

AREHADA MINING LIMITED

Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
(Unaudited)

For the three-month period ended March 31, 2009

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, 2009.

Arehada Mining Limited
Interim Unaudited Consolidated Balance Sheets

(Expressed in Canadian currency)	March 31,2009 (Unaudited)	December 31,2008 (Audited)
ASSETS		
Current assets		
Cash (Note 6)	\$ 123,296	\$ 184,987
Accounts receivable	1,148,080	1,166,195
Prepayment, deposits and other receivables (Note 7)	1,798,299	1,877,519
Loan receivable (Note 8)	69,858	118,262
Due from related parties (Note 12)	14,269,222	13,873,276
Inventories (Note 5)	1,955,823	1,818,917
Income tax refund	361,811	352,196
	<u>19,726,389</u>	<u>19,391,352</u>
Mining properties and property, plant and equipment (Note 9)	51,440,476	51,030,039
	<u>\$ 71,166,865</u>	<u>\$ 70,421,391</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,652,777	\$ 4,866,289
Short-term loans (Note 10)	5,532,000	5,385,000
Other payable (Note 12)	141,546	137,784
Due to related parties (Note 12)	235,952	388,074
Current portion of long-term bank loan (Note 14)	8,298,000	8,077,500
Deferred revenue (Note 13)	617,692	547,429
Total current liabilities	<u>20,477,967</u>	<u>19,402,076</u>
Long-term bank loan (Note 14)	11,064,000	10,770,000
Total liabilities	<u>31,541,967</u>	<u>30,172,076</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	25,610,915	25,610,915
Contributed surplus (Note 11)	2,330,940	2,330,940
Statutory reserves (Note 17)	696,493	696,493
Accumulated other comprehensive income	9,486,605	8,190,368
Retained earnings	1,499,945	3,420,599
	<u>10,986,500</u>	<u>11,610,967</u>
Total shareholders' equity	<u>39,624,898</u>	<u>40,249,315</u>
	<u>\$ 71,166,865</u>	<u>\$ 70,421,391</u>

Approved on behalf of the Board

"Samuel R. Baker", Director

"Philip Chen", Director

Arehada Mining Limited
Interim Unaudited Consolidated Statements of Operations and Retained Earnings
For the three months ended March 31

	2009 (Unaudited)		2008 (Unaudited)	
Sales	\$	-	\$	5,259,365
Cost of sales		-		1,841,913
Margin from mining operations		-		3,417,452
Expenses				
General and administrative		483,878		943,172
Amortization		1,011,266		443,008
Interest on long-term debt		575,558		10,368
Interest income (Note 12)		(150,048)		(185,286)
Other expenses		-		24,610
		1,920,654		1,235,872
(Loss) Income before income taxes	\$	(1,920,654)	\$	2,181,580
Income tax - current (Note 15)		-		223,062
Net (loss) income	\$	(1,920,654)	\$	1,958,518
Retained earnings, beginning of the period		3,420,599		4,562,496
Retained earnings, end of the period	\$	1,499,945		6,521,014
(Loss) earnings per share - basic	\$	(0.011)	\$	0.011
Weighted average number of shares outstanding – basic		173,073,557		173,073,557

Interim Unaudited Consolidated Statements of Comprehensive Income

For the three months ended March 31

	2009 (Unaudited)		2008 (Unaudited)	
Net (loss) income	\$	(1,920,654)	\$	1,958,518
Other comprehensive income				
Net unrealized gain on translation of net self-sustaining foreign subsidiary		1,296,237		2,859,375
Total comprehensive income	\$	624,417	\$	2,763,263

Arehada Mining Limited
Interim Unaudited Consolidated Statements of Cash Flows
For the three months ended March 31

	2009 (Unaudited)	2008 (Unaudited)
Cash flows from operating activities		
Net (loss) income for the period	\$ (1,920,654)	\$ 1,958,518
Add items not affecting cash:		
Amortization	1,011,266	443,008
	(909,388)	2,401,526
Net change in non-cash operating assets and liabilities		
Accounts receivable	48,332	(224,401)
Prepayment, deposits and other receivables	128,879	242,239
Inventories	(86,212)	104,962
Accounts payable and accrued liabilities	648,555	(547,655)
Other payables	-	(1,021,547)
Income tax payable	-	211,066
Deferred revenue	54,660	1,365,704
Cash provided by operating activities	(115,175)	2,531,894
Cash flows from investing activities		
Property, plant and equipment net	(61,138)	(1,793,106)
Due from related parties	(17,028)	(134,264)
Loan receivable	51,016	-
Cash used in investing activities	(27,150)	(1,927,370)
Cash flows from financing activities		
Due to related parties	(160,775)	(555,464)
Short term loan	-	325,974
Cash provided by financing activities	(160,775)	(229,490)
Effect of exchange rate change on cash	241,408	157,318
(Decrease) increase in cash	(303,099)	375,032
Cash, beginning of period	184,987	648,603
Cash, end of period	\$ 123,296	1,180,953

AREHADA MINING LIMITED

Notes to Interim Unaudited Consolidated Financial Statements

For the three months ended March 31, 2009

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 refining 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 processes zinc concentrate produced internally and will also process third party zinc concentrate.

As at March 31, 2009, the Company had a working capital deficiency of \$751,578. The Company's revenue, cash flow and profit are dependent on commodity prices. There is no guarantee that the commodity prices will not decrease. These consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. If the "going concern" assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. Such adjustments could be material.

2. Reverse take-over of Dragon Capital Corporation

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.

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 2007. Arehada, the continuing entity for accounting purposes, is considered to have acquired the assets and liabilities of Dragon in a capital transaction on March 14, 2007.

The net identifiable assets of Dragon 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	<u>155,028</u>
Net assets acquired	\$1,027,290

Qualifying transaction costs of \$471,534 were charged to Dragon equity, which was eliminated on completion of the transaction.

AREHADA MINING LIMITED

Notes to Interim Unaudited Consolidated Financial Statements
For the three months ended March 31, 2009

3. Basis of Presentation and Significant Accounting Policies:

Basis of Presentation

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

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and follow the same accounting policies and methods of application as the audited consolidated financial statements of the Company for the year ended December 31, 2008. They do not include all of the information and disclosures required by Canadian GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. Operating results for the period ended March 31, 2009 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2009. For further information, see the Company's audited consolidated financial statements including the notes thereto for the year ended December 31, 2008.

New 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 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 has included disclosures recommended by the new Handbook section in Note 20 to these consolidated financial statements.

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. The Company has included disclosures recommended by the new Handbook section in Note 4 to these consolidated financial statements.

AREHADA MINING LIMITED

Notes to Interim Unaudited Consolidated Financial Statements
For the three months ended March 31, 2009

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) 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.

(c) 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.

(d) 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 and probable 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.

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- (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.

(e) 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.

(f) 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.

(g) 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.

(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.

AREHADA MINING LIMITED

Notes to Interim Unaudited Consolidated Financial Statements
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(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) Non-monetary transactions:

All non-monetary transactions are measured at the fair value of the asset surrendered or the asset or services received, whichever is more reliable, unless the transaction lacks commercial substance. The commercial substance requirement is met when the future cash flows are expected to change significantly as a result of the transaction. (Notes 5)

(k) 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.

(l) 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.

(m) 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 period-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 accumulated other comprehensive income or loss.

AREHADA MINING LIMITED

Notes to Interim Unaudited Consolidated Financial Statements
For the three months ended March 31, 2009

(n) 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 exclude any potential conversion of options and warrants that would increase earnings per share or decrease loss per share (i.e. would be anti-dilutive). When the impact of diluted loss per share is anti-dilutive, such information is not presented.

(o) 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.

(p) Financial Instruments – Recognition and Measurement

On January 1, 2007, the Company adopted CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement ("Section 3855"), and Section 3865, Hedges.

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.

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 1651 "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.

AREHADA MINING LIMITED

Notes to Interim Unaudited Consolidated Financial Statements
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(q) Comprehensive Income

The Company has adopted CICA Handbook Section 1530, Comprehensive Income ("Section 1530").

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 period results primarily from changes in the translation rate in foreign currency denominated net assets.

Future Accounting Changes

a) Goodwill and Intangible Assets

In November 2007, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which replaces the existing Handbook Section 3062, Goodwill and Other Intangible Assets and Handbook Section 3450, Research and Development Costs. This standard is effective for annual financial statements relating to fiscal years beginning on or after October 1, 2008, with earlier application encouraged. The standard provides guidance on the recognition, measurement and disclosure requirements for goodwill and intangible assets. The Company is currently assessing the impact of this new accounting standard on its financial statements.

b) Business Combinations

CICA Handbook Section 1582 "Business Combinations", replaces Section 1581 - "Business Combinations" and provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3 - Business Combinations. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. The Company will adopt this standard on January 1, 2011.

c) International Financial Reporting Standards ("IFRS")

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The AcSB issued the "omnibus" exposure draft of IFRS with comments due by July 31, 2008, wherein early adoption by Canadian entities is also permitted. The Canadian Securities Administrators ("CSA") has also issued Concept Paper 52-402, which requested feedback on the early adoption of IFRS as well as the (continued) use of US GAAP by domestic issuers. The eventual changeover to IFRS represents changes due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations.

The Company is assessing the potential impacts of this changeover and is developing its IFRS changeover plan, which will include project structure and governance, resourcing and training, analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential exemptions to the initial adoption of IFRS as permitted by IFRS Statement 1.

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Notes to Interim Unaudited Consolidated Financial Statements
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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.

(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. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

(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. The Company does not use derivative instruments to reduce its exposure to interest rate risk.

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5. Inventories

	March 31, 2009 \$	December 31, 2008 \$
Work-in-progress	147,287	68,252
Supplies and spare parts	1,691,667	1,636,901
Finished goods	116,869	113,764
	<u>1,955,823</u>	<u>1,818,917</u>

In 2008, the Company transferred lead and zinc concentrates with costs of \$393,016 (RMB2, 189,506) to a third party contractor to settle its construction costs payable. The transfer price of these inventories was determined at the market price when the transfer agreement was signed. There was no such transaction in 2009.

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, 2009, cash included RMB 453,090 (\$83,550), December 31, 2008 – RMB 810,801 (\$145,539).

7. Prepayment, deposits and other receivables

The prepayment, deposits and other receivables includes prepaids and advances to employees. The amounts advanced to employees total \$ 386,865 (RMB2,097,968), 2008 - \$364,880 (RMB 2,032,755) and are unsecured non-interest bearing, repayable on demand and are typically for purchases to be made on behalf of the Company.

8. Loan receivable

The loan amount of \$69,858 (RMB378,840), 2008 - 118,262 (RMB 658,840) was made to an arm's length party in the Company's ordinary operations and is unsecured and non-interest bearing.

9. Mining properties and property, plant and equipment

The Company is a zinc-lead-silver producer and has three areas of operations: mining, smelter 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 zinc plant processes zinc concentrate produced internally and will also process third party zinc concentrate.

c) Exploration

The Company owns zinc, lead and silver properties as follows.

Arehada	57.34 sq. km
Dasaituo	50.50 sq. km
Wuhuaaobao	21.00 sq. km
	<u>128.84 sq. km</u>

No exploration costs and rights (December 31, 2008 – \$1,841,371; RMB 10,258,333) were incurred during the three months period ended March 31, 2009.

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For the three months ended March 31, 2009

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

Property, plant and equipment

March 31, 2009 (Unaudited)	Cost	Accumulated Amortization	Net Book value
Plant and buildings	16,862,636	(719,931)	16,142,705
Mining and zinc plant equipment and machinery	21,714,402	(4,257,802)	17,456,600
Construction-in-progress	6,631,555	-	6,631,555
Motor vehicles	1,130,759	(205,445)	925,314
Mining properties	9,978,144	(890,324)	9,087,820
Land use rights	1,300,449	(103,967)	1,196,482
Total	57,617,945	(6,177,469)	51,440,476

December 31, 2008 (Audited)	Cost	Accumulated Amortization	Net Book value
Plant and buildings	\$ 16,414,550	\$ (581,837)	\$ 15,832,713
Mining and zinc plant equipment and machinery	21,131,010	(3,424,799)	17,706,211
Construction-in-progress	6,401,487	-	6,401,487
Motor vehicle	1,100,712	(148,326)	952,386
Mining properties	9,717,738	(755,005)	8,962,733
Land use rights	1,265,893	(91,384)	1,174,509
Total	\$ 56,031,390	\$ (5,001,351)	\$ 51,030,039

Interest capitalized as of March 31, 2009 was \$ 1,358,224 (RMB7,365,640) – (December 31, 2008 \$1,322,132 RMB 7,365,640)

10. Short-term loans

	March 31 2009 \$	December 31 2008 \$
a) Note Payable RMB 16,000,000, interest at 11.205% per annum, working capital loan, secured by Arehada's mining rights in the current operating Arehada mine, due on February 21, 2009.	2,950,400	2,872,000
b) Note Payable RMB 14,000,000, interest at 11.205% per annum, working capital loan, secured by Arehada's mining rights in the current operating Arehada mine, due on February 26, 2009.	2,581,600	2,513,000
	5,532,000	5,385,000

During the three months ended March 31, 2009, the Bank has agreed that when the Company re-starts its mining operation and generates cash flow from operation (after covering its operational needs), the Company would start to repay the interest on the loans, and when the Company has generated surplus cash flow after covering its operational and day-to-day business needs, it would start to repay the principal.

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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

	<u>Number of shares</u>	<u>Amount</u>
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)
December 31, 2007	172,073,557	25,610,915
Additional shares issued pursuant to private placement	1,000,000	-
December 31, 2008 and March 31, 2009	173,073,557	\$ 25,610,915

On August 23, 2007, the Company completed 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 its 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.

On September 25, 2008, the Company issued an additional 1,000,000 units relating to the private placement under the terms of the transaction disclosed in Note 2. Each unit consists of one common share and one common share purchase warrant of the Company (the "Warrants"). Each Warrant entitles the holder to purchase one additional common share at \$1.00 per share exercisable until March 14, 2009. No proceeds were received as a result of the issuance.

(c) 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). 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.

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(d) Share Purchase Warrants

The Company accounts for 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, 2009:

	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)		
December 31, 2007	17,216,249		
Broker warrants	100,000	\$1.00	Mar. 14, 2009
Share purchase warrants	1,000,000	\$1.00	Mar. 14, 2009
December 31, 2008	18,316,249		
Expired	(12,100,000)		
March 31, 2009	6,216,249		

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 determined 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.

As described in Note 11(b) above, the Company issued 100,000 Broker penalty warrants and 1,000,000 share purchase warrants during the year ended at December 31, 2008. The fair value of the Broker warrants is nominal 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 7 months.

On March 14, 2009, the broker warrants, share purchase warrants and their related penalty warrants described above, expired and no extension was granted to these warrants.

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(e) 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 two to 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, 2009.

The following is a summary of the options outstanding as at March 31, 2009

	<u>Number of Options</u>	<u>Exercise Price</u>	<u>Vesting Date</u>	<u>Expiry Date</u>	<u>Weighted average remaining contractual life</u>	<u>Options Exercisable</u>
Balance January 1, 2007	986,000	\$0.25	25-May-2006	25-May-2011	2.15	345,100
Options granted	1,518,000	\$2.00	15-Mar-2007	15-Mar-2012	2.96	918,000
Options granted	2,978,533	\$0.82	4-Jun-2007	4-Jun-2012	3.18	1,001,200
Options granted	1,533,333	\$1.00	4-Jun-2008	4-Jun-2012	3.18	-
Options granted	1,533,334	\$1.25	4-Jun-2009	4-Jun-2012	3.18	-
Options granted	150,000	\$0.82	28-Jun-2007	28-Jun-2012	3.25	150,000
Options granted	100,000	\$0.50	15-Aug-2007	15-Aug-2012	3.38	-
Options cancelled	(200,000)					
Options forfeited	(197,200)					
Balance December 31, 2007	8,402,000					
Options granted	50,000	\$0.30	26-Aug-2008	26-Aug-2013	4.41	50,000
Options granted	300,000	\$0.15	29-Sept-2008	29-Sept-2010	1.50	300,000
Options granted	300,000	\$0.45	29-Sept-2009	29-Sept-2011	2.50	-
Options granted	300,000	\$0.15	30-Sept-2008	30-Sept-2010	1.50	300,000
Options granted	300,000	\$0.45	30-Sept-2009	30-Sept-2011	2.50	-
Options forfeited	(5,987,700)					
Balance December 31, 2008 and March 31, 2009	3,664,300					3,064,300

The Company expensed the fair value of its stock options granted during the year ended December 31, 2008 in the amount of \$481,224 determined 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 for 1,200,000 options granted in September 2008 and 60 months for the remaining options granted and vested during the year 2008.

f) Contributed surplus

	<u>Amount</u>
Balance as at March 31, 2006	\$ 2,047
Stock-based compensation	1,489,080
Broker and finder warrants issued	358,589
Balance as at December 31, 2007	1,849,716
Stock-based compensation	481,224
Balance as at December 31, 2008 and March 31, 2009	\$ 2,330,940

AREHADA MINING LIMITED

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12. Related Party Transactions

(a) Due to related parties

Amounts due to related parties as at March 31, 2009 were \$235,952 (RMB1,279,566)(December 31, 2008-\$388,074 RMB 2,161,973). The balance is due to a principal shareholder of the Company. These amounts are non-interest bearing, unsecured and have no fixed repayment term.

(b) 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 five years. The Company has paid off most of these advances and all interests outstanding in 2008.

(c) Due from related parties

An amount of \$14,269,222 (RMB 77,381,898) (December 31, 2008 - \$13,873,276 RMB 77,288,765) is mainly due from the principal shareholder, and Baiyinhanshan Mining Corporation ("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. As security for the loan, 40,000,000 common shares of the Company held by its parent have been assigned in favour of the Company. In 2008, the loan was extended to March 2009 and the security for the loan has been increased to 80,000,000 common shares of the Company.

In March 2009, the independent members of the board of the Company have determined that it is in the best interests of the Company to extend the related party loan and adjust the interest rate. Accordingly, the term of the loan has been extended to June 30, 2009, and the interest rate has been amended from 7% per annum to 5% per annum. At the same time, the collateral was increased to 90,000,000 common shares of the Company.

The 2009 balance includes interest accrued of \$ 1,844,553, of which \$151,048 is included in interest income for the period ended March 31, 2009.

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 \$617,692 (December 31, 2008 – \$547,429) 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 contracts.

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Notes to Interim Unaudited Consolidated Financial Statements

For the three months ended March 31, 2009

14. Long-term bank loan

The bank loan balance is \$19,362,000(RMB 105,000,000) (December 31, 2008 – \$18,847,500 RMB 105,000,000) with a five-year repayment term. The loan bears interest at a 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, 2009, the bank loan has the following maturity, interest rate and repayment schedules:

- \$3,688,000 (RMB 20,000,000) is due on November 20, 2008, bears interest rate at 7.37% per annum (see below).
- \$4,610,000 (RMB 25,000,000) is due on November 20, 2009, bears interest rate at 7.37% per annum.
- \$5,532,000 (RMB 30,000,000) is due on November 20, 2010, bears interest at 7.72% per annum;
- \$5,532,000 (RMB 30,000,000) is due on November 20, 2011, bears interest at 7.72% per annum.

The loan due on November 20, 2008 was extended by the bank to February 20, 2009. During the three months ended March 31, 2009, the Bank has agreed that when the Company re-starts its mining operation and generates cash flow from operation (after covering its operational needs), the Company would start to repay the interest on the loans, and when the Company has generated surplus cash flow after covering its operational and day-to-day business needs, it would start to repay the principal.

15. Income taxes:

Applicable Income Tax Rate

On August 28, 2006, the Company's mining subsidiary became a foreign owned company operating in China and in accordance with applicable Chinese national and local income tax codes. From the year 2008, it was subject to income tax at a rate of 25%.

16. Commitments and contingencies:

Commitments

- Arehada contracted with an arm's length party to construct a smelter plant with an aggregate contract value of \$ 11,064,000 (RMB 60,000,000). As at March 31, 2009, the Company has paid \$2,034,854 (RMB 11,035,000) for work performed. The remaining \$9,029,146 (RMB 48,965,000) 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:	402,029
2010:	395,759
2011:	395,759
2012:	395,759
2013:	395,759
Thereafter:	<u>1,187,278</u>
Total	<u>\$ 3,172,344</u>

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17. Reserves

Pursuant to PRC regulations, the Company's PRC located subsidiary 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.

The Company did not make additional reserves since it did not have after tax income during the period ended March 31, 2009.

18. Capital management

The Company currently manages its capital structure and makes adjustments to it, based on cash resources expected to be available to the Company, in order to support its ongoing operations of the business and planned exploration of mineral property interests. Management has not established a quantitative capital structure, but reviews on a regular basis the capital requirements of the Company relative to the stage of development of the business entity and mineral property interest and market conditions.

There were no changes in the Company's approach to capital management during the period ended March 31, 2009.