

*This MD&A provides analysis of the financial results of Arehada Mining Limited ("Arehada" or the "Company") for the quarter ended March 31, 2009. The following information should be read in conjunction with the audited consolidated financial statements of the Company for the period ended March 31, 2009 and the audited consolidated financial statements of the Company for the year ended December 31, 2008 and the notes thereto. The financial statements of the Company are presented in Canadian dollars and in accordance with generally accepted accounting principles in Canada. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The Company bases its estimates on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. All dollar amounts are expressed in Canadian dollars unless otherwise specified. The following discussion of the financial condition is dated May 12, 2009.*

#### **CAUTION REGARDING FORWARD LOOKING STATEMENTS**

Certain statements in this MD&A may constitute “forward-looking” statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiary, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, the words “estimate”, “believe”, “anticipate”, “intend”, “expect”, “plan”, “may”, “should”, “will”, the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements. Such forward-looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those expressed or implied by those forward-looking statements, such as significant changes in market conditions, the inability of the Company to close sales and the inability of the Company to attract sufficient financing and including the risk factors summarized below under the heading “Risk Factors”. New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in such forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained in this MD&A speak only as of the date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.

## ADDITIONAL INFORMATION

Additional information, including the above mentioned financial statements, the Company's Filing Statement dated November 20, 2006, and the Company's technical report titled "Preliminary Assessment Technical Report on Arehada Lead/Zinc Mine, Inner Mongolia, China" dated September 14, 2006 prepared by Scott Wilson Roscoe Postle Associates Inc. (the "RPA Report"), is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## FOREIGN EXCHANGE RATES

The Company undertakes many transactions in Chinese RMB and U.S. dollars. Information covering exchange rates between these currencies and the Canadian dollar is summarized below.

	RMB	US\$
2008 Q1 Average	7.13	1.00
December 31, 2008	5.57	0.82
2009 Q1 Average	5.49	0.80
March 31, 2009	5.42	0.79

As the Company’s subsidiaries in China are considered self-sustaining, any impact on financial instruments due to the foreign exchange fluctuations have been recognized as other comprehensive income, not as net income, unless the Company decides to liquidate its investment in China.

## COMPANY OVERVIEW

The Company was incorporated as a capital pool company on June 7, 2005 and did not have any active operations until it completed the qualifying transaction by indirectly acquiring all the outstanding shares of Arehada Mining Corporation effective March 14, 2007.

The Company is engaged in the exploration, development and extraction of base metals in Dongwuzhumuqinqi, located in Inner Mongolia, China.

Currently, Arehada is mining approximately 750 tonnes per day of zinc, lead and silver ore. Arehada then processes the ore through its mill to produce zinc concentrate and lead concentrate, which is then sold to smelters in China.

Arehada has constructed a zinc plant with a designed processing capacity of 50,000 tonnes of zinc calcine and 90,000 tonnes of sulphuric acid per annum. The zinc plant has been completed and startup commenced at the end of the second quarter of 2008. The plant operated for approximately six weeks, was shut down due to the Beijing Olympics, and did not reopen due to low metals prices.

**RESULTS OF OPERATIONS**

Key Financial Data and Comparative Figures	Unaudited	Audited
(\$ 000's)	March 31, 2009	December 31, 2008
<b>Income Statement</b>		
Revenue	-	21,119
Gross profit	-	7,135
Net (loss) income	(1,921)	(1,142)
Basic (loss) income per share	(0.011)	(0.007)
<b>Balance Sheet</b>		
Cash	123	185
Working capital (deficit) surplus	(752)	(11)
Capital assets	51,441	51,030
Total assets	71,167	70,421
Shareholders' equity	39,625	40,249
Weighted average number of shares		
outstanding - basic (000's)	173,074	172,342

Quarterly data	2009	2008				2007			
(\$000's)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	-	3,708	7,565	4,587	5,259	6,431	3,852	4,990	4,611
Gross profit	-	271	1,150	2,497	3,217	3,253	1,829	2,599	3,039
Net (loss) income	(1,921)	(2,670)	(1,363)	933	1,958	658	1,119	421	2,356

The above financial information has been prepared in accordance with Canadian generally accepted accounting principles and is stated in Canadian dollars.

## **Overall Performance**

During the quarter, the Company had no revenue and a loss of \$1,920,654 or \$0.011 per share, compared to revenue of \$5,259,365, net income of \$1,958,518 or \$0.011 per share for the quarter ended March 31, 2008. The loss incurred in this quarter was a result of the shutdown of the mining operations from November 11, 2008. The mining operations started operation in April and expect to generate revenue from the second quarter of 2009.

### ***Amortization***

Amortization for the Company for the quarter ended March 31, 2009 was \$1,011,266, compared to \$443,008 reported for the same period in 2008. The increase was mainly due to significant additions made to the mining properties and plant and equipment after the first quarter of 2008.

### ***General and Administrative***

Total general and administrative costs for the quarter were \$483,878, compared to \$943,172 reported for the same period in 2008. The decrease is attributable to the shutdown of the mining operations. Only costs associated with care and maintenance of the operations were incurred.

### ***Interest Expense***

The interest expense for the quarter was \$575,558, compared to \$10,368 for the same period in 2008. The higher interest expense was primarily due to the capitalization of interest in the first quarter in 2008 while no interest was capitalized after the smelter plant started operation in July 2008. In addition, the Company obtained two new bank loans in July 2008, which increased the interest expense.

### ***Tax Expenses***

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

For the quarter ended March 31, 2009, the Company incurred no income tax expenses compared with \$223,062 in 2008.

## **LIQUIDITY AND CAPITAL RESOURCES**

### ***Liquidity***

The Company had a working capital deficit of \$751,578 as at March 31, 2009. As at March 31, 2009, the Company had cash and cash equivalents of \$123,296. Cash equivalents are highly liquid investments, such as term deposits with major financial institutions and are readily

convertible to contracted amounts of cash. The Company’s deficit is due to the low metal prices and the resultant shutdown of its mining operations. As at the report date the Company has restarted its mining operations as metals prices have recovered, and expects to start generating cash flow in the second quarter of 2009.

### ***Capital Expenditures***

During the period ended March 31, 2009, the Company invested a total of \$61,138 in capital assets. These expenditures were for plant and equipment additions, and mine development.

With respect to the zinc plant and refinery, the Company has invested approximately \$14 million to date and this has been primarily funded through a five year term loan from The Agricultural Bank of China, a major Chinese bank.

### **OFF BALANCE SHEET ARRANGEMENTS**

As at March 31, 2009, the Company had no off balance sheet arrangements such as guaranteed contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any instruments that could trigger financing, market or credit risk to the Company.

### **Transactions with Related Parties**

#### (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 \$150,048 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.

#### **Disclosure of Outstanding Share Data**

As at the report date there were 173,073,557 common shares of the Company issued and outstanding as well as 6,216,249 share purchase warrants and 3,664,300 stock options outstanding. The warrants are exercisable at a weighted average price of \$0.75 and the options are exercisable at a weighted average price of \$0.97.

#### **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.

#### **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 1<sup>st</sup>, 2008 for the Company. The adoption of this new section had no impact on the on the consolidated financial statements.

b) Capital disclosures

CICA Handbook Section 1535 “Capital Disclosures”, issued in December 2006, establishes standards for disclosures about capital that are effective for fiscal years beginning on or after October 1, 2007. It requires an entity to disclose its objectives, policies and processes for managing capital and to disclose quantitative data about what it considers to be capital. It also requires an entity to disclose whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook section in Note 18 to its consolidated financial statements as of December 31, 2008.

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 its consolidated financial statements.

## **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.

## **CRITICAL ACCOUNTING ESTIMATES**

The following is a summary of critical accounting estimates and assumptions that the Company believes could materially impact its reported financial position, results of operations or cash flows:

### **Impairment of long-lived assets**

The Company monitors the recoverability of long-lived assets based on factors such as current market value, future assets utilization, business climate and future undiscounted cash flows expected from the use of the related assets. The Company’s policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be

recoverable. The impairment loss is calculated as the amount by which the carrying amount of the asset exceeds the undiscounted estimated future cash flow from the asset. As of March 31, 2009, no impairment of long-lived assets issue was noted based on the evaluation of estimated future cash flows by the Company.

### **Stock-based compensation**

The fair value of stock options is estimated at the grant date using the Black-Scholes option pricing model. This model requires the input of a number of assumptions including dividend yields, expected stock price volatility, expected time until exercise and risk-free rates. Although the assumptions used reflect management’s best estimates, they involve inherent uncertainties based on market conditions generally outside the control of the Company.

### **Risks and Uncertainties**

In conducting its business, the Company is subject to a wide variety of risks and uncertainties which are more fully described in the Company's Annual Information Form 51-102F2 dated December 31, 2008, available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **SAFETY AND ENVIRONMENTAL**

The Board of Directors of Arehada has established a Safety and Environmental Committee, which supervises safety and environmental affairs of the Company.

The mine manager heads the internal Safety Committee of Arehada. A deputy mine manager is in direct charge of safety and environment. Arehada also has a shift schedule for production safety. Monitors of both units and sections keep complete records of production and measures for accident prevention, which are passed over to the next shifts. The mine has obtained the safety production license granted by the state government. Arehada's environmental protection system has been inspected and accepted by the local government. Tailing water is recycled within the system and no leakage has occurred since the beginning of production.

## **INTERNAL CONTROL**

### **Internal Control over Financial Reporting (“ICFR”)**

Designing, implementing and maintaining adequate ICFR is the responsibility of the Company’s management. ICFR is a process designed by, or under the supervision of senior management and effected by the Company’s Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of the financial reporting and preparation of the Company’s consolidated financial statements in accordance with Canadian GAAP. These controls include policies and procedures that pertain to the maintenance of records that in reasonable detail accurately reflect the transactions of the Company, provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Canadian GAAP, that expenditures are being made only in

accordance with authorizations of management of the Company and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the Company’s consolidated financial statements. Management has designed such controls to ensure that the required objectives of these internal controls have been met. Management continually reviews and enhances its ICFR. However, because of the inherent limitations in all control systems, management acknowledges that ICFR will not prevent or detect all misstatements due to error or fraud.

As at December 31, 2008, the CEO and CFO have evaluated the effectiveness of the Company’s ICFR. Based on those evaluations, the CEO and CFO have concluded that as at December 31, 2008, the controls and procedures were operating effectively. Nevertheless, there will be some changes made in early 2009 to strengthen the overall ICFR environment as a result of the testing performed.

There have been no changes in the Company’s ICFR that occurred during the most recent period ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## **OUTLOOK**

### ***Mining Operations***

The Company will focus on high grade ore and reduce tonnage per day until market conditions improve. Currently the mine is operating at a rate of 700 tonnes per day with the objective in 2009 to operate at a rate of 850 tonnes per day, operate 26 days per month and produce a combined lead and zinc head grade of 3.2 – 3.5%.

### ***Exploration***

Since the completion of the RPA report we have been conducting extensive development drilling to outline further mineral resources with a view to increasing the underground mining capacity.

### ***Zinc Processing Plant***

Construction of the first phase of the zinc processing plant to produce zinc oxide and sulphuric acid from zinc concentrate has now been completed. The plant commenced operations at the end of the second quarter however was shut down due to the Beijing Olympics and has not restarted due to the low price of zinc calcine. The plant has the capacity to produce 50,000 tonnes of zinc calcine and 90,000 tonnes of sulphuric acid per annum. The Company continue to monitor zinc calcine prices.

To date, we have invested \$14 million in building the first phase of the zinc processing facility and this has been funded primarily through a five year term loan from the Agricultural Bank of China.