

*This MD&A provides analysis of the financial results of Arehada Mining Limited ("Arehada" or the "Company") for the quarter ended September 30, 2009. The following information should be read in conjunction with the consolidated financial statements of the Company for the period ended September 30, 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 November, 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.

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**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.

	<b>RMB</b>	<b>US\$</b>
2008 Q3 Average	6.57	0.96
September 30, 2008	6.46	0.94
2009 Q3 Average	6.22	0.91
September 30, 2009	6.37	0.93

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 823 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 zinc calcine prices. The Company is closely monitoring the economics of restarting the plant.

**RESULTS OF OPERATIONS**

Key Financial Data and Comparative Figures	Unaudited	Audited
(\$ 000's)	September 30, 2009	December 31, 2008
<b>Income Statement</b>		
Revenue	7,847	21,119
Gross profit	5,057	7,135
Net loss	(1,917)	(1,142)
Basic loss per share	(0.011)	(0.007)
<b>Balance Sheet</b>		
Cash	419	185
Working capital deficit	(2,356)	(11)
Capital assets	45,385	51,030
Total assets	58,974	70,421
Shareholders' equity	33,609	40,249
Weighted average number of shares outstanding - basic (000's)	173,074	172,342

Quarterly data	2009			2008				2007
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	6,031	1,816	-	3,708	7,565	4,587	5,259	6,431
Gross profit	4,387	670	-	271	1,150	2,497	3,217	3,253
Net income (loss)	1,388	(1,384)	(1,921)	(2,670)	(1,363)	933	1,958	658

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

AREHADA MINING LIMITED  
FORM 51-102F1 – MANAGEMENT’S DISCUSSION & ANALYSIS  
September 30, 2009

Operating and Production Data		Q3 2009	Q3 2008
Milled tones		67,478	109,586
Operating days		82	73
Milled tonnes per day		823	1,501
Head grades	Zinc	3.36%	1.23%
	Lead	2.43%	1.04%
	Silver g/t	89.35	40.00
Metallurgical recovery	Zinc	88%	84%
	Lead	90%	87%
	Silver	82%	75%
Production	Zinc(t)	1,997	1,142
	Lead(t)	1,473	990
	Silver(kg)	4,939	3,265

### Overall Performance

During the quarter, the Company had revenue of \$6,031,049 and a profit of \$1,387,819 or \$0.008 per share, compared to revenue of \$7,565,106 with a loss of \$1,363,432 or \$0.008 per share for the quarter ended September 30, 2008. The profit incurred in this quarter was a result of increased metal prices and significant improvement in head grades.

### ***Revenue***

The quarter’s revenue resulted from the sale of 1,849 tonnes of zinc concentrate, 1,378 tonnes of lead concentrate and 4,652 kg of silver, compared to 332 tonnes of zinc concentrate, 833 tonnes of lead concentrate and 2,760 kg of silver in the same quarter last year. There were no sales of zinc calcine and sulphuric acid, compared to the sale of 4,226 tonnes of zinc calcine and 3,075 tonnes of sulphuric acid in the same quarter ended September 30, 2008.

During the quarter realized prices averaged US\$.44 per lb for zinc, US\$.62 per lb for lead and US\$9.29 per ounce for silver. For the same period last year the realized prices averaged US\$.42 per lb for zinc, US\$.84 per lb for lead and US\$11.36 per ounce for silver.

Mine operating costs for the quarter ended September 30, 2009 were \$1,310,095 or US\$16.59 per tonne, which are lower than the US\$18.65 per tonne cost projected in the RPA Report. The mine operating costs for the same quarter last year were \$1,008,888 or US\$19.65 per tonne.

### ***Amortization***

Amortization for the Company for the quarter ended September 30, 2009 was \$998,342, compared to \$664,814 reported for the same period in 2008. The increase was the result of the increase in fixed assets and mineral properties.

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

Total general and administrative costs for the quarter were \$1,392,654, compared to \$1,710,112 reported for the same period in 2008. The decrease is primarily attributable to the shutdown of the zinc plant.

### ***Interest Expense***

The interest expense for the quarter was \$579,518, compared to \$662,360 for the same period in 2008. The lower interest expense was primarily due to the repayment of the short term loans and part of the principal of the long term bank loan.

### ***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 September 30, 2009, the Company incurred no income tax expense.

## **LIQUIDITY AND CAPITAL RESOURCES**

### ***Liquidity***

The Company had a working capital deficit of \$2,356,406 as at September 30, 2009. As at September 30, 2009, the Company had cash and cash equivalents of \$419,305. Cash equivalents are highly liquid investments, such as term deposits with major financial institutions and are readily convertible to contracted amounts of cash.

### ***Capital Expenditures***

During the three month period ended September 30, 2009, the Company invested a total of \$3,353,415 in capital assets. These expenditures were for plant and equipment additions, and mine exploration costs.

## **OFF BALANCE SHEET ARRANGEMENTS**

As at September 30, 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 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 repayment of the loan received 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.

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

As at the report date there were 173,073,557 common shares of the Company issued and 6,812,300 stock options outstanding. The options are exercisable at a weighted average price of \$0.53.

### **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.

### **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.

(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 September 30, 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.

There have been no changes in the Company’s ICFR that occurred during the most recent period ended September 30, 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 823 tonnes per day with the objective by the end 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%.

### ***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 is closely monitoring the economics of restarting the plant.