value.

(c) Credit risk:

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. The Company monitors the financial condition of its customers and counter parties to contracts on a regular basis. The main balance of accounts receivables is due from a related party (note 12).

(d) Currency risk:

The majority of the Company's assets, liabilities, revenues and expenses are denominated in Renminbi, which is now tied to a basket of currencies of China's largest trading partners. The Renminbi is not a freely convertible currency.

(e) Interest rate risk:

The Company is also exposed to interest rate risk on its floating rate borrowings, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

5. Inventories

	March 31, 2008 $	December 31, 2007 $
Work-in-progress	901,059	411,933
Supplies and spare parts	1,127,516	1,114,186
Finished goods	83,835	114,436
	2,112,410	1,640,555

6. Cash

Cash is held in both Canadian dollars and in Chinese RMB which is not freely convertible into other currencies, under China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Company is permitted to exchange RMB for other currencies through authorized banks to conduct foreign exchange business. As of March 31, 2008, cash included RMB 7,769,865 ($1,139,062.10) and December 31, 2007 – RMB 3,464,305 ($468,720).

7. Prepayment, deposits and other receivables

The prepayment, deposits and other receivables includes prepaids and advances to employees. The amounts advanced to employees total $318,522 (RMB 2,172,730) (December 31, 2007 - $ 137,443 (RMB 1,015,842) and are unsecured and non-interest bearing, repayable on demand and are typically for purchases to be made on behalf of the Company.

8. Mining properties and property, plant and equipment

The Company is a zinc-lead-silver producer and has three areas of operations: mining, processing and exploration.

a) Mining operations

The mining operation is an operating mine. The mining operation produces zinc concentrate (with indium in the zinc concentrate) and lead concentrate (with silver in the lead concentrate).

b) Zinc plant operations

The Company has completed construction of a zinc plant in the same geographic region as the mine. The plant will process zinc concentrate produced internally and will also process third party zinc concentrate.

c) Exploration

The Company owns the properties (100%) as follows:

Arehada zinc, lead and silver properties

Arehada	57.34 sq. km
Dasaituo	50.50 sq. km
Wuhuaaobao	21.00 sq. km
	128.84 sq. km

$3,498,868 (RMB 25,860,078) of exploration costs and rights (2007 – $3,498,868 RMB 25,860,078) was incurred and included in Note 8(d) below.

d) Schedules of property, plant and equipment and mining properties.

Property, plant and equipment

March 31, 2008		Accumulated	Net
	Cost	Amortization	Book value
Plant and buildings	$ 13,251,933	(252,140)	$ 12,999,794
Mining equipment and	12,222,716	(1,301,336)	10,921,380

machinery			
Construction in progress	3,941,321	-	3,941,321
Motor vehicle	417,849	(86,530)	331,319
Mining properties	6,430,092	(320,037)	6,110,055,
Land use rights	1,033,871	(530,89)	980,783
Total	$ 36,910,523	(2,013,131)	$ 35,284,652

December 31, 2007	Cost	Accumulated Amortization	Net book value
Plant and buildings	12,378,138	(188,300)	12,189,839
Mining equipment and machinery	10,596,004	(1,064,109)	9,531,895
Construction in progress	2,784,745		2,784,745
Motor vehicles	385,641	(61,542)	324,099
Mining properties	5,732,387	(216,970)	5,515,417
Land use rights	954,180	(39,202)	914,978
Total	32,831,096	(1,570,123)	31,260,973

Interest capitalized for three month periods ended on March 31, 2008 was $ 449,427 (RMB 3,205,616) – (2007 $247,975 RMB 1,642,225)

9. Other assets

Other assets of $2,489,553 (2007 – $2,060,425) represent pre-operating expenditures for the smelter plant under construction.

10. Short-term loans

	Mar 31 2008 $	December 31 2007 $
a) Note Payable RMB 928,232 (2007 RMB 972,932), non- interest bearing, unsecured and repayable on demand.	136,079	131,638
b) Note Payable RMB 1,500,000 (2007 RMB 1,500,000), interest at prevailing bank lending rate (7.47%) per annum, unsecured, repayable on demand.	219,900	202,950
c) Note Payable RMB 1,470,000 (2007 RMB 1,500,000), interest at prevailing bank lending rate (7.47%) per annum, unsecured, repayable on demand.	215,502	198,891

d) Note Payable RMB 2,500,000, interest at 19.8% per annum, unsecured, repaid in March 2008 with interest of $17,134 (RMB 126,500). In connection with the loan a finder fee was paid.	-	338,250
	571,481	871,729

11. Share capital

(a) Authorized

The Company is authorized to issue an unlimited number of common shares, unlimited number of Class A Shares and an unlimited number of Class B Shares, all without par value.

(b) Issued and outstanding

Share capital of the Company as a result of the takeover:

	Number of shares	Amount
Fair value of net assets of legal parent attributed to issued shares of legal parent at the date of reverse take-over	9,860,000	$1,027,290
Shares issued to effect the RTO transaction (note 2)	141,832,308	16,676,638
Shares issued pursuant to private placement	10,000,000	5,000,000
Share issuance cost		(852,195)
Shares issued pursuant to non-brokered private placement	10,381,249	4,152,500
Share issuance cost		(393,318)
March 31, 2008	172,073,557	$ 25,610,915

On August 23, 2007, the Company completed the first tranche of a non brokered private placement by issuing a total of 7,875,000 units for gross proceeds of $3,150,000. Each unit was priced at $0.40 and consists of one common share and one-half of one common share purchase warrant of the Company (the "Warrants"). Each whole Warrant entitles the holder to purchase one additional common share at $0.75 per share, exercisable at any time prior to the date that is the earlier of August 22, 2009 and the 10th business day following notice by the Company to the Warrant holders that the Company's share price has closed at or above $1.50 for 20 successive trading days on the Toronto Stock Exchange at any time following December 23, 2007.

On August 29, 2007, the Company completed the second tranche of the private non-brokered private placement by issuing a total of 2,506,249 units for gross proceeds of $1,002,500. Each unit is priced at $0.40 and consists of one common share and one-half of one common share purchase warrant of the Company (the "Warrants"). Each whole Warrant entitles the holder to purchase one additional common share at $0.75 per share, exercisable at any time prior to the date that is the earlier of August 29, 2009 and the 10th business day following notice by the Company to the Warrant holders that the Company's share price has closed at or above $1.50 for 20 successive trading days on the Toronto Stock Exchange at any time following December 29, 2007. In both tranches of the financing, a total of 10,381,249 units were issued for gross proceeds of $4,152,500.

(c) Share investment

	Amount
March 31, 2005	$ 7,332,884

Share investment in 2006	5,669,979
March 31, 2007	$ 13,002,863

In 2005, the shareholders of Arehada advanced $7,332,884 and $5,669,979 in 2006.These advances were unsecured, non-interest bearing and had no terms of repayment. In 2006, the principal shareholders converted the $13,002,863 into 111,111,111 common shares of Arehada. The share conversion took effect as of March 14, 2007 and is included in the shares issued as described above and in note 2.

(d) Escrowed shares

The 141,832,308 common shares issued to the principal shareholders of the Company to effect the RTO transaction disclosed in Note 2 were placed in escrow in accordance with the escrow agreement. Releases of the escrowed shares are subject to the prescribed policies of the Toronto Venture Exchange (TSXV). A total of 56,732,923 common shares were released from escrow on March 14, 2008 leaving 86,099,258 shares remaining in escrow as at March 31, 2008. 4,000,000 original founders' shares of the Company were also placed in escrow and will be released according to the release schedule prescribed by the TSXV pursuant to the Capital Pool Company program.

(e) Share Purchase Warrants

The Company adopted the Residual Approach in valuing the share purchase Warrants. Under this approach, proceeds up to the Company's share market value are allocated to shares and only the excess above the market value is allocated to the attached share purchase warrants. $ 50,125 has been allocated to these warrants as determined under the Residual Approach which is included in the contributed surplus. When the warrants are issued to finders in exchange for their services, the Company accounts for these warrants by measuring the fair value of the warrant at the date on which the respective warrant is issued. The fair value of the warrants is determined using the Black-Scholes option pricing model. When warrants are exercised, cash received upon exercise and the amounts previously credited to contributed surplus are reversed and credited to share capital.

The following is a summary of warrants outstanding as at March 31, 2008:

	Number of warrants	Exercise Price	Expiry Date
Balance, March 31, 2007	586,000	$0.25	Nov. 27, 2007
Broker warrants	1,000,000	$1.00	Mar. 14, 2009
Share purchase warrants	10,000,000	$1.00	Mar. 14, 2009
Share purchase warrants	3,937,499	$0.75	Aug. 22, 2009
Finder warrants	775,000	$0.75	Aug. 22, 2009
Share purchase warrants	1,253,125	$0.75	Aug. 29, 2009
Finder warrants	250,625	$0.75	Aug. 29, 2009
Expired	(586,000)		
Total	17,216,249		

The Company includes the fair value of its Broker and Finder warrants (2,025,625 warrants) in the amount of $358,589 in contributed surplus by using the Black Scholes option model, based on volatility of 50%, a risk free interest rate of 3%, a dividend yield of 0% and an expected life of 24 months.

(f) Stock Options

The Company has adopted an incentive stock option plan in accordance with the policies of the TSX (the 'Stock Option Plan') for the benefit of its directors, officers, employees and consultants whereby a maximum of 10% of the issued and outstanding shares are reserved for issuance. Options vest as per the schedule below and expire five years from the date

of grant. No employee options or broker warrants were exercised from the date of inception of the Company to March 31, 2008.

The following is a summary of the options outstanding as at March 31, 2008

	Number of Options	Exercise Price	Vesting Date	Expiry Date	Weighted average remaining contractual life	Options Exercisable
Balance January 1, 2007	986,000	$0.25	25-May-2006	25-May-2011	3.15	419,050
Options granted	1,518,000	$2.00	15-Mar-2007	15-Mar-2012	3.96	1,318,000
Options granted	2,978,533	$0.82	4-Jun-2007	4-Jun-2012	4.18	2,978,533
Options granted	1,533,333	$1.00	4-Jun-2008	4-Jun-2012	4	-
Options granted	1,533,334	$1.25	4-Jun-2009	4-Jun-2012	3	-
Options granted	150,000	$0.82	28-Jun-2007	28-Jun-2012	4.25	150,000
Options granted	100,000	$0.50	15-Aug-2007	15-Aug-2012	4.38	100,000
Options cancelled	(200,000)					
Options expired	(197,200)					
Balance December 31, 2007	8,402,000					4,965,583
Options expired	(369,750)					
Balance March 31, 2008	8,032,250					

The Company expensed the fair value of its stock options granted during the period in the amount of $1,489,080 using the Black Scholes option model, based on volatility of 50%, a risk free interest rate of 3%, a dividend yield of 0% and an expected life of 60 months.

g) Contributed surplus

	Amount
Balance as at March 31, 2005 and 2006	$ 2,047
Stock-based compensation expense recognized during 2007	1,489,080
Broker and finder warrants issued	358,589
Balance as at March 31, 2008	$1,849,716

12. Related Party Transactions

(a) Related party sales

The Company produces zinc and lead concentrate. Zinc concentrate is sold to arm's length parties in China. A portion of the lead concentrate was sold to a lead smelter company, which is controlled by the principal shareholders of the Company. These sales were recorded at the exchange amount which is the amount agreed to between the parties. No sales were made to this company during the three month period ended March 31, 2008. (2007 - $2,860,280 RMB 18,942,254).

The amount due from the related party, as described above, that is included in accounts receivable as at March 31, 2008 is $1,350,186 (RMB 9,210,000) (December 31, 2007 - $1,246,113 RMB 9,210,000).

(b) Due to related parties

Amounts due to related parties as at March 31, 2008 were $24,041 (RMB 163, 993) (December 31, 2007- $534,837 RMB 3,952,971). The balance is due to principal shareholders of the Company. These amounts are non-interest bearing, unsecured and have no fixed repayment term.

(c) Other payables

Other payable consists of employee loans to the Company. These employee loans bear interest at 18% per annum, are unsecured and are repayable in 5 years. The Company has the option to pay off these advances at any time. Accrued interest included in accounts payables and accrued liabilities as at March 31, 2008 is $468,391 (RMB 3,195,025) (December 31, 2007- $396,567 RMB 2,931,025).

(d) Due from related parties

An amount of $11,779,771 (RMB 80,330,931) (December 31, 2007 - $10,747,865, RMB 79,437,289) is due from the Baiyinhanshan Mining Group Limited ("Baiyinhanshan") and Arehada Exploration Co., companies controlled by the principal shareholders.

As at May 29, 2007, Arehada entered into an agreement with Baiyinhanshan, to amend the original terms of Baiyinhanshan Loan ("the Loan"). The agreement took effect as of March 14, 2007. Under the agreement, the terms of the Baiyinhanshan Loan were amended so that (i) the Baiyinhanshan Loan would bear interest at 7% per annum (previously 0%) with the interest accruing on and from March 15, 2007, (ii) the Baiyinhanshan Loan would be repaid in full by March 14, 2008, and (iii) Arehada (Barbados) Holding Corporation ("**Arehada Barbados**"), a company controlled by the principal shareholders of Baiyinhanshan and also the parent company of the Company, would provide a guarantee for the Baiyinhanshan Loan. As security for the guarantee, Arehada Barbados agreed to pledge a total of 40,000,000 Arehada common shares held by Arehada Barbados in favour of the Company. The balance includes accrued interest for the period ended March 31, 2008 of $ 824,332, of which $185,286 is included in the interest income for the three month period ended March 31, 2008. During the three month period ended on March 31, 2008, the Company agreed to extend the repayment date of the Baiyinhanshan loan. In addition, the security for the guarantee of the loan has been increased to 80,000,000 Arehada common shares.

(e) During the period, the Company incurred director and consulting fees of $ 52,500 (2007 – $ Nil) charged by the directors and an officer of the Company. Included in accounts payable and accrued liabilities as at March 31, 2008 is $89,000 (December 31, 2007 - $ 51,500) owing to these individuals.

The transactions with related parties are conducted in the normal course of business and are measured at the exchange amount.

13. Deferred Revenue

Deferred revenue of $1,829,304 (December 31, 2007 – $427,865) relates to deposits received from customers. Revenue will be recognized when metal concentrate is delivered and the risk and title passes to the customer based on the terms of the sales contact.

14. Long-term bank loan

The bank loan balance is $15,393,000 (RMB 105,000,000) (December 31, 2007 – $14,206,500 RMB 105,000,000) with a five-year repayment term. The loan bears interest at rate of 130% of the People's Bank of China prime lending rate. The long-term bank loan is secured by Arehada's mining rights in the current operating Arehada mine. Arehada is required to maintain an account with the lender at all times for repayment of interest and principal as it becomes due.

As at March 31, 2008, the bank loan has the following maturity, interest rate and repayment schedules:

- $2,932,000 (RMB 20,000,000) is due on November 20, 2008, bears interest rate at 9.828% per annum.
- $3,665,000 (RMB 25,000,000) is due on November 20, 2009, bears interest rate at 9.828% per annum.
- $4,398,000 (RMB 30,000,000) is due on November 20, 2010, bears interest at 10.062% per annum;
- $4,398,000 (RMB 30,000,000) is due on November 20, 2011, bears interest at 10.062% per annum.

15. Income taxes:

Applicable Income Tax Rate

On August 28, 2006, Arehada became a foreign owned company operating in China and in accordance with applicable Chinese national and local income tax codes. For the year 2006, it pays income tax at a rate of 33%. For the years 2007 to 2010, it is subject to a 15% income tax rate.

16. Commitments and contingencies:

Commitments

- Arehada contracted with an arm's length party to construct a smelter plant with an aggregate contract value of $ 8,118,000 (RMB 60,000,000) $ 384,252 (RMB 2,840,000) was paid for work done in 2006, $292,248 (RMB 2,160,000) has been paid in 2007 and is included in construction in progress. The remaining $7,441,500 (RMB 55,000,000) will be paid in the future as the project progresses. The project payment terms are based on the progress of the project and also subject to quality control and inspection by the Company.

- The Company is committed to minimum annual lease payments for its premises and vehicles under operating leases in China and Canada as follows:

2009:	$526,000
2010:	341,000
2011:	321,000
2012:	321,000
2013:	321,000
Thereafter:	1,284,000
Total	$3,166,600

Contingency

On March 14, 2007, concurrent with the closing of the reverse take-over transaction, the Company completed a brokered private placement of 10 million Units at $0.50 per Unit for gross proceeds of $5 million (See Note 2). In connection with the completion of the qualifying transaction, there is a 10% penalty of additional units (one share and one warrant per unit) if the aggregate after tax earnings for the year 2007 and the first six months of 2008 is less than Cdn$20,000,000. In addition, agents will also receive 10% additional penalty broker units.

17. Reserves

Pursuant to PRC regulations, the Company's subsidiary, Arehada Mining Corporation is required to make appropriations to reserve funds, comprising the statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve, based on after-tax net income determined in accordance with PRC generally accepted accounting principles ("PRC GAAP"). Appropriations to the statutory surplus reserve must be at least 10% of after tax net income determined in accordance with PRC GAAP until the reserve is equal to 50% of the Company's registered capital. The transfer to this reserve must be made before the distribution of dividends to shareholders. Except for the reduction for losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital. Appropriations to the statutory public welfare fund are at 5% to 10% of after tax net income determined in accordance with PRC GAAP. The statutory public welfare fund is established for the purpose of providing employee facilities and other collective benefits to the employees and is non-distributable other than in liquidation. These reserves are not available for distribution to owners under general operating conditions.

18. Economic dependence

One customer accounted for approximately 40% (2007 - 35%) of the total sales of the Company.

19. Comparative figures

Certain 2007 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2008.