

AREHADA MINING LIMITED

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

For the three-month and nine-month period ended September 30, 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 and nine-month period ended September 30, 2009.

Arehada Mining Limited
Interim Unaudited Consolidated Balance Sheets

(Expressed in Canadian currency)	September 30,2009 (Unaudited)	December 31,2008 (Audited)
ASSETS		
Current assets		
Cash (Note 6)	\$ 419,305	\$ 184,987
Accounts receivable	3,252,139	1,166,195
Prepayment, deposits and other receivables (Note 7)	4,934,370	1,877,519
Loan receivable (Note 8)	59,478	118,262
Due from related parties (Note 12)	3,371,474	13,873,276
Inventories (Note 5)	1,244,515	1,818,917
Income tax refund	308,049	352,196
	<u>13,589,330</u>	<u>19,391,352</u>
Mining properties and property, plant and equipment (Note 9)	45,385,155	51,030,039
	<u>\$ 58,974,485</u>	<u>\$ 70,421,391</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 6,519,307	\$ 4,866,289
Short-term loans (Note 10)	-	5,385,000
Other payable (Note 12)	-	137,784
Due to related parties (Note 12)	266,368	388,074
Current portion of long-term bank loan (Note 14)	3,925,000	8,077,500
Deferred revenue (Note 13)	5,235,061	547,429
Total current liabilities	<u>15,945,736</u>	<u>19,402,076</u>
Long-term bank loan (Note 14)	9,420,000	10,770,000
Total liabilities	<u>25,365,736</u>	<u>30,172,076</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	25,610,915	25,610,915
Contributed surplus (Note 11)	2,469,240	2,330,940
Statutory reserves (Note 17)	696,493	696,493
Accumulated other comprehensive income	3,328,554	8,190,368
Retained earnings	1,503,547	3,420,599
Total shareholders' equity	<u>33,608,749</u>	<u>40,249,315</u>
	<u>\$ 58,974,485</u>	<u>\$ 70,421,391</u>

Approved on behalf of the Board

"Samuel R. Baker", Director

"Philip Chen", Director

Arehada Mining Limited
Consolidated Statement of Operations and Retained Earnings

	Three month period ended		Nine month period ended	
	September 30 2009	September 30 2008	September 30 2009	September 30 2008
	(unaudited)		(unaudited)	
Sales	\$ 6,031,049	7,565,106	\$ 7,847,009	17,411,961
Cost of sales	1,643,730	6,036,226	2,789,751	9,594,534
Margin from mining operations	4,387,319	1,528,880	5,057,258	7,817,427
Expenses				
General and administrative	1,392,654	1,710,112	2,842,108	4,001,993
Amortization	998,342	664,814	2,671,920	1,602,817
Interest on long-term debt	579,518	662,360	1,638,083	687,189
Interest income (Note 12)	-	(167,540)	(234,854)	(533,342)
Other expenses(income)	28,986	22,566	57,053	125,144
	2,999,500	2,892,312	6,974,310	5,883,801
Income (loss) before income taxes	\$ 1,387,819	(1,363,432)	\$ (1,917,052)	1,933,626
Income tax - current (Note 15)	-	-	-	405,180
Net income (loss)	\$ 1,387,819	(1,363,432)	\$ (1,917,052)	1,528,446
Retained earnings , beginning of the period	115,728	7,454,374	3,420,599	4,562,496
Retained earnings, end of the period	\$ 1,503,547	6,090,942	\$ 1,503,547	6,090,942
Earnings (loss) per share - basic & diluted	\$ 0.008	(0.008)	\$ (0.011)	0.009
Weighted average number of shares outstanding – basic & diluted	173,073,557	172,145,296	173,073,557	172,097,645

Consolidated Statements of Comprehensive (Loss) Income

	Three month period ended		Nine month period ended	
	September 30 2009	September 30 2008	September 30 2009	September 30 2008
	(unaudited)		(unaudited)	
Net income (loss)	\$ 1,387,819	(1,363,432)	\$ (1,917,052)	1,528,446
Other comprehensive (loss) income				
Net unrealized (loss) gain on translation of net self-sustaining foreign subsidiary	(2,889,077)	1,506,242	(4,861,814)	4,859,683
Total comprehensive (loss) income	\$ (1,501,258)	142,810	\$ (6,778,866)	6,388,129

Arehada Mining Limited
Consolidated Statements of Cash Flow

	Three month period ended		Six month period ended	
	September 30	September 30	September 30	September 30
	2009	2008	2009	2008
	(unaudited)		(unaudited)	
Cash flows from operating activities				
Net income (loss) for the period	1,387,819	(1,363,432)	(1,917,052)	1,528,446
Add (deduct) items not affecting cash:				
Amortization	998,342	664,814	2,671,920	1,602,817
Stock based compensation	-	30,344	138,300	481,224
Loss from disposal of assets	5,278	-	21,319	-
	<u>2,391,439</u>	<u>(668,274)</u>	<u>914,487</u>	<u>3,612,487</u>
Net change in non-cash operating assets and liabilities				
Accounts receivable	(2,371,144)	84,600	(2,432,578)	349,110
Prepayment, deposits and other receivables	(3,951,552)	930,451	(3,591,999)	(1,182,989)
Inventories	376,746	(14,303)	377,956	(2,530,656)
Accounts payable and accrued liabilities	1,184,177	(105,929)	2,449,855	1,383,875
Other payables	(95,781)	5,940	(131,490)	(320,980)
Income tax payable	-	(196,710)	-	(306,693)
Deferred revenue	4,882,571	(237,436)	5,189,464	846,157
Cash provided (used) by operating activities \$	<u>2,416,456</u>	<u>(201,661)</u>	<u>2,775,695</u>	<u>1,850,311</u>
Cash flows from investing activities				
Property, plant and equipment net	(3,353,415)	(1,804,528)	(3,869,798)	(5,439,895)
Due from related parties	9,687,953	921,456	9,560,953	1,446,260
Loan receivable	-	-	47,964	-
Cash provided (used) in investing activities \$	<u>6,334,538</u>	<u>(883,072)</u>	<u>5,739,119</u>	<u>(3,993,635)</u>
Cash flows from financing activities				
Due to related parties	212,818	(207,909)	(79,716)	(611,920)
(Repayments) proceeds of bank loan	(8,565,000)	2,165,339	(8,565,000)	3,790,324
Cash (used) provided by financing activities \$	<u>(8,352,182)</u>	<u>1,957,430</u>	<u>(8,644,716)</u>	<u>3,178,404</u>
Effect of exchange rate change on cash	(154,744)	(36,415)	364,220	211,680
Increase (decrease) in cash	398,812	872,697	(129,902)	1,035,080
Cash, beginning of period	175,237	1,059,081	184,987	648,603
Cash, end of period	<u>419,305</u>	<u>1,895,363</u>	<u>419,305</u>	<u>1,895,363</u>

AREHADA MINING LIMITED

Notes to Interim Unaudited Consolidated Financial Statements
For the three months and nine months ended September 30, 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 September 30, 2009, the Company had a working capital deficiency of \$2,356,406. 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 nine 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 and nine months ended September 30, 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 September 30, 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

(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 adoption of this standard did not have a material effect on the Company's interim consolidated financial statements.

(b) EIC 173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company is continually evaluating its counterparties and their credit risks.

Future Accounting Changes

(a) 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.

(b) Consolidations

CICA Handbook Sections 1601 "Consolidations" and Section 1602 "Non-Controlling Interests" replace Section 1600 "Consolidated Financial Statements". Section 1602 provides the Canadian equivalent to International Accounting Standard 27 - "Consolidated and Separate Financial Statements", for non-controlling interests. The Company will adopt this standard on January 1, 2011.

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Notes to Interim Unaudited Consolidated Financial Statements
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Future Accounting Changes (Continued)

(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.

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.

AREHADA MINING LIMITED

Notes to Interim Unaudited Consolidated Financial Statements
For the three months and nine months ended September 30, 2009

4. Financial instruments and financial risk management (continued)

(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.

5. Inventories

	September 30, 2009 \$	December 31, 2008 \$
Work-in-progress	99,100	68,252
Supplies and spare parts	929,020	1,636,901
Finished goods	216,395	113,764
	<u>1,244,515</u>	<u>1,818,917</u>

In 2008, the Company transferred lead and zinc concentrates with costs of \$393,016 (RMB 2,189,506) 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.

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 September 30, 2009, cash included RMB 2,440,476 (\$383,155), 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 \$278,277 (RMB 1,772,466), December 31, 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 \$59,478 (RMB 378,840), December 31, 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.

AREHADA MINING LIMITED

Notes to Interim Unaudited Consolidated Financial Statements
For the three months and nine months ended September 30, 2009

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
Wuhuaobao	21.00 sq. km
	<hr/>
	128.84 sq. km

\$1,621,351 (RMB 10,327,078) of exploration costs and rights (December 31, 2008 – \$1,841,371; RMB 10,258,333) was incurred during the nine months period ended September 30, 2009 and included in Note 9 d) below.

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

September 30, 2009 (Unaudited)	Cost	Accumulated Amortization	Net Book value
Plant and buildings	14,671,770	(866,493)	13,805,277
Mining and zinc plant equipment and machinery	18,504,305	(4,775,250)	13,729,055
Construction-in-progress	7,146,169	-	7,146,169
Motor vehicles	724,972	(211,182)	513,790
Mining properties	10,157,538	(968,190)	9,189,348
Land use rights	1,107,216	(105,700)	1,001,516
Total	52,311,970	(6,926,815)	45,385,155

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 September 30, 2009 was \$ 1,156,406 (RMB 7,365,640) – (December 31, 2008 \$1,322,132 RMB 7,365,640)

AREHADA MINING LIMITED

Notes to Interim Unaudited Consolidated Financial Statements
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10. Short-term loans

	September 30 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.	-	2,872,000
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.	-	2,513,000
	-	5,385,000

During the nine months ended September 30, 2009, the Company repaid the principal and interest on the outstanding loans above.

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 September 30, 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.

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Notes to Interim Unaudited Consolidated Financial Statements
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11. Share capital (continued)

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 all shares have been released according to the release schedule prescribed by the TSXV pursuant to the Capital Pool Company program as of September 30, 2009.

(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 September 30, 2009:

	Number of warrants	Exercise Price	Expiry Date
Balance, September 30, 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	(18,316,249)		
September 30, 2009	-		

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.

During the nine months ended September 30, 2009, all outstanding warrants expired.

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11. Share capital (continued)

(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 September 30, 2009.

The following is a summary of the options outstanding as at September 30, 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	1.65	345,100
Options granted	1,518,000	\$2.00	15-Mar-2007	15-Mar-2012	2.46	918,000
Options granted	2,978,533	\$0.82	4-Jun-2007	4-Jun-2012	2.68	949,200
Options granted	1,533,333	\$1.00	4-Jun-2008	4-Jun-2012	2.68	-
Options granted	1,533,334	\$1.25	4-Jun-2009	4-Jun-2012	2.68	-
Options granted	150,000	\$0.82	28-Jun-2007	28-Jun-2012	2.75	150,000
Options granted	100,000	\$0.50	15-Aug-2007	15-Aug-2012	2.88	-
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	3.91	50,000
Options granted	300,000	\$0.15	29-Sept-2008	29-Sept-2010	1.00	300,000
Options granted	300,000	\$0.45	29-Sept-2009	29-Sept-2011	2.00	-
Options granted	300,000	\$0.15	30-Sept-2008	30-Sept-2010	1.00	300,000
Options granted	300,000	\$0.45	30-Sept-2009	30-Sept-2011	2.00	-
Options forfeited	(5,987,700)					
Balance December 31, 2008	3,664,300					
Options granted	3,200,000	\$0.11	15-Jun-2009	15-Jun-2014	4.71	3,200,000
Options forfeited	(52,000)					
Balance September 30, 2009	6,812,300					6,212,300

The Company expensed the fair value of its stock options granted during the nine months ended September 30, 2009 in the amount of \$138,300 determined using the Black Scholes option model, based on volatility of 50%, a risk free interest rate of 2.5%, a dividend yield of 0% and an expected life of 60 months.

f) Contributed surplus

	<u>Amount</u>
Balance as at December 31, 2007	1,849,716
Stock-based compensation	481,224
Balance as at December 31, 2008	\$ 2,330,940
Stock-based compensation	138,300
Balance as at September 30, 2009	\$2,469,240

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12. Related Party Transactions

(a) Due to related parties

Amounts due to related parties as at September 30, 2009 were \$266,368 (RMB 1,696,611) (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 all these advances and related interests during the nine months ended September 30, 2009.

(c) Due from related parties

An amount of \$3,371,474 (RMB 21,474,357) (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 September 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. In June 2009, the loan was further extended by nine months to December 31, 2009. As consideration for the Loan Extension, Arehada Barbados agreed to pledge a further 10,000,000 common shares of the Corporation, bringing the total number of pledged shares to 100,000,000.

On September 30, 2009, the independent board of directors agreed to reduce the pledge to 23,267,077 common shares based on the partial repayment of the loan during the period.

The 2009 balance includes interest accrued of \$ 1,661,060, of which \$234,854 is included in interest income for the period ended September 30, 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 \$5,235,061 (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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14. Long-term bank loan

The bank loan balance is \$13,345,000(RMB 85,000,000) (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 September 30, 2009, the bank loan has the following maturity, interest rate and repayment schedules:

- \$3,925,000 (RMB 25,000,000) is due on November 20, 2009, bears interest rate at 7.37% per annum.
- \$4,710,000 (RMB 30,000,000) is due on November 20, 2010, bears interest at 7.72% per annum;
- \$4,710,000 (RMB 30,000,000) is due on November 20, 2011, bears interest at 7.72% per annum.

Principal of RMB 20,000,000 due on November 20, 2008 was extended by the bank to February 20, 2009. During the nine months ended September 30, 2009, the Company repaid the principal and interest on the loan.

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 \$ 10,212,000 (RMB 60,000,000). As at September 30, 2009, the Company has paid \$1,878,157 (RMB 11,035,000) for work performed. The remaining \$8,333,843 (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.
- During the nine months period ended September 30, 2009, the Company terminated the vehicle leases in China. The accrued lease fees of \$235,500 (RMB 1,500,000) were included in accounts payable and the Company has no further obligation under the leases. No significant leases were outstanding as of September 30, 2009.

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 September 30, 2009.

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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 nine months period ended September 30, 2009.

19. Comparative figures

Certain 2008 comparative figures have been reclassified to conform to the financial statement presentation adopted in 2009.