Arian Silver Corporation

Annual Report 2006

www.ariansilver.com

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Tlaxcala
Puebla
Chilpancingo
Villahermosa
Tuxtla Gutiérrez
Belize
Guatemala
Golfo de Tehuantepec
El Salva
Scale Bar represents approx 500km
ZACATECAS
N
Sombrerete
ZACATECAS
Ojocaliente
Navidad
San Luis
Potoso
MICHOACAN
Guadalajara
Morelia
Tepal
100km
Arian Projects

Company Profile

Arian Silver Corporation (“Arian” or the “Company”) is a silver exploration company listed on London's AIM and PLUS (ticker "AGQ"), the TSX Venture Exchange (ticker "AGQ") and the Frankfurt Stock Exchange (ticker "I3A"). The management of Arian is committed to building a significant silver producer through a combination of development and acquisition opportunities. Arian is currently focusing its exploration efforts in one of the richest known silver-bearing districts in the world - the Zacatecas State of Mexico. Strong financial backing and a very experienced operations team ensures that Arian offers leverage to investors seeking exposure to silver prices and compliant silver ounces in the ground.

Highlights

- Merger with Arian Silver Corporation Limited in May, 2006
- Listing on AIM, TSX Venture Exchange and Frankfurt Exchange
- Continued sampling at Calicanto and other Mexican assets
- Acquisition of the Tepal polymetallic project
- $5.4 million funding received from share issues
- Completion of Phase-one 3,000 metres drilling programme at Calicanto as part of a campaign to build National Instrument 43-101 resources
- Acquisition of San Jose property and associated mine workings

Chairman's and Chief Executive's Statement

2006 has proved to be an exciting year for your Company in which it has established itself as the first primary pure silver stock in London. On your behalf, we acquired significant assets in Mexico through our merger with Arian Silver Corporation Limited in May, 2006 upon which we changed our name from Hard Assets Inc. to Arian Silver Corporation and became registered in the British Virgin Islands. In addition $5.4 million was raised through share issues, which has ensured your Company is well financed to progress its early stage exploration activities.

The shares of your Company which were previously listed on AIM and duly suspended during the merger, were successfully re-listed. Arian subsequently listed on the TSX Venture Exchange ("TSX-V") in July 2006, the PLUS (London) trading platform in November 2006 and the Frankfurt Exchange in December 2006. Following the private placement in December 2006 there were 101 million shares in issue. This tri-listing of the shares in London, Canada and Germany attracts both institutional and retail investors, and has substantially increased liquidity and subsequent value.

The merger brought with it a strong management team established in London and Zacatecas, Mexico where the Company maintains one of its operational bases. We would like to thank the former directors of Hard Assets Inc. for their service to the Company, all of whom resigned at the merger, Mr. Gordon Keep, Executive Chairman, non-executives Mr. Henry Jay Sujir and Mr. Jonathan Harris.

In addition to the new executive directors, Mr. Tony Williams, Executive Chairman, Mr. Jim Williams, Chief Executive Officer and Mr. James Cable, Chief Financial Officer, we are pleased to welcome to the board non-executives Mr. David Cohen, Mr. Thomas Bailey and Mr. James Crombie. The board would like to extend their thanks to Mr. J. Merfyn Roberts who served as a non-executive director during the year following the merger until stepping down at the Annual General Meeting on December 29, 2006. Canaccord Adams Limited served as the Company's broker and Nominated Advisor ("NOMAD") from the merger until January 2007 when Haywood Securities (UK) Ltd were appointed broker and Grant Thornton UK LLP became NOMAD.

Arian's experienced management has a proven track record in financing and developing mineral projects worldwide. In Mexico, Arian employs an expatriate Country/Operations Manager and a geologist and continues to build a local team of qualified technical and administrative staff to augment the Company's development. We continue to develop excellent local contacts and have established relations with local suppliers of drilling rigs and other equipment and services, which are in demand in the current competitive market. This is a crucial factor in facilitating the completion of drilling and sampling programmes on schedule and within budget.

Arian is committed to becoming a significant silver producer through a combination of the development of its existing assets and through acquisition opportunities within the prolific Mexican Silver Belt. It is focused on underground and open-pit projects which have the potential for using mechanised mining techniques such as underground Load Haul Dump ("LHD") equipment. The Company's strategy is to seek out and develop primary silver assets with an exploration and production history and in this regard has had a very successful year. The initial portfolio of projects acquired is located within 100 kilometres of Zacatecas city and comprises three geographically separate groups of projects; (I) the Zacatecas district, (II) the Ojocaliente district and (III) the Sombrerete district.

Arian commenced systematic exploration on these projects focusing mainly on the Calicanto group of concessions in the Zacatecas district and the San Celso project in the Ojocaliente district. These properties contain epithermal vein-type silver deposits which have been partially mined historically. Exploration work carried out involved rehabilitating the underground workings in order to gain access for sampling and geological mapping. At Calicanto underground ramps are being developed along two of the main vein systems in order to undertake bulk sampling of the vein and stockwork-type mineralisation.

In December 2006, Arian started a 3,000 metre phase-one diamond-drilling programme at the Calicanto Group of properties. Two drill rigs were used and the programme has been completed on time and within budget. The initial drill results from the first four diamond drill-holes received in February were very encouraging with bonanza grades of silver greater than 1,000 grammes per tonne over widths of greater than 4 metres coincident with greater than 7 grammes per tonne gold. The second batch of drill-holes, comprising a further six drill-holes, were also very encouraging, and in three of the holes the Company has discovered "new" vein systems.

Arian's focused acquisition campaign, aimed at identifying advanced or "brown-field" projects with the potential for nearer-term production, has been very successful, with the acquisition of two significant options on properties. Discussions and further evaluations continue in relation to a number of other projects which were evaluated during the year, including several tailings projects with the potential for near-term cashflow.

On August 9, 2006, we announced that Arian had entered into an agreement to acquire an exclusive option over 100% of the Tepal polymetallic project in Michoacán State, Mexico. The option agreement is for a five-year term. Assuming the option is exercised in full the Company will pay $5 million in

Chairman's and Chief Executive's Statement

instalments and will grant a Net Smelter Return ("NSR") of 2.5%. The Company has the right to withdraw from the option agreement at any time during the five-year period without penalty and also has the right of first refusal to buy out the NSR for an unspecified amount. A further mining claim at Tepal covering 12,500 hectares was acquired in January 2007, which represents approximately a ten-fold increase in area over the existing property.

In December 2006, we acquired an exclusive option over 100% of the San Jose silver-base metal property in Zacatecas State. The property lies 55 kilometres to the South-East of Zacatecas and covers two mining concessions totalling approximately 4,300 hectares. This acquisition represents a major advance for the Company and it enhances its "brown-field" holdings. The key feature of this property is that the mineralised ore body has a minimum 5 kilometres strike length with potential mining widths up to 20 metres. Only about one-third of the strike length has been mined and the remaining strike length appears to be unexplored by modern systematic methods. Potentially, bulk underground mechanised mining techniques could be used in this project. Assuming the option is exercised in full, the Company will pay $1.5 million in instalments over three years and a 2% NSR, although the Company has the right to buy out the NSR for $1 million.

Arian now owns or has options in over 29 concessions covering some 20,000 hectares of prime silver-bearing property.

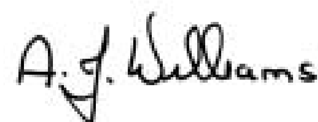
These activities have been pursued in an environment of robust silver prices, following the very strong increases from the second half of 2005 and this has served to strengthen the economic outlook for developing the Company's properties. The silver price has increased by approximately 150% since 2005. Whilst silver is the prime commodity for which the Company is endeavouring to recover, there are material amounts of gold and other minerals which may also be recovered. The price of silver increased from 8.79 $/oz on January 1, 2006 to 12.78 $/oz on December 31, 2006, representing a 45% increase and peaking at a 23 year high of 15 $/oz in May 2006. Whilst silver was among the top performers during 2006, gold and other commodities have also seen healthy gains with gold increasing from 515 $/oz in January 2006 to 634 $/oz in December 2006, representing a 19% increase over the year.

One of the main reasons for this increase in silver price in 2006 was the new silver Exchange Traded Fund ("ETF") issued by Barclays Global Investors. Launched in April 2006, it had already amassed over 100 million ounces by August 2006. Even if the rate of accumulation were to slow, given the apparent "buy and hold" mentality of the ETF investors, the underlying silver price is likely to continue to derive support from the product. (HSBC Precious Metals Report August 31, 2006).

Arian is focussed on delivering shareholder value and will endeavour to minimise dilution for existing shareholders as it develops its portfolio of assets. The opportunity of providing some near-term cash flow to support exploration costs is continuing, in the absence of this, the Company will need to raise further funds, which it plans to do on the most advantageous terms available.

We believe the outlook for 2007 is very exciting. Arian is actively seeking additional mineral assets that fall within its target objectives and has scheduled considerable exploration and development work on its existing projects. These activities include: completion of a phase-one drilling programme that, together with the planned phase two programme, will form the basis of a National Instrument 43-101 compliant resource estimation at Calicanto. In addition, at the Tepal consessions, a significant drilling programme is currently underway, and this together with the completion of a remote sensing survey and arial photo mapping should fast track the completion of the phase-one 43-101 compliant resource. At the San Jose mine project a drilling and exploration programme is planned to commence. We are optimistic that the results from these activities will further delineate and strengthen resources and enhance shareholder value.

We would like to thank all our staff, consultants and advisors who have contributed to a highly successful year for your Company and to our shareholders who continue to support the Company as it explores its assets and seeks out attractive new acquisitions.



Tony Williams
Executive Chairman

Jim Williams
Chief Executive Officer

Projects

Calicanto Group, Zacatecas

The Calicanto Project consists of three adjacent mining concessions totalling approximately 45 hectares ("Ha"). In addition, Arian was recently granted the Misie and Missie properties, which is adjacent to the Calicanto Project. The Calicanto Project and the Misie and Missie properties, collectively referred to as the "Calicanto Group", together total approximately 74 Ha. The concessions are located in the historic mining district of Zacatecas and are completely surrounded by other concessions.

The Calicanto Group of concessions comprises at least four main mineralized vein systems. During 2006 two underground declines were advanced on the Calicanto and Buenaventura vein system and systematic channel samples were taken across the veins. Phase 1 (3,000 metres) drill programme began in December 2006 to define NI 43-101 compliant resources. The drill programme is designed to test the continuation of the Calicanto vein systems below and along strike of the known historical mine workings, and for disseminated mineralization surrounding the Calicanto Vein. Secondary objectives are to explore the Navada/Vicochea and the El Misie vein systems where surface sampling indicates the potential for additional high-grade silver-gold vein systems.

Drilling to date has confirmed the presence of the Calicanto vein at depth, surrounded by a quartz stockwork zone with disseminated pyrite. Galena and sphalerite were also observed in places.

San Jose Project, Ojocaliente

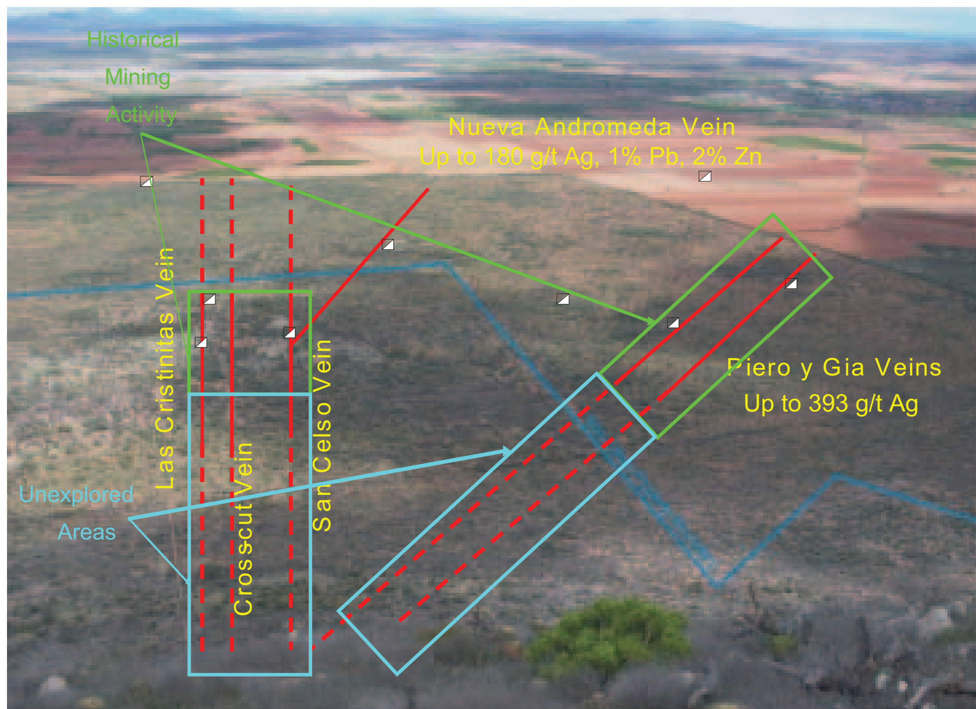
The San Jose property covers approximately 4,300 Ha and includes the San Jose mine which has the potential for near term underground mechanised mining. The mine was previously operated by Zimapan (Peñoles), 1973-1991, and Monarca, 1993-2001, extracting over 2 million tonnes averaging 250 grammes/tonnes (g/t) silver. An existing underground development ramp extends three kilometres along the San Jose vein.

The western portion, over four kilometres of strike length, of the San Jose vein remains unexploited as mining activity focused on the eastern part of the vein. An additional two main vein structures are exposed on the property, which have not been explored by modern systematic methods.

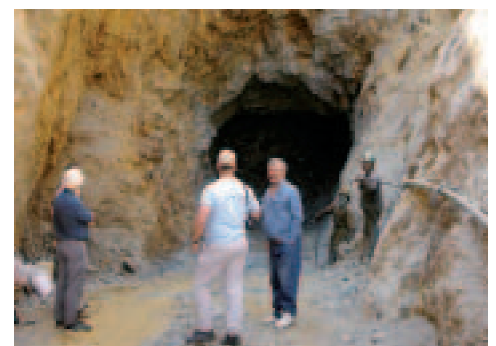
San Celso, Ojocaliente

The San Celso Project consists of three contiguous mining concessions totalling 88.58 Ha. The concessions are located in the historic mining district of Pánfilo Natera-Ojocaliente and are surrounded by other concessions to the south and west. The San Celso Project is owned outright by Arian. The concessions were surveyed as part of Arian's exploration on the San Celso Project.

Arian is presently engaged in detailed sampling programs at the San Celso and Las Cristinitas mines. At the present time, three levels are accessible in the San Celso mine by approximately 130m of ladder. A



Veiw over San Celso project area



Top: Calicanto Drill Rig Bottom: Calicanto ramp at 85m

Projects

geophysical survey was also conducted on the property.

Access to the property is good. The San Celso and Las Cristinitas shafts are less than ten kilometres from paved roads. The final few kilometres to the site are over unimproved dirt roads. Driving time from Arian's office is approximately one hour.

Tepal Project, Michoacán

Arian has an exclusive option for 100% of the Tepal deposit in Michoacán state, and had recently increase its landholdings in the Tepal area to approximately 14,000 Ha. Initial investigation by Arian indicates that the Tepal project consists of four gossanous polymetallic deposits containing copper, gold and silver with potential for additional areas of mineralization.

The Tepal Project was previously explored in the 1970s and the 1990s by a number of companies including INCO, Teck and Hecla. The historical data indicates 78.82 million tonnes of mineralisation grading 0.5 grammes/tonne (g/t) gold and 0.25% copper, equating to 1.23 million contained ounces of gold and 432.63 million contained pounds of copper. The historical data also indicates that there are potentially higher-grade zones within these mineralised zones.

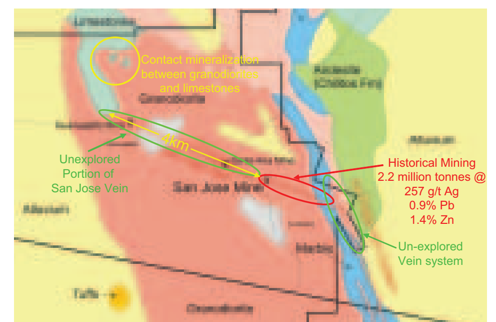
Both INCO and Teck were interested in the Tepal Project as a copper-gold porphyry target, regarding silver only as a by-product. Hecla's primary focus on the Project was as a large tonnage, low-grade gold target. The Tepal Project has not been systematically tested for silver by previous owners, as the silver market had been subdued, with a price averaging less than $6 an ounce during the 1970s and 1990s. The management of Arian believes that potentially significant quantities of silver, as well as other metals, could also be present at the Tepal Project.

The Tepal Project was initially explored in the early 1970s by INCO who identified the area as having potential to host a porphyry copper-gold deposit. INCO drilled 21 diamond drill holes, totalling 3,247 metres and identified significant mineralisation at the North Zone.

In 1992, Teck acquired the Tepal Project, drilled an additional 50 Reverse Circulation ("RC") holes, totalling 8,168 metres, and discovered a second area of mineralization at the South Zone. Spacing between drill holes was typically 50 or 100 metres. In 1994 Teck completed a resource estimate of 78.82 million tonnes grading 0.5 g/t gold and 0.25% copper. However, Teck only assayed for gold and copper. Teck used polygonal block estimates to calculate its resource estimate. Intercept intervals were based on combined gold and copper values calculated to a dollar value equivalent using gold at $375/oz and copper at $0.80/lb. Two cut-off values, greater than $4/ton and greater than or equal to $8/ton over a minimum of 6.0 m were used. A specific gravity of 2.6 g/cm^3 was used.

Subsequently Hecla owned the Tepal Project. Hecla collected nearly 900 rock chip samples on a 50 metres by 50 metres grid, re-analysed 298 pulps from the Teck RC drilling programme and drilled a further 17 RC holes, totalling 1,506 metres. Hecla's focus was exclusively on gold potential. In 1997, Hecla estimated a total historic resource of 9.063 million tonnes averaging 0.90 g/t gold containing 262,359 ounces of

Access and cleaning of old shafts at San Celso



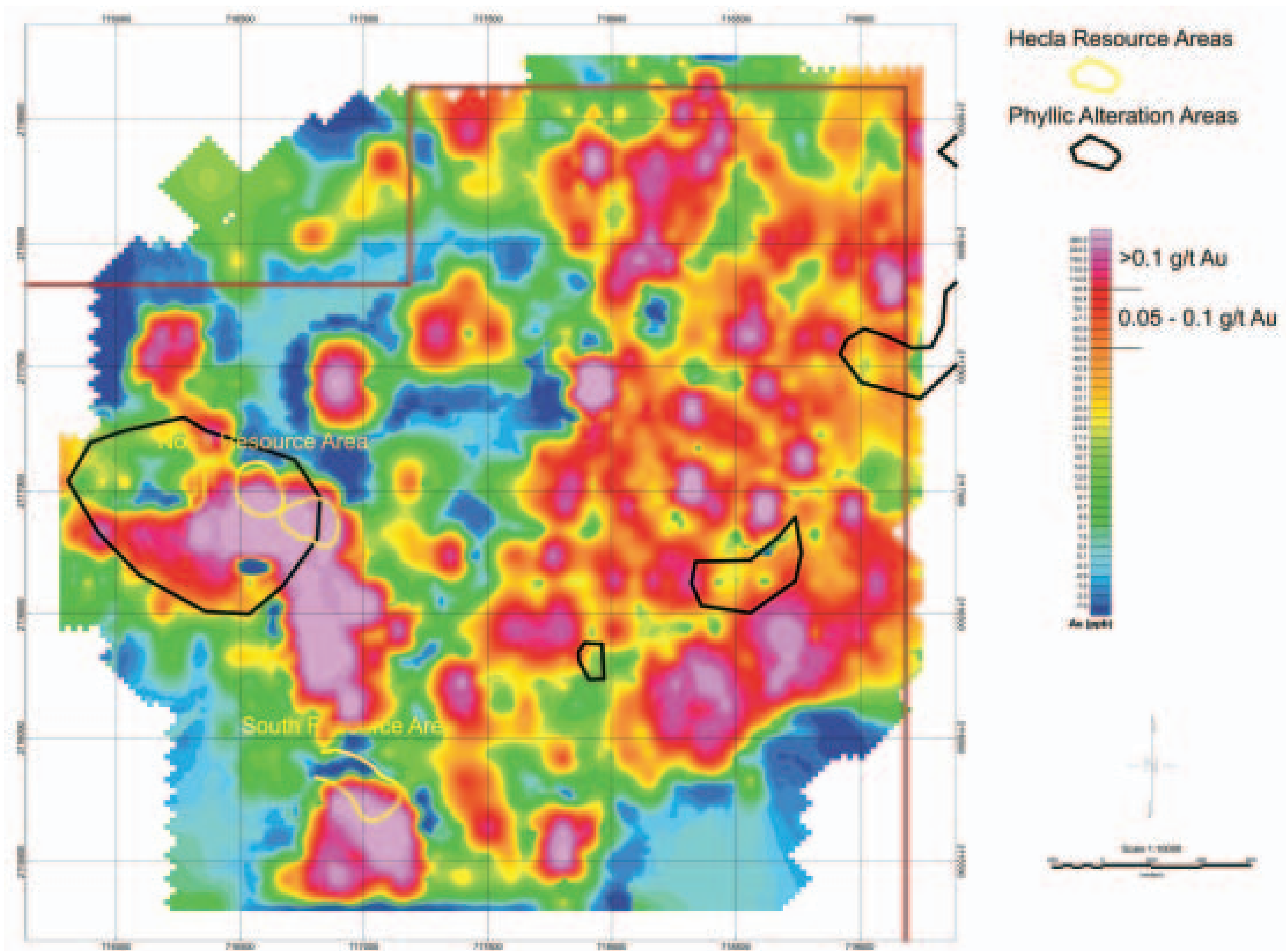
Top: San Jose 400 tonnes per day head frame
Bottom: San Jose target areas for drilling

Projects

gold. However, Hecla used a specific gravity of 2.2 g/cm^3, which is substantially lower than the 2.6 g/cm^3 used by Teck. Hecla used polygonal block estimates to calculate its resource estimate, using drill sections constructed at intervals ranging from 50 metres to 90 metres. Cut-off grades of 0.5 g/t gold and 0.30 % copper were used in the estimate although there is no copper resource in the Hecla material.

Silver was assayed for by both INCO and Hecla and returned some interesting values.

Arian has obtained environmental permits and all relevant permissions to conduct exploration on both Tepal properties, without payments or royalties to be made to the landowners. Phase one exploration has started with remote sensing and aerial mapping surveys currently underway. Phase one drilling commenced in April 2007 on known targets.



Tepal, Gold soil anomalies and Hecla resource zones.

Properties

Most of the Group's concessions are located in the Zacatecas State and can be broadly grouped into three geographical zones within Zacatecas State, namely the Zacatecas area where the Calicanto Project is located, Ojocaliente area where the San Celso Project is located, and the Sombrerete area.

ZACATECAS AREA, ZACATECAS STATE

There are two groups of concessions in the Zacatecas district: the Calicanto Project, and the adjacent Misie and Missie Properties, which lie to the north of Zacatecas, and Los Campos to the south. A number are "brown-field" sites where some past exploratory work has been undertaken and generally have some mine infrastructure in place. All these properties are on different veins within the La Cantera System.

Los Campos

The Los Campos project comprises four concessions wholly owned by Arian covering an area of approximately 500 Ha located on the south side of the city of Zacatecas. The target area can be easily accessed within 15 minutes drive from the Group's offices via a paved bypass road between Guadelupe and Zacatecas. The target area incorporates the Los Campos, La Virgen, Dolka and San Vicente mines, which were productive in colonial times. Future exploration will be to depths below levels of colonial mining and portions of the epithermal veins have yet to be evaluated by drilling.

In addition, a currently unknown quantity of mineralised dump material exists at various surface localities within the area covered by these concessions which Arian plans to evaluate.

Misie Property

On August 25, 2006 Arian was awarded 29 Ha of mining concession by the Mexican General Mines Directorate (DGM, Mexican Dirección General de Minas). The mining claim, called "Misie" lies adjacent to the three Calicanto mining claims under option to Arian. The property has been mined historically and contains six mine shafts, and numerous prospects and trenches. Together with the Calicanto Project, the area of the Calicanto Group Project comprises 74 Ha.
The Misie property was mined until the early 1990's when mining ceased following a downward trend in the price of silver. The Misie property hosts a number of structures. The property also covers the South-West extension of the San Buenaventura vein.

OJOCALIENTE AREA, ZACATECAS STATE

The Ojocaliente area covers a number of geographically separate silver vein (epithermal) and replacement (skarn) occurrences about 50 kilometres (less than one hour's drive) southeast of Zacatecas, including the San Celso Project.

La Africana

The La Africana and Ampliaçión El Cabezon concessions are wholly owned by Arian, cover an area of approximately 15 Ha and are situated about three kilometres south-west of Panfilo Natera, just off the paved highway. The concessions cover a small hill, with numerous small shafts and dumps, and silver vein mineralisation within the dump material. The well-known Bilbao skarn replacement body is situated to the north as are other vein systems.

Arian has installed laddering down one of the mine shafts to allow access to the Africana workings. To date a total of 50 samples have been collected, and the workings have been mapped and surveyed.

Donovan 1

The Donovan 1 concession, which is wholly owned by Arian, covers approximately 42 Ha of agricultural land near the small settlement of Rancho Nuevo, situated between Panfilo Natera and El Morro. Small sub-crops and float boulders of epithermal and skarn hosted mineralisation have been found. Little or no previous modern exploration has been done on this prospect.

During May to June 2006, a soil sampling programme, geological mapping and geophysical survey were carried out over the Donovan 1 property. A number of mineralized structures have been identified.

Donovan 2

The Donovan 2 concession, which is wholly owned by Arian, covers an area of approximately 746 Ha and is located to the north of the Milagros epithermal vein system. Initial reconnaissance has been undertaken and field observations indicate it has the potential to host volcanogenic massive sulphide mineralisation similar to the San Nicolas deposit nearby.

A soil sampling programme was initiated over the Donovan 2 concession in March 2006. Soil samples were collected over two magnetic anomalies and around a copper prospect.

Navidad

This concession, which is wholly owned by Arian, covers an area of approximately 100 Ha near the village of Genaro Codina. To date no exploration has been carried out save for initial reconnaissance.

SOMBRERETE AREA, ZACATECAS STATE

In the Sombrerete Area, Arian has an option over four concessions over an aggregate area of approximately 250 Ha (two named Reyan Maria and two named Reyna Victoria).

Reyna Victoria and Reyna Maria (Las Reynas)

Arian has an option over four concessions at the Reyna Victoria project which collectively are known as Las Reynas. To date initial reconnaissance, including survey and sampling, has been carried out.

Management's responsibility for financial reporting and controls

This Management Discussion and Analysis ("MD&A") has been prepared based on information available to Arian Silver Corporation ("Arian" or the "Company") as at April 27, 2007 and compares its 2006 financial results with those of the previous year. This MD&A should be read in conjunction with the Company's audited Consolidated Financial Statements and the related notes. The Consolidated Financial Statements and the related notes have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). All dollar amounts referred to in this discussion and analysis are expressed in United States dollars, unless specifically stated otherwise.

The Consolidated Financial Statements of the Company for the year ended December 31, 2006 have been prepared by management in accordance with International Financial Reporting Standards ("IFRSs") and have been approved by the Company's Board of Directors (the "Board"). Previous interim and annual financial statements have been prepared in accordance with UK Generally Accepted Accounting Principles ("UK GAAP"); No re-statement of comparative information was necessary for purposes of the transition to IFRS. The integrity and objectivity of these Consolidated Financial Statements are the responsibility of management. In addition, management is responsible for ensuring that the information contained in this MD&A is consistent, where appropriate, with the information contained in the Consolidated Financial Statements.

In support of this responsibility, the Company's management maintains a system of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded. When alternative accounting methods exist, management has chosen those methods it deems most appropriate in the circumstances. The Consolidated Financial Statements may contain certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis to ensure that the Consolidated Financial Statements are presented fairly in all material respects.

The Board is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Board carries out this responsibility principally through its audit committee. The audit committee is appointed by the Board and its members are not involved in the Company's daily operations. The audit committee meets periodically with management and the external auditor to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the Consolidated Financial Statements with the external auditors.

Evaluation of disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this MD&A, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109— Certification of Disclosure in Issuers' Annual and Interim Filings of the Canadian Securities Administrators) and other reports filed or submitted under Canadian securities laws are recorded, processed, summarised and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Introduction

The following discussion is management's assessment and analysis of the results and financial condition of the Company and should be read in conjunction with the accompanying Consolidated Financial Statements for the year ended December 31, 2006, which are available on SEDAR at www.sedar.com. The Consolidated Financial Statements have been prepared in accordance with IFRSs. The functional currency of the parent company, which is managed in London, is deemed to be the Pound Sterling under IFRSs and the Company's assets are primarily located in Mexico where the functional currency is the Mexican Peso. The Consolidated Financial Statements continue to be presented in US dollars ("USD") and all monetary values are expressed in USD unless otherwise indicated.

The Company (formerly Hard Assets Inc.) was incorporated in the province of British Columbia, Canada, on May 4, 2004. On July 14, 2004 the Company was admitted to trading on the AIM Market of the London Stock Exchange ("AIM"). On May 24, 2006 the Company was continued to the British Virgin Islands in connection with its merger ("Merger") with Arian Silver Corporation Limited ("ASCL"), whereupon the Company changed its name to Arian Silver Corporation. On July 21, 2006 the Company's common shares were listed and commenced trading on the TSX Venture Exchange ("TSX-V").

The Merger has been accounted for in accordance with the reverse take over method of accounting. Under this method, ASCL has been identified as the acquirer and accordingly the consolidated entity is considered to be a continuation of ASCL.

The Company is engaged in the acquisition and exploitation of mineral resource properties.

Overall Performance

In the year to December 31, 2006 the Company lost $3.6 million after expensing the fair value of options granted of $0.9 million and before the exceptional write off relating to goodwill arising on the merger with ASCL of $13.4 million. There was no income other than interest from short term cash deposits of $71,000. The Company continued to incur administrative costs in its Mexican operations and in respect of corporate overheads, which included costs incurred in connection with the admission to the AIM and TSX-V stock exchanges.

In the year to December 31, 2006, intangible assets increased by $0.9 million to $1.2 million in respect of the Mexican projects and tangible assets increased by $0.1 million. Cash of $5.4 million was received as a result of share issues.

Selected Financial Information

The following is a summary of selected financial information for the years ended December 31, 2006 and 2005:

	2006 $'000s	2005 $'000s
Total Revenues	**71**	15
Net Loss before exceptional items	**3,587**	1,029
Net Loss for the period	**17,033**	1,029
Basic and diluted loss per share	**$(0.24)**	$(0.07)
Total Assets	**4,802**	1,786
Shareholders' equity	**4,423**	1,577
Cash dividends declared per share	**-**	-

Overview of operations

During the period, exploration work was carried out at the Calicanto Group of properties and at the Ojocaliente Group, namely; San Celso, Donovan 1, Donovan 2 and the Africana properties in the Zacatecas State of Mexico. A new concession named "Misie" was acquired adjacent to the Calicanto concessions and an agreement was reached in principle to purchase the "Missie" concession, which is adjacent to "Misie". In addition, property visits were undertaken to the Tepal project in Michoacán State, Mexico. Several tailings projects and new hard-rock properties were also investigated.

Qualified Person

Mr. Jim Williams, the Company's Chief Executive Officer and a "qualified person" as such term is defined under National Instrument 43-101, has reviewed and approved the technical information in this document.

Calicanto Group, Zacatecas

The Calicanto Project consists of three adjacent mining concessions totalling approximately 45 hectares ("Ha") namely, Calicanto, Vicochea I and Vicochea II. In addition, Arian was recently granted the Misie and Missie properties, which are adjacent to the Calicanto Project. The Calicanto Project and the Misie and Missie properties (see under "Other Properties" below), collectively referred to as the "Calicanto Group", together total approximately 74 Ha. The concessions are located in the historic mining district of Zacatecas and are completely surrounded by other concessions. The Calicanto Group of concessions comprises at least four main mineralised vein systems.

Prospecting work at the Calicanto Group commenced and the first phase of sampling was completed, with assay results obtained from laboratories in Mexico and Canada. Underground exploratory development work continued along the strike of the vein. The tunnel itself averages approximately 4-5 metres high and 5-6 metres wide. The ramp was extended to a total of 80 metres, significantly widened and deepened as material was excavated from high grade zones. Access was gained to historic mine workings to enable surveying and chip and channel sampling. Environmental permitting required for drilling was obtained within the stipulated time frame. Phase-one drilling was completed following the award of the drilling contract for 3,000 metres.

Initial reconnaissance sampling was conducted on the newly acquired adjacent Misie property. The property was surveyed, and a number of shafts, trenches and prospects on the Sorpresa structures were identified. A new ramp, along the San Buenaventura vein was initiated and extended to 67 metres. A.C.A. Howe, independent consultants, visited the project and completed a Canadian National Instrument 43-101 technical report which is dated March 20, 2006 and entitled "Technical Report on the Calicanto and San Celso Projects, Zacatecas, Mexico." A copy of this report can be obtained from SEDAR at www.sedar.com.

The following schedule shows project expenditure:

	2006	2005
	$'000s	$'000s
Calicanto Group: Zacatecas		
Mining & option rights	**126**	1
Drilling & exploration	**225**	9
Geology – logging & sampling	**16**	1
Administration	**11**	1
Total	**378**	12

A two phase budget totalling $1,666,320 has been proposed by Arian for the Calicanto Property. Phase-one diamond-drilling, which focused on the highest priority targets, leaving secondary targets for phase-two, was completed on time and within budget. Remote sensing and ground geophysics are intended to develop, or further define, additional targets for the second phase of exploration. The first phase of work, totalling $554,625, included 3,000 metres of diamond-drilling as well as the ground geophysics and remote sensing. Phase-two exploration is planned to include follow-up of phase-one results on the primary targets as well as work on other known targets and targets resulting from phase-one geophysics and remote sensing. This phase of work totals $1,111,695 and consists of 5,000 metres of diamond-drilling and a follow-up geophysical study (Induced-Polarisation). Each phase of drilling is to be preceded by environmental permitting.

The expenditure described above is discretionary and not yet committed as it is dependent on timing and availability of funds.

San Celso; Ojocaliente

The San Celso Project consists of three contiguous mining concessions totalling 88.58 Ha. The concessions are located in the historic mining district of Pánfilo Natera-Ojocaliente and are surrounded by other concessions to the south and west. The San Celso Project is owned outright by Arian. Rehabilitation and re-laddering of the San Celso shaft and underground workings proceeded. Chip and channel samples were taken across the faces of the veins, foot walls, hanging walls and country rock areas throughout all accessible levels of the workings. Samples were sent for treatment to laboratories in Mexico and Canada. A small area of formerly inaccessible workings in the San Celso Mine was opened up and a number of chip and channel samples were taken from across the vein. Underground geological mapping was completed in the Las Cristinitas Mine. A number of new areas were accessed and sampled.

A third shaft was accessed, laddered, sampled and mapped. This shaft is 80 metres west of the San Celso workings and appears to access the lateral extension of the San Celso vein. Concurrently with the underground mapping, a small geochemical survey was conducted, with a number of soil

and ant-hill samples taken from the property. Surface geological mapping was completed. A number of new shafts and prospects were discovered and exposed vein material was sampled. Surveying of the property was completed and a surface ownership map prepared. Fencing has been erected around the open shafts, old stopes and prospect pits on the properties. A surface ground magnetic programme has been planned, and lines have been cut in preparation. A.C.A. Howe visited the property and prepared a technical report which is dated March 20, 2006 and entitled "Technical Report on the Calicanto and San Celso Projects, Zacatecas, Mexico." A copy of this report can be obtained from SEDAR at www.sedar.com.

The following schedule shows project expenditure:

	2006 $'000s	2005 $'000s
San Celso; Ojocaliente		
Mining & option rights	**48**	16
Drilling & exploration	**5**	3
Geology – logging & sampling	**22**	14
Administration	**23**	1
Total	**98**	34

A two phase budget totalling $1,495,600 has been proposed by Arian for the San Celso Property. Phase-one diamond-drilling will focus on the highest priority targets, leaving secondary targets for phase-two. Remote sensing and ground geophysics are intended to develop, or further define, additional targets for the second phase of exploration. The first phase of work, totalling $754,300, consists of 3,000 metres of diamond-drilling as well as the ground geophysics and remote sensing study. Phase-two exploration includes follow-up of phase-one results on the primary targets as well as work on other known targets and targets resulting from phase-one geophysics and remote sensing. This phase of work, totalling $741,300, consists of 3,000 metres of diamond-drilling and follow-up ground magnetometry. Each phase of drilling is to be preceded by environmental permitting, as is the ground geophysical programme. Arian plans to continue underground sampling and mapping during both phases of exploration.

The expenditure described above is discretionary and not yet committed as it is dependent on timing and availability of funds.

Tepal Project; Michoacán

On August 9, 2006 the Company announced that it had entered into an agreement to acquire the exclusive option over 100% of the Tepal polymetallic project in Michoacán State, Mexico. The option agreement is for a five-year term. Assuming the option is exercised in full, the Company will pay Minera Tepal $5 million in instalments and will grant Minera Tepal a Net Smelter Return ("NSR") of 2.5%. The Company has the right to withdraw from the option agreement at any time during the five-year period without penalty and has right of first refusal to buy out the NSR for an unspecified amount.

Arian has recently increased its landholdings in the Tepal area to approximately 14,000 Ha. Initial investigation by Arian indicates that the Tepal Project consists of four gossanous polymetallic deposits containing copper, gold and silver with potential for additional areas of mineralisation.

The Tepal Project was previously explored in the 1970s and the 1990s by a number of companies including INCO, Teck and Hecla. The historical data indicates 78.82 million tonnes of mineralisation grading 0.5 grammes/tonne (g/t) gold and 0.25% copper, equating to 1.23 million contained ounces of gold and 432.63 million contained pounds of copper. The historical data also indicates that there are potentially higher-grade zones within these mineralised zones.

Both INCO and Teck were interested in the Tepal Project as a copper-gold porphyry target, regarding silver only as a by-product. Hecla's primary focus on the Project was as a large tonnage, low-grade gold target.

The Tepal Project has not been systematically tested for silver by previous owners, as the silver market had been subdued, with a price averaging less than $6 an ounce during the 1970s and 1990s. The management of Arian believes that potentially significant quantities of silver, as well as other metals, could also be present at the Tepal Project.

The Tepal Project was initially explored in the early 1970s by INCO who identified the area as having potential to host a porphyry copper-gold deposit. INCO drilled 21 diamond drill holes, totalling 3,247 metres and identified significant mineralisation at the North Zone.

In 1992, Teck acquired the Tepal Project, drilled an additional 50 Reverse Circulation ("RC") holes, totalling 8,168 metres, and discovered a second area of mineralization at the South Zone. Spacing between drill holes was typically 50 or 100 metres. In 1994 Teck completed a resource estimate of 78.82 million tonnes grading 0.5 g/t gold and 0.25% copper. However, Teck only assayed for gold and copper. Teck used polygonal block estimates to calculate its resource estimate. Intercept intervals were based on combined gold and copper values calculated to a dollar value equivalent using gold at $375/oz and copper at $0.80/lb. Two cut-off values, greater than $4/ton and greater than or equal to $8/ton over a minimum of 6.0 m were used. A specific gravity of 2.6 g/cm^3 was used.

Subsequently Hecla owned the Tepal Project. Hecla collected nearly 900 rock chip samples on a 50 metres by 50 metres grid, re-analysed 298 pulps from the Teck RC drilling programme and drilled a further 17 RC holes, totalling 1,506 metres. Hecla's focus was exclusively on gold potential. In 1997, Hecla estimated a total historic resource of 9.063 million tonnes averaging 0.90 g/t gold containing 262,359 ounces of gold. However, Hecla used a specific gravity of 2.2 g/cm^3, which is substantially lower than the 2.6 g/cm^3 used by Teck. Hecla used polygonal block estimates to calculate its resource estimate, using drill sections constructed at intervals ranging from 50 metres to 90 metres. Cut-off grades of 0.5 g/t gold and 0.30 % copper were used in the estimate although there is no copper resource in the Hecla material.

Silver was assayed for by both INCO and Hecla and returned some interesting values.

Arian has obtained environmental permits and all relevant permissions to conduct exploration on both Tepal Project properties, without payments or royalties to be made to the landowners. Phase-one exploration has started with remote sensing and aerial mapping surveys currently underway. A 3,000 metre drilling programme has commenced on the property.

Two visits were undertaken to the Tepal property by Arian personnel in July 2006. The objective of these trips was to locate new concessions and undertake geological and environmental reconnaissance work over the property. For Tepal all historical drill-hole data has now been entered into the Geosoft database. Phase-one of the drilling programme is currently underway. A.C.A. Howe visited the project and completed a technical report which is dated September 18, 2006 and entitled "Technical Report on the Tepal Project, Michoacán, Mexico." A copy of this report can be obtained from SEDAR at www.sedar.com.

The following schedule shows project expenditure:

	2006 $'000s	2005 $'000s
Tepal		
Mining & option rights	**257**	-
Drilling & exploration	**17**	-
Geology – logging & sampling	**10**	-
Administration	**10**	-
Total	**294**	-

San Jose Project, Ojocaliente

In December 2006 the Company acquired an exclusive option over 100% of the San Jose silver-base metal property in Zacatecas State. The property lies 55 kilometres to the South-East of Zacatecas and covers two mining concessions totalling approximately 4,300 Ha. Assuming the option is exercised in full, the Company will pay $1.5 million in instalments over three years and a 2% NSR although the Company has the right to buy the NSR out for $1 million.

The mine was previously operated by Zimapan (Peñoles), 1973-1991, and Monarca, 1993-2001, extracting over 2 million tonnes of ore averaging 250g/t silver. An existing underground development ramp extends 3 kilometres along the San Jose vein.

The western portion, over 4 kilometres of strike length, of the San Jose vein remains unexploited as mining activity focused on the eastern part of the vein. An additional two main vein structures are exposed on the property, which have not been explored by modern systematic methods

The following schedule shows project expenditure:

	2006 $'000s	2005 $'000s
San Jose		
Mining & option rights	**70**	-
Drilling & exploration	**-**	-
Geology – logging & sampling	**1**	-
Administration	**-**	-
Total	**71**	-

Other properties

Most of the concessions are located in the Zacatecas State and can be broadly grouped into three geographical zones, namely the Zacatecas area where the Calicanto Group of projects is located, Ojocaliente area where the San Celso Project is located, and the Sombrerete area.

ZACATECAS AREA, ZACATECAS STATE

There are two groups of concessions in the Zacatecas district: the Calicanto Group of projects which now comprises the recently acquired Misie and Missie concessions, which lie just to the north of Zacatecas, and Los Campos just to the south. There are a number of "brown-field" sites where some past exploration has been undertaken and generally there is some mine infrastructure in place. All these properties are on different vein systems.

Misie and Missie Properties

On August 25, 2006 Arian was awarded 29 Ha of mining concession by the Mexican Dirección General de Minas ("DGM"). The mining claim, called "Misie" lies adjacent to the three Calicanto mining claims under option to Arian.

The property has been mined historically and contains six mine shafts and numerous prospects and trenches. Together with the Calicanto Project the area of the Calicanto Group Project comprises 74 Ha.

The Misie property was mined until the early 1990s when mining ceased following a downward trend in the price of silver. The Misie property hosts a number of structures. The property also covers the South-West extension of the San Buenaventura vein.

On August 14, 2006 Arian purchased the Missie concession for $1,725 from Gerado Gonzalez. The Missie concession consists of 4.4 Ha and is contiguous with the Misie concession that Arian acquired from DGM. It covers a number of small prospect pits and old mine workings on the Misie vein system. No recent work has been done on the property. This new addition to the Calicanto property has expanded the property to 78 Ha.

Los Campos

The Los Campos project comprises four concessions wholly owned by Arian, covering an area of approximately 500 Ha located on the south side of the city of Zacatecas. The target area can be easily accessed within 15 minutes drive from the Group's offices via a paved bypass road between Guadalupe and Zacatecas. The target area incorporates the Los Campos, La Virgen, Dolka and San Vicente mines, which were productive in colonial times. Future exploration will be to depths below levels of colonial mining and portions of the epithermal veins have yet to

be evaluated by drilling.

In addition, a currently unknown quantity of mineralised dump material exists at various surface localities within the area covered by these concessions, which Arian plans to evaluate.

OJOCALIENTE AREA, ZACATECAS STATE

The Ojocaliente area covers a number of geographically separate silver vein (epithermal) and replacement (skarn) occurrences about 50 kilometres (approximately one hour's drive) South-East of Zacatecas, including the San Celso Project.

La Africana

The La Africana and Ampliaçión El Cabezon concessions wholly owned by Arian, cover an area of approximately 15 Ha and are situated about 3 kilometres South-West of Panfilo Natera, just off the paved highway. The concessions cover a small hill, with numerous small shafts and dumps and silver vein mineralisation within the dump material. The well known Bilbao skarn replacement body is situated to the north as are other vein systems.

At La Africana, Arian has installed laddering down one of the mine shafts to allow access to the Africana workings. To date a total of 50 samples have been collected and the workings have been mapped and surveyed.

Underground sampling was completed and all assay results have been received. Surface surveying and surface geochemical (soil and ant-hill) sampling of the property was completed. Environmental reconnaissance was carried out on the property in advance of preparations for surface trenching programme. Fences were erected around a number of shafts on the property.

Donovan 1

The Donovan 1 concession, which is wholly owned by Arian, covers approximately 42 Ha of agricultural land near the small settlement of Rancho Nuevo, situated between Panfilo Natera and El Morro. Small sub-crops and float boulders of epithermal and skarn hosted mineralisation have been found. Little or no previous modern exploration has been done on this prospect.

During May to June 2006 a soil sampling programme, geological mapping and geophysical survey were carried out over the Donovan 1 property. A number of mineralised structures have been identified.

Surface geological mapping was completed on the property and numerous prospect pits that explore mineralised structures were identified. These pits were mapped, sampled and surveyed. Fences were erected around the more substantial prospect pits. A regional reconnaissance survey was conducted and a surface geochemical (soil and ant-hill) sampling was completed. A ground magnetic programme was conducted over the property. Surveying was completed and a surface ownership map prepared.

Donovan 2

The Donovan 2 concession, which is wholly owned by Arian, covers an area of approximately 746 Ha. Initial reconnaissance has been undertaken and field observations indicate it has the potential to host volcanogenic massive sulphide mineralisation similar to the San Nicolas deposit nearby.

A soil sampling programme was initiated over the Donovan 2 concession in March 2006. Soil samples were collected over two magnetic anomalies and around a copper prospect.

A surface ownership map was prepared and surveying is ongoing. A ground magnetic programme was conducted over the property during the year. Preparations are underway for a soil sampling programme on the property.

Navidad

This concession, which is wholly owned by Arian, covers an area of approximately 100 Ha near the village of Genaro Codina. To date no exploration has been carried out other than for initial reconnaissance.

SOMBRERETE AREA, ZACATECAS STATE

In the Sombrerete Area Arian has an option over four concessions with an aggregate area of approximately 250 Ha (two at Reyna Maria and two at Reyna Victoria). To date no exploration has been carried out other than initial reconnaissance.

Exploration and development commitments as at December 31, 2006

The Company does not have any exploration and development expenditure commitments in respect of its projects. However, the following are the material payments that will need to be made in order to maintain certain properties in good standing:

(a) In order to maintain the Company's interest in the Calicanto property, the Company is required to pay, over the period to June 30, 2011 $380,000 in option payments. At December 31, 2006 $124,000 had been paid, leaving a remainder of $256,000 to be paid.

(b) In order to maintain the Tepal option agreement in good standing the Company is required to pay the vendor $5 million in instalments over the five-year period through to June 2011 and will also grant the vendor a NSR of 2.5%. At December 31, 2006 $256,000 had been paid.

(c) In order to maintain the recently acquired San Jose option agreement in good standing the Company is required to pay the vendor $1.5 million in instalments over the three-year period through to 2009 and will also grant the vendor a NSR of 2%. At December 31, 2006 $70,000 had been paid.

The Company has the right to withdraw from the option agreements relating to Calicanto, Tepal and San Jose at any time during the

term of each option without financial penalty.

Public financing
Set out below are details of financing undertaken by ASCL or by the Company during the period.

On February 13, 2006 ASCL issued 400,000 common shares of $0.01 each at a premium of $0.49 per share to provide additional working capital.

On April 7, 2006 ASCL issued 4,000,000 common shares of $0.01 each at a premium of $0.49 per share to provide additional working capital. In settlement of agents' commission in respect of this placement, ASCL also issued 280,000 common shares of $0.01 each at a premium of $0.49 per share.

On May 24, 2006, the date of the Merger, the Company issued 48,899,200 common shares at an equivalent price of $0.36 per share to acquire 100% of the issued and outstanding share capital of ASCL. Under the reverse acquisition method of accounting it was deemed that 37,000,003 shares were issued in consideration for Hard Assets Inc, being its issued share capital immediately prior to the Merger.

On May 25, 2006 the Company issued 416,666 common shares at $0.50 per share in settlement of a corporate finance fee.

On July 3, 2006 the Company issued 300,000 common shares in relation to the exercise of share options at Cdn$0.12 per share.

On September 29, 2006 the Company issued 7,000 common shares in relation to the exercise of share warrants at $0.175 per share.

On November 30, 2006 the Company issued 14,060,000 common shares at Cdn$0.25 per share by private placement raising Cdn$3,515,000 to provide additional working capital. In connection with this placement the Company issued 14,060,000 share purchase warrants exercisable for a period of one year at Cdn$0.42 and subject to accelerated exercise conditions at the Company's option.

Results of operations

The Company has not generated any operating revenues and losses have continued to be incurred throughout the year.

Financial year ended December 31, 2006 compared to financial year ended December 31, 2005

The Company continued to explore its projects in Mexico in the year, taking on new properties and commencing a significant drilling programme. Whilst the cost of exploration is capitalised as an intangible asset, there was an increase in associated administration costs. In the comparative year 2005, the Company was in the process of building up its team and establishing its offices in Mexico and the UK so costs were significantly lower. The loss for the year was $3.6 million before exceptional items (2005: $1 million), significant costs related to the expensing the fair values of share options granted of $0.9 million (2005: nil), legal and professional fees of $0.6 million (2005: $0.3 million) (excluding $0.8 million of such costs related to the acquisition of ASCL included in goodwill (2005: nil)) and salaries of $1.1 million (2005: $0.4 million). There was no income other than from interest from short term cash deposits of $71,000 (2005: $15,000). There was a loss on exchange of $0.1 million (2005: nil). There was an exceptional loss related to the extraordinary write off of goodwill arising on the merger with ASCL of $13.4 million (2005: nil).

Summary of quarterly results

Unaudited	**2006**	**2006**	**2006**	**2006**
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	$'000s	$'000s	$'000s	$'000s
Total Revenues	15	25	20	11
Net loss before exceptional items	953	777	611	1,312
Basic and diluted loss per share	$(0.01)	$(0.01)	$(0.01)	$(0.03)
Net loss for the period	953	777	14,025	1,278
Basic and diluted loss per share	$(0.01)	$(0.01)	$(0.22)	$(0.03)
Total assets	4,802	2,552	3,247	1,463
Shareholders' equity	4,423	2,144	2,838	1,463
Cash dividend declared per share	-	-	-	-

Unaudited	**2005**	**2005**	**2005**
	4th Quarter	3rd Quarter	2nd Quarter
	$'000s	$'000s	$'000s
Total Revenues	2	7	-
Net loss before exceptional items	519	182	148
Basic and diluted loss per share	$(0.01)	$(0.01)	$(0.01)
Net loss for the period	519	182	148
Basic and diluted loss per share	$(0.01)	$(0.01)	$(0.01)
Total assets	1,780	850	887
Shareholders' equity	1,621	620	887
Cash dividend declared per share	-	-	-

Fourth quarter 2006 vs. third quarter 2006
Revenues were from bank deposit interest. The net loss in the period is after charging costs related to corporate overheads, including the fair value of share options vesting in the period and the administration of the Company's projects in Mexico. Shareholders' equity increased following the placement of $3.2 million of new common shares, offset by project expenditure and administration costs.

Third quarter 2006 vs. second quarter 2006
Revenues were from bank deposit interest. Administration expenditure in the quarter increased due to costs incurred in respect of the listing of the Company on the Canadian TSX-V exchange. The costs relate to corporate overheads, including the fair value of share options vesting in the period and the administration of the Company's projects in Mexico. The decrease in Shareholders' equity and cash over the previous quarter is a result of share issues arising from share options and warrant exercises in the period of $33,000 offset by administration and project expenditure.

Second quarter 2006 vs. first quarter 2006
The increase in Shareholders' equity and cash over the previous quarter is the result of the placement of $2 million of new common shares. The net loss increased as a result of costs associated with the Merger and re-listing on AIM. There was an exceptional loss resulting from the write off of goodwill of $13.4 million on the Merger in accordance with reverse take over accounting.

First quarter 2006 vs. fourth quarter 2005
The net loss for the quarter of $1.3 million included $0.9 million in respect of the fair value of share options granted. The decrease in the Shareholders' equity and cash over the previous quarter is a result of share placements in the period of $200,000 offset by administration and project expenditure.

Fourth quarter 2005 vs. third quarter 2005
The increase in Shareholders' equity over the previous quarter is the result of share placements in the period. The increase in the net loss is attributable to increased administration costs resulting from the establishment of the Company's office and operations in Mexico, its corporate office in London and recruitment of key staff. Cash of $1.1 million was received from an exercise of warrants during the fourth quarter.

Third quarter 2005 vs. second quarter 2005
The Company in Mexico was established at the end of the first quarter 2005 and expenditure there and in respect of corporate administration was at a low level, building during the second quarter and increasing further in the third quarter.

No financial statements have been prepared for earlier quarters.

Liquidity and capital resources

In management's view, the most meaningful information concerning the Company relates to its current liquidity and solvency since it is not currently generating any income from its mineral projects.

The Company raises capital for its operations through the issuance of securities of the Company, proceeds received from the exercise of share options and share purchase warrants. Although the Company has been successful in the past in raising finance, there can be no assurance that any funding required by the Company in the future will be made available to it and, if such funding is available, that it will be offered on reasonable terms or that the Company will be able to secure such funding through third party financing or joint ventures. Furthermore, there is no assurance that the Company will be able to secure new mineral properties or projects or that they can be secured on competitive terms.

During the year ended December 31, 2006:
On February 13, 2006 ASCL issued 400,000 common shares of $0.01 each at a premium of $0.49 per share to provide additional working capital.

On April 7, 2006 ASCL issued 4,000,000 common shares of $0.01 each at a premium of $0.49 per share to provide additional working capital. In settlement of agent's commission in respect of this placement, the Company issued 280,000 common shares of $0.01 each at a premium of $0.49 per share.

On May 24, 2006 the Company issued 48,899,200 common shares in respect of the Merger with ASCL on the basis of two shares for every one share existing at that date. Under the reverse acquisition method of accounting, it was deemed that 37,000,003 shares were issued in consideration for Hard Assets Inc, being its issued share capital immediately prior to the merger.

On May 25, 2006 upon admission to AIM, the Company issued 416,666 common shares at $0.56 per share in settlement of a corporate finance fee.

On July 3, 2006 the Company issued 300,000 common shares in relation to the exercise of share options at Cdn$0.12 per share. On September 29, 2006 the Company

issued 7,000 common shares in relation to the exercise of warrants at $0.175 per share.

On November 30, 2006 the Company raised Cdn$3,515,000 from a private placement of 14,060,000 Units at Cdn$0.25 per Unit. Each Unit consisted of one common share and one share purchase warrant exercisable for a period of one year at Cdn$0.42 and subject to accelerated exercise conditions at the Company's option.

During the year ended December 31, 2005:
On April 12, 2005 ASCL issued 37,800 common shares of $0.01 each as consideration for investment services provided to the Company of $9,450. A premium of $9,072 was recognised on the issue.

On April 19, 2005 ASCL issued 4,412,000 common shares of $0.01 each at a premium of $0.24 per share to provide additional working capital.

On October 4, 2005 ASCL issued 3,000,000 common shares of $0.01 each at a premium of $0.34 under the terms of a share warrant agreement to provide additional working capital.

On November 22, 2005 ASCL issued 200,000 common shares of $0.01 each at a premium of $0.49 per share to provide additional working capital.

On November 30, 2005 ASCL issued 1,040,000 common shares of $0.01 each at a premium of $0.49 each to provide additional working capital.

On December 9, 2005 ASCL issued 79,800 common shares of $0.01 each at a premium of $0.49 each in respect of commission on funding.

Working Capital:
As at December 31, 2006 the Company had working capital of approximately $3 million (2005: $1.2 million) which is sufficient to cover ongoing obligations as they become due. The increase in working capital is the result of cash raised from the issue of shares, offset by project and administrative expenditure. Cash raised from the issue of shares was $5.4 million during the year (2005: $2.3 million).

The most significant asset at December 31, 2006 was cash of $3.2 million (2005: $1.4 million). In addition, there were intangible assets of $1.2 million (2005: $0.2 million) and tangible assets of $0.1 million (2005: $0.05 million). Receivables were $0.2 million (2005: $0.1 million) of which $0.1 million related to Mexican tax. Payables were $0.4 million (2005: $0.2 million).

Share Options and Share Purchase Warrants
On April 13, 2006 the Company granted 350,000 share options with an exercise price of $0.50 and an expiry date of April 13, 2008.

On May 25, 2006 the Company issued 208,333 share purchase warrants in connection with the settlement of a corporate finance fee. These warrants have an exercise price of £0.30 and an expiry date of May 25, 2007.

As a result of the Merger the Company had outstanding (i) 5,830,000 share options with an exercise price of £0.15 and an expiry date of January 31, 2009 and (ii) 2,899,600 share purchase warrants with an exercise price of $0.175 and an expiry date of April 7, 2007.

On July 3, 2006 the Company issued 300,000 common shares in relation to the exercise of share options at Cdn$0.12 per share.

On September 29, 2006 the Company issued 7,000 common shares in relation to the exercise of warrants at $0.175 per share.

On November 30, 2006 the Company issued 14,060,000 share purchase warrants exercisable for a period of one year at Cdn$0.42 and subject to accelerated exercise conditions at the Company's option.

Off-balance sheet arrangements
The Company has no off-balance sheet arrangements.

Transactions with related parties

During the year ended December 31, 2006 the Company entered into the following transactions involving related parties:

Companies in the Dragon Group charged the Company a total of $671,155 (Period to December 31, 2005: $155,185) in respect of the provision of staff, office facilities, general office overheads and re-charged costs incurred on behalf of the Company. Tony Williams, Chairman and a director of the Company, beneficially owns the Dragon Group.

Endeavour Financial Limited ("EF") charged the Company a total of $62,740 (Period to December 31, 2005: $51,424) in respect of the provision of office facilities incurred on behalf of the Company. Gordon Keep, a director of the Company up to the date of the Merger, is a director of EF.

Anfield Sujir Kennedy & Durno ("ASKD") charged the Company a total of $86,895 (Period to December 31, 2005: nil) in respect of the provision of legal services incurred on behalf of the Company. Henry Jay Sujir, a director of the Company up to the date of the Merger, is a partner in ASKD.

European Diamonds PLC ("EPD") charged the Company a total of $82,594 (Period to December 31, 2005: $23,324) in respect of a recharge of remuneration on behalf of the Company. James Cable and Tony Williams are both Directors of the Company and EPD.

During the year ended December 31, 2006 the Company entered into the following transactions with subsidiaries:

The Company made loans to Arian Silver de Mexico de CV ("Arian Mexico") of $986,790 (Period to December 31, 2005: $396,062) and paid charges on behalf of Arian Mexico of $32,647 (Period to December 31, 2005: nil).

Arian Silver (UK) Limited ("Arian UK") charged the Company a total of $783,821 (Period to December 31, 2005: $55,000) in respect of staff payroll and other costs and was charged by the Company $101,334 (Period to December 31, 2005: nil) in respect of management fees. In addition the Company made loans to Arian UK of $136,443 (Period to December 31, 2005: $36,657).

These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Fourth quarter

In the quarter, work has continued to progress on the properties. At Calicanto the existing ramp along the Calicanto vein continued to be extended and work on a second ramp commenced to gain access to the San Buenventura vein. A 3,000 metre drilling campaign commenced to test the down-dip and along strike vein extensions. Underground sampling, surveying and mapping of the Las Crisinitas mine workings was completed on the San Celso property in Zacatecas State.

The Company acquired a 100% option on the San Jose property which includes the mine workings of the San Jose mine, which was operated from 1973 to 2001, a number of mine buildings and a 400 tonne per day shaft. The mine has access via a 3 kilometre decline.

New common shares were issued to raise $3.2 million in cash before expenses.

Post balance sheet transactions

On February 5, 2007 the Company issued 414,000 common shares of no par value in connection with an exercise of warrants at $0.175 per share.

In February, 2007 500,000 share options were granted to Mr. James Crombie, director, and 255,000 share options were granted to employees and consultants.

On February 28, 2007 the Company issued 792,000 common shares of no par value in connection with an exercise of warrants at $0.175 per share.

On March 16, 2007 the Company issued 152,000 common shares of no par value in connection with an exercise of warrants at $0.175 per share.

On March 21, 2007 the Company issued 500,000 common shares of no par value in connection with an exercise of share options at £0.15 per share.

On March 26, 2007 the Company issued 734,800 common shares of no par value in connection with an exercise of warrants at $0.175 per share.

On April 4, 2007 the Company issued 800,000 common shares of no par value in connection with an exercise of warrants at $0.175 per share.

On April 20, 2007 the Company issued 400,000 common shares of no par value in connection with an exercise of warrants at Cdn$0.42 per share.

Critical accounting estimates

The preparation of financial statements in conformity with IFRS requires the Company to select from possible alternative accounting principles and to make estimates and assumptions that determine the reported amount of assets and liabilities at the balance sheet date and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained and are subject to change. The Company's accounting policies are considered appropriate in the circumstances, but are subject to judgements and uncertainties inherent in the financial reporting process.

Resource Properties, Deferred Exploration and Development Costs

All costs related to the exploration of mineral properties are capitalised until either the properties are brought into production, at which time they are depleted on a unit of production basis, or until the properties are sold, allowed to lapse, abandoned or determined not to be commercially viable, at which time they are charged to the income statement.

The amounts capitalised at any time represent costs to be charged to operations in future and do not necessarily reflect the present or future values of particular properties. The recoverability of the carrying values of exploration properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete development and future profitable production therefrom, or alternatively, upon the Company's ability to dispose of its interests on an advantageous basis.

Management is of the view that the current policy is appropriate for the Company at this time and is consistent with many other public mineral exploration and development companies in the UK and Canada. Shareholders are advised that carrying values are not necessarily indicative of present or future values. The Company assesses whether impairment exists in any of its exploration projects and writes down that project to its estimated recoverable value when such impairment is found to exist. No writedowns were recorded in the financial statements for the period. A writedown would be recorded as an expense to the Company's income statement.

Share based payments

The share option programme allows Company employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the period until the options vest unconditionally to the employee. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Critical estimates in determining fair value include expected price volatility of the shares and option lives.

Risks and uncertainties

The Company is subject to a number of risk factors due to the nature of the mining business in which it is engaged, not least adverse are movements in commodity prices, which are impossible to forecast. The Company seeks to counter this risk, as far as possible, by selecting exploration areas on the basis of their recognised geological potential to host economic deposits.

Option Agreements in relation to certain mining concessions

There is no certainty that following completion of initial exploration work at the Calicanto, Tepal and San Jose projects, the Company will elect to proceed to exercise the options over the mining concessions for those areas. The sums paid and due to be paid under the option agreements are not repayable if the options are not exercised.

In addition, in relation to concessions over which the Company has an option, the current concession holder may not be able to, or may voluntarily decide not to, comply, or may not have complied in all respects, with the concession requirements for some or all of its concessions. If the current concession holder fails to fulfil the specific terms of any of its concessions or operates in the concession areas in a manner that violates Mexican law, regulators may impose fines, suspend or revoke the concessions, any of which could have a material adverse effect on the Company's operations and proposed operations.

Requirement of Additional Financing

The exploration and development of the Company's concessions, including continuing exploration projects, and the construction of mining facilities and commencement of mining operations, will require substantial additional financing. Additional financing will also be required to pay the exercise price of the options held by the Company at the date of this document and any options which are subsequently acquired. The Company does not currently have sufficient funds to explore its concessions and to maintain its interest in all its projects. No assurance can be given that the Company will be able to raise the additional financing necessary to explore its concessions, or exercise its options (current

or future). Failure to obtain sufficient financing for any projects will result in a delay or indefinite postponement of exploration, development or production on properties covered by the Company's concessions or even the loss of a concession. The only source of funds currently available to the Company is through the issue of equity capital, the sale of concessions, royalty interests or the entering into of joint ventures. In addition, the Company's ability to obtain further financing will depend in part on the price of silver and the industry's perception of its future price and other factors outside the Company's control. Additional financing may not be available when needed, or if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to shareholders.

Limited Operating History

The Company has no concessions producing revenue and its ultimate success will depend on its ability to generate cash flow from concessions in the future. The Company has not earned profits to date and there is no assurance that it will do so in the future. A major portion of the Company's activities will be directed to the search for and the development of new silver deposits. Significant capital investment will be required for exploration at the concessions and to achieve commercial production from the Company's existing projects and from successful exploration efforts. There is no assurance that the Company will be able to raise the required funds to continue these activities.

No Reserves or Resources

The Company does not hold any concessions, or currently have an interest in concessions pursuant to options, in respect of which reserves or resources estimates have been established that comply with CIM Standards and Guidelines or other similar recognised industry standards.

Reliance on Sub-Contractors in Mexico

The Company will rely on sub-contractors to build the Company's planned development programmes. The failure of a sub-contractor to perform properly its services to the Company could delay or inconvenience mining operations, and have a materially adverse effect on the Company.

Key Personnel

The Company's business is dependent on retaining the services of a small number of key personnel of the appropriate calibre as the business develops. The Company has entered into employment agreements with certain key managers. The success of the Company is, and will continue to be to a significant extent, dependent on the expertise and experience of the directors and senior management. The loss of one or more of these individuals could have a materially adverse effect on the Company. The Company does not currently have any insurance in place with respect to key personnel.

Environmental Factors

The Company's operations are subject to environmental regulation in the jurisdictions in which the Company operates. Such regulation covers a wide variety of matters, including, without limitation, prevention of waste, pollution and protection of the environment, labour regulations and health and safety. The Company may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances, which may exist on or under any of the properties covered by its concessions, or which may be produced as a result of its operations.

If the Company does not comply with environmental regulations or does not file environmental impact statements in relation to each of its concessions, it may be subject to penalties, its operations may be suspended, closed and/or its concessions may be revoked.

Environmental legislation and permit requirements are likely to evolve in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors and employees.

Nature of Mineral Exploration and Mining

Any exploration programme entails risks relating to the location of economic orebodies, the development of appropriate metallurgical processes, the receipt of necessary governmental permits and the construction of mining and processing facilities. The Company's projects are not in production and no assurance can be given that any exploration programme will result in any new commercial mining operation or in the discovery of new resources.

The exploration and development of mineral deposits involves significant financial risks over a prolonged period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. While discovery of a mineral structure may result in substantial rewards, few concessions which are explored are ultimately developed into producing mines. Major expenditure may be required to establish reserves by drilling and to construct mining and processing facilities at a site. It is impossible to ensure that preliminary feasibility studies or full feasibility studies on the Company's projects or the current or proposed exploration programmes on any of the concessions in which the Company has rights or is negotiating rights will result in a profitable commercial mining operation.

The Company's operations are subject to all of the hazards and risks normally incidental to exploration, development and the production of minerals. These could result in damage to or destruction of the Company's facilities, damage to life or property,

environmental damage or pollution and possibly legal liability for any or all damage which could have a material adverse impact on the business, operations and financial performance of the Company. The Company's activities may be subject to prolonged disruptions due to weather conditions depending on the location of operations in which the Company has interests. Hazards, such as unusual or unexpected geological formations, rock falls, flooding or other climatic conditions may be encountered in the drilling and removal of material. Although precautions to minimise risk will be taken, even a combination of careful evaluation, experience and knowledge may not eliminate all of the hazards and risks.

Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as its size and grade, proximity to infrastructure, financing costs and governmental regulations, including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting of silver and environmental protection. The effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Political Risk

The Company is conducting its exploration activities in the Republic of Mexico. The Company may be adversely affected by changes in economic, political, judicial, administrative or other regulatory factors such as taxation in the Republic of Mexico, where the Company will operate and holds its major assets. The Republic of Mexico may have a more volatile political environment and/or more challenging trading conditions than in some other parts of the world. The Directors believe the Government of Mexico supports the development of natural resources by foreign operators. There is no assurance that future political and economic conditions in Mexico will not result in the Government of Mexico adopting different policies in respect of foreign development and ownership of mineral resources. Any such changes in policy may result in changes in laws affecting ownership of assets, taxation, rates of exchange, environmental protection, labour relations, repatriation of income and return of capital. These changes may affect both the Company's ability to undertake exploration and development activities in respect of future properties in the manner currently contemplated, as well as its ability to continue to explore and develop those properties, in respect of which it has obtained exploration and development rights to date.

Payment Obligations

Under the mining licences and certain other contractual agreements to which a member of the Company is, or may in the future become, a party, any such company is, or may become, subject to payment and other obligations. If such obligations are not complied with when due, in addition to any other remedies which may be available to other parties, this could result in dilution or forfeiture of interests held by such companies. The Company may not have, or be able to obtain, financing for all such obligations as they arise.

Regulatory Approvals

The operations of the Company require approvals, licenses and permits from various regulatory authorities, governmental and otherwise. The Board believes that the Company holds or will obtain all necessary approvals, licenses and permits under applicable laws and regulations in respect of its current projects. There can be no guarantee that the Company will be able to obtain or maintain all necessary approvals, licenses and permits that may be required to explore and develop its various projects and/or commence construction or operation of mining facilities that economically justify the cost.

Competition

The Company competes with numerous other companies and individuals in the search for and acquisition of mineral claims, leases and other mineral interests, as well as for the recruitment and retention of qualified employees. There is significant competition for the silver opportunities available and, as a result, the Company may be unable to acquire further silver concessions on terms it considers acceptable.

Conflicts of Interest

Certain directors and officers of the Company also serve as directors and/or officers of other companies involved in mineral exploration and development and consequently there is the potential for conflicts of interest. The Company expects that any such director shall disclose such interest in accordance with its articles of association and any decision made by any of such directors and officers involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company and its shareholders.

Forward Looking Statements

This MD&A contains certain "forward-looking statements". All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding the estimation of mineral resources, exploration results, potential mineralisation and mineral resources, and the Company's exploration and development plans and objectives) are forward-looking statements. These forward-looking statements reflect the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking statements are subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking

statements, and even if such actual results are realised or substantially realised, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, uncertainties relating to the availability and costs of financing needed in the future, changes in commodity prices, changes in equity markets, political developments in Mexico, changes to regulations affecting the Company's activities, delays in obtaining or failures to obtain required regulatory approvals, the uncertainties involved in interpreting exploration results and other geological data, and the other risks involved in the mineral exploration and development industry. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements due to the inherent uncertainty therein.

Other information

Additional Information:
Additional information relating to the Company may be accessed through SEDAR on the internet at www.sedar.com or the Company's website on www.ariansilver.com.

Disclosure of Outstanding Share Data
The following table sets forth information concerning the outstanding securities of the Company as at April 27, 2007:

Common shares of no par value ("Shares")	Number in issue
Shares	104,475,469
Share options[1]	6,435,000
Share purchase warrants[1]	13,868,333

(1) Each share option and share purchase warrant entitles the holder thereof to purchase one Share.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

The financial statements are required to give a true and fair view of the state of affairs of the group and of the profit or loss of the group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Report of the independent auditors' to the members of Arian Silver Corporation

We have audited the group financial statements ('the financial statements') of Arian Silver Corporation for the year ended December 31, 2006 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of cash flows statement and statements of change in shareholders' equity and the related notes. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body. Our audit work has been undertaken so that we might state to the company's members our opinion as to whether the financial statements give a true and fair view for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the International Accounting Standards Board are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Management's Discussion and Analysis. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with IFRSs as adopted by the International Accounting Standards Board, of the state of the group's affairs as at December 31, 2006 and of its loss for the year then ended.

Emphasis of matter – going concern

In forming our opinion, which is not qualified, we have considered the adequacy of disclosures made in note 2(a) to the financial statements concerning the group's ability to continue as a going concern. The group's operations are at an early stage and current cash resources will not be sufficient to develop its exploration projects and bring them into production. The directors have reviewed the group's cash flow forecast and believe that further equity fund raising will be required in the next 12 months and that these funds will be forthcoming. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

PKF (UK) LLP
Registered Auditors
London, UK
April 30, 2007

Independent Auditors' Report to the Directors of Arian Silver Corporation in respect of Compatibility with Canadian GAAS

In accordance with the requirement contained in National Instrument 52-107 we report below on the compatibility of Canadian Generally Accepted Auditing Standards ("Canadian GAAS") and International Standards on Auditing (UK and Ireland).

We conducted our audit for the year ended December 31, 2006 in accordance with International Standards of Auditing (UK and Ireland). There are no material differences in the form or content of our audit report, except as noted below, as compared to an auditors' report prepared in accordance with Canadian GAAS and if this report were prepared in accordance with Canadian GAAS it would not contain a reservation.

An audit report issued in accordance with Canadian GAAS does not require the Emphasis of Matter paragraph that is included in the United Kingdom Independent Auditors' Report for the year ended December 31, 2006 given above. In all other respects, there are no material differences in the form and content of the above noted auditors' report.

PKF (UK) LLP
London, UK
April 30, 2007

Consolidated balance sheet

(Expressed in United States dollars)

As at December 31, 2006

	Note	2006 $'000	2005 $'000
Assets			
Property, plant and equipment	*3 d, 10*	131	52
Intangible assets	*3 e, 11*	1,235	253
Total non-current assets		1,366	305
Trade and other receivables	*13*	243	101
Cash and cash equivalents	*14,20*	3,193	1,380
Total current assets		3,436	1,481
Total assets		4,802	1,786
Equity			
Share capital	*15,16*	22,448	2,604
Share-based payment reserve	*18*	947	-
Foreign exchange translation reserve	*16*	(910)	-
Retained loss		(18,062)	(1,027)
Total equity		4,423	1,577
Bank overdraft		6	-
Trade and other payables	*19*	373	209
Total current liabilities		379	209
Total liabilities		379	209
Total equity and liabilities		4,802	1,786

The financial statements were approved and authorised for issue by the Board of Directors on April 27, 2007 and were signed on its behalf by:

Jim Williams
Chief Executive Officer

James Cable
Chief Financial Officer

Consolidated income statement

(Expressed in United States dollars)

For the year ended December 31, 2006

	Note	**2006 $'000**	**2005 $'000**
Administrative expenses		(3,653)	(1,044)
Goodwill written off	*5,11*	(13,446)	-
Operating loss before financing costs		(17,099)	(1,044)
Finance income	*8*	71	15
Finance expenses	*8*	(5)	-
Net financing costs		66	15
Loss before tax	*6*	(17,033)	(1,029)
Loss for the period		(17,033)	(1,029)
Basic and diluted loss per share ($)	*17*	(0.24)	(0.07)
Consolidated Statement of recognised income and expense			
Foreign exchange translation differences recognised directly in equity			
- in respect of re-translation of net investment in subsidiaries		80	2
- in respect of presentation of financial statements in United States dollars		(992)	-
Loss for the period		(17,033)	(1,029)
Total recognised income and expense for the period		(17,945)	(1,027)

Consolidated statement of cash flows

(Expressed in United States dollars)

For the year ended December 31, 2006

	Note	**2006 $'000**	**2005 $'000**
Cash flows from operating activities			
Loss for the period		(17,099)	(1,044)
Adjustments for:			
Depreciation		23	4
Goodwill written off		13,446	-
Exchange Difference		8	2
Equity-settled share-based payment transactions		947	-
Shares issued in lieu of payment of services		-	160
		(2,675)	(878)
Change in trade and other receivables	*13*	(142)	(101)
Change in trade and other payables	*19*	164	209
		(2,653)	(770)
Interest paid	*8*	(5)	-
Net cash used in operating activities		(2,658)	(770)
Cash flows from investing activities			
Interest received	*8*	71	15
Acquisition of intangibles	*11*	(982)	(253)
Acquisition of property, plant and equipment	*10*	(102)	(56)
Net cash used in investing activities		(1,013)	(294)
Cash flows from financing activities			
Proceeds from issue of share capital	*15,16*	5,478	2,772
Payment of transaction costs	*15,16*	-	(328)
Bank overdraft		6	-
Net cash from financing activities		5,484	2,444
Net increase in cash and cash equivalents			
Cash and cash equivalents at January 1		1,380	-
Cash and cash equivalents at December 31	*20*	3,193	1,380

The notes set out on the following pages form part of the annual financial statements.

Notes to the consolidated financial statements

(Expressed in United States dollars)

1. Reporting entity

Arian Silver Corporation (the "Company") is a company domiciled in the British Virgin Islands. The consolidated financial statements of the Company for the year ended December 31, 2006 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily involved in the acquisition and development of mineral resource assets.

The Company was previously named Hard Assets Inc. until its merger with Arian Silver Corporation Limited ("ASCL") on May 24, 2006 whereupon it was renamed Arian Silver Corporation ("ASC") and re-admitted to the AIM market of the London Stock Exchange on May 25, 2006. ASCL ceased to be a legal entity at the date of the merger.

The merger of the Company with ASCL in May 2006 was accounted for in accordance with the reverse take over method of accounting. Under this method, ASCL has been identified as the acquirer and accordingly the consolidated entity is considered to be a continuation of ASCL and the historical financial information prior to the acquisition is that of ASCL only. For accounting purposes, Hard Assets Inc. is thus deemed to have been acquired by ASCL.

The comparative figures used are for the period from December 8, 2004 to December 31, 2005.

2. Basis of preparation

(a) Going concern and adequacy of project finance

The Group is at an early stage of development and in common with many mineral exploration companies, it raises funds in discrete tranches. The current cash resources of the group will not be sufficient to develop its exploration projects and bring them into production and further funding will be required. In the event that the group is unable to secure further finance they will not be able to fully develop these projects.

The directors have reviewed the Group's cash flow forecast and believe that further equity fund raising will be required in the next 12 months and that these funds will be forthcoming. They therefore consider it appropriate to prepare the financial statements on a going concern basis.

(b) Use of estimates and judgement

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRSs") requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Statement of compliance

The consolidated financial statements of the Company for the year ended December 31, 2006 have been prepared in accordance with IFRSs and its interpretations adopted by the International Accounting Standards Board ("IASB"). These are the Group's first full year consolidated financial statements. Previous interim statements have been prepared under UK Generally Accepted Accounting Principles ("UK GAAP"). An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 25. The accounts were approved by the board and authorised for issue on April 27, 2007.

(d) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

(e) Functional and presentation currency

These consolidated financial statements are presented in United States dollars as the Company believes it to be the most meaningful currency given the nature of its operations. The functional currencies of the Company and its subsidiary are Sterling and Mexican Peso respectively. All financial information presented in United States dollars has been rounded to the nearest thousand.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains, losses, income or expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Notes to the consolidated financial statements

(Expressed in United States dollars)

3. Significant accounting policies (continued)

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to US dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to US dollars at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to US dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to US dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly as a separate component of equity. They are released into the income statement upon disposal.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition, non-derivative financial instruments are measured as described below. At December 31, 2006 the fair value equated to the historical cost for all non-derivative instruments.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand are included as a component of cash flows from financing activities, for the purposes of the statement of cash flows.

(ii) Share capital

Common shares

Incremental costs directly attributable to issue of common shares and share options are recognised as a deduction from equity.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the estimated costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

- office equipment 3 years
- fixtures and fittings 3 years
- plant and equipment 5 years
- motor vehicles 4 years

The residual value, if not insignificant, is reassessed annually.

(e) Intangible assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures. Goodwill represents the difference between the cost of the acquisition and the fair value

Notes to the consolidated financial statements

(Expressed in United States dollars)

3. Significant accounting policies (continued)

of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see accounting policy g). Goodwill arising on acquisition is capitalised and shown within fixed assets. The excess of net assets over consideration paid on an acquisition is recognised directly in profit or loss.

(ii) Deferred Exploration and Evaluation Costs

These comprise costs directly incurred in exploration and evaluation as well as the cost of mineral licences. They are capitalised as intangible assets pending the determination of the feasibility of the project. When the existence of economically recoverable reserves is established the related intangible assets are transferred to property, plant and equipment and the exploration and evaluation costs are amortised over the estimated life of the project. Where a project is abandoned or is determined not economically viable, the related costs are written off.

The recoverability of deferred exploration and evaluation costs is dependent upon a number of factors common to the natural resource sector. These include the extent to which a Company can establish economically recoverable reserves on its properties, the ability of the Company to obtain necessary financing to complete the development of such reserves and future profitable production or proceeds from the disposition thereof.

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(g) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

(h) Employee benefits

Share-based payment transactions

The share option programme allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period until the options vest unconditionally to the employee. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except if the change is due to market based conditions not being satisfied.

(i) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(j) Finance income and expenses

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings and foreign currency losses. All borrowing costs are recognised in profit or loss using the effective interest method.

(k) Income tax expense

Income tax expense comprises current and deferred tax.

Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. Deferred tax is not recognised for the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries that will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Notes to the consolidated financial statements

(Expressed in United States dollars)

3. Significant accounting policies (continued)

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(l) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all potentially dilutive common shares, which comprise warrants and share options.

(m) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

4. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

(i) Business segments

The Group's only business segment is the exploration for, and development of, silver and associated metal deposits.

(ii) Geographical segments

The Group also reports by geographical segment. The exploration segment is managed in one principal geographical area, Mexico, with support provided by the UK office.

5. Merger with Arian Silver Corporation Ltd and Acquisition of subsidiary

On February 1, 2006, the Company purchased the ordinary share capital of Arian Silver Corporation (UK) Limited (formerly Arian Silver Corporation Plc) for cash consideration of £1. This resulted in negative goodwill of $38,000 representing the accumulated profit at that date. This was credited to the income statement immediately.

On May 24, 2006, the Company acquired all the shares of Hard Assets Inc. by issue of 37,000,003 common shares at a deemed consideration £0.195 per share and issued 48,898,000 common shares in a two for one issue to acquire all the share capital of ASCL . Goodwill arising on the merger was written off to the income statement immediately. The merger of the Company with ASCL was accounted for in accordance with the reverse take over method of accounting. Under this method, ASCL has been identified as the acquirer and accordingly the consolidated entity is considered to be a continuation of

Geographical segments

	Mexico		UK		Total	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Total assets	1,497	344	3,305	1,442	4,802	1,786
Capital expenditure on property, plant & equipment	103	52	28	-	131	52
Capital expenditure on intangibles	1,235	253	-	-	1,235	253

Notes to the consolidated financial statements

(Expressed in United States dollars)

5. Merger with Arian Silver Corporation Ltd and Acquisition of subsidiary (continued)

ASCL and the historical financial information prior to the acquisition is that of ASCL only. For accounting purposes, Hard Assets Inc. is thus deemed to have been acquired by ASCL.

Effect of acquisitions

The acquisitions had the following effect on the Group's assets and liabilities.

Acquiree's net assets at the acquisition date

	Carrying Amount $'000
Deferred acquisition costs	110
Trade and other receivables	6
Cash and cash equivalents	654
Trade and other payables	(4)
Net identifiable assets and liabilities	766
Goodwill on acquisition	13,665
Consideration paid, satisfied in share	(14,431)
Net cash acquired	-

The goodwill has been reduced to a nil carrying value on the basis that it arose on the acquisition of Hard Assets Inc., a non-trading company.

The goodwill of $13,665,000 was translated to Sterling at the date of the merger as ASCL adopted Sterling as its functional currency. Retranslation of the profit and loss account at the year end using the average method results in the figure being re-translated as $13,484,000.

Consideration paid includes cost of acquisition amounting to $849,000 (legal $465,000, financing fee $233,000, accounting $92,000 and administration $59,000), of which $195,000 has been settled by the issue of common shares.

6. Loss on ordinary activities is stated after charging:

	2006 $'000	2005 $'000
Auditors remuneration		
Audit	59	20
Corporate Finance	73	-
Taxation	6	-
Depreciation	23	4
Exchange gain/loss	137	(4)
	298	20

Remuneration for Group audit includes $5,800 charged by an associated firm to the auditors in respect of the audit of the Group's Mexican subsidiary. Other services provided by the auditors and their associates primarily relate to support and consultancy for the Canadian and AIM listings.

In addition to the amounts shown in the table above, transaction support fees of $92,000 paid to the auditors have been included directly in the cost of the acquisition.

Remuneration of key management personnel

Key management personnel remuneration is detailed below:

	Salary $'000	2006 Fees $'000	Total $'000	2005 Total $'000
Executive Directors (includes remuneration prior to appointment)				
A J Williams	131	-	131	21
J T Williams	218	-	218	164
J S Cable	73	-	73	12
Non-executive Directors (includes remuneration prior to appointment)				
T A Bailey	27	-	27	4
D W Cohen	-	20	20	-
J A Crombie	-	-	-	-
J Merfyn Roberts	-	20	20	-
Dr Braxator	-	-	-	-
Other key management				
Country manager – Mexico	82	-	82	40
Company secretary	73	-	73	12
Total	**604**	**40**	**644**	**253**

7. Staff numbers and costs

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of Employees 2006	Number. of Employees 2005
Finance and administration	22	4
Technical	15	6
	37	**10**

The aggregate payroll costs of these persons were as follows:

	2006 $'000	2005 $'000
Wages and salaries	1,059	370
Social security costs	88	20
Share based payments	947	-
	2,094	390

Notes to the consolidated financial statements

(Expressed in United States dollars)

7. Staff numbers and costs (continued)

An amount of $947,051 has been charged to administration expenses in the income statement for the year (2005: nil) in respect of share-based payments to key management personnel.

8. Finance income and expense

	2006 $'000	2005 $'000
Interest income	71	15
Finance income	71	15
Interest expense	(5)	-
Finance expenses	(5)	-
Net financing income	66	15

9. Income tax expense recognised in the income statement

	2006 $'000	2005 $'000
Current tax expense		
Current year	-	-
Adjustments for prior years	-	-

Reconciliation of effective tax rate

	2006 $'000	2005 $'000
Loss before tax	(17,033)	(1,029)
Income tax using the domestic corporation tax rate (30%)	(5,106)	(309)
Non-deductible expenses	38	21
Share-based payment	284	-
Goodwill written off	4,034	-
Depreciation in excess of capital allowances	2	-
Short term timing differences	(125)	-
Tax losses carried forward	433	-
Tax exempt expenses	440	288
Current tax expenses	-	-

Tax exempt expenses relate to pre-merger expenditure which is not considered allowable for tax purposes.

At December 31, 2006 the Group had tax losses to carry forward of $1,490,000 (2005: nil). No deferred tax asset has been recognised in respect of these losses due to the uncertainty to the extent and timing of the reversal of this asset.

10. Property, plant and equipment

	Plant and equipment $'000	Fixtures and fittings $'000	Vehicles $'000	Total $'000
Cost				
Additions	16	-	40	**56**
Balance at December 31, 2005	16	-	40	**56**
Balance at January 1, 2006	16	-	40	**56**
Additions	38	27	37	**102**
Balance at December 31, 2006	54	27	77	**158**
Depreciation and impairment losses				
Depreciation charge for the year	1	-	3	**4**
Balance at December 31, 2005	1	-	3	**4**
Balance at January 1, 2006	1	-	3	**4**
Depreciation charge for the year	4	5	14	**23**
Balance at December 31, 2006	5	5	17	**27**
Carrying amounts				
At December 31, 2005	15	-	37	**52**
At December 31, 2006	49	22	60	**131**

Notes to the consolidated financial statements

(Expressed in United States dollars)

11. Intangible assets

	Goodwill	Deferred Exploration costs	Total
	$'000	$'000	$'000
Cost			
Additions	-	253	**253**
Balance at December 31, 2005	-	253	**253**
Balance at January 1, 2006		253	**253**
Acquisition through business combinations	13,446	-	**13,446**
Additions	-	982	**982**
Balance at December 31, 2006	13,446	1,235	**14,681**
Impairment losses and amortisation			
Balance at December 31, 2005	-	-	**-**
Balance at January 1, 2006	-	-	**-**
Impairment charge	(13,446)	-	**(13,446)**
Balance at December 31, 2006	(13,446)	-	**(13,446)**
Carrying amounts			
At December 31, 2005	-	253	**253**
At December 31, 2006	-	1,235	**1,235**

The goodwill recognised in the table above is a combination of the positive goodwill of $13,484,000 arising on the merger with ASCL and the negative goodwill of $38,000 arising on the acquisition of Arian Silver (UK) Ltd (note 5).

12. Group entities

Significant Subsidiaries	Country of incorporation and operation	Principal activity	Arian Silver Corporation effective interest 2006	2005
Arian Silver (UK) Ltd	UK	Administration	100%	-
Arian Silver de Mexico S.A. de C.V.	Mexico	Exploration	100%	100%

13. Trade and other receivables

	2006 $'000	2005 $'000
Current receivables due from related parties	4	58
Trade receivables	3	2
Other receivables	201	16
Prepayments	35	25
	243	101

14. Cash and cash equivalents

	2006 $'000	2005 $'000
Bank balances	185	1,380
Call deposits	3,008	-
Cash and cash equivalents in the statement of cash flows	3,193	1,380

15. Share capital

Authorised

The Company is authorised to issue unlimited common shares of no par value. Under the reverse take over method of accounting for the acquisition of ASCL, share capital and movements of ASCL are shown, together with movements in share capital of the Company following acquisition. Changes for the years ended December 31, 2006 and 2005 are detailed in the following table:

Notes to the consolidated financial statements

(Expressed in United States dollars)

15. Share capital (continued)

Issued

	2006		2005	
	Number of Shares '000	Amount $'000	Number of Shares '000	Amount $'000
Opening balance	19,770	2,604	11,000	110
Shares issued for cash	4,400	2,306	5,652	1,722
Issue costs of share issuance	-	(147)	-	(276)
Shares issued for consulting services	280	147	-	-
ASCL shares at date of acquisition	**24,450**	**4,910**	**-**	**-**
Shares issued on reverse take over of ASCL	48,899	4,910	-	-
Shares in issue upon reverse take over	37,000	14,121	-	-
Shares issued for consulting services	417	245	118	50
Exercise of warrants	7	1	3,000	1,050
Commission payable on early warrant exercise	-	-	-	(52)
Shares issued for cash	14,060	3,136	-	-
Exercise of share options	300	35	-	-
Closing balance	**100,683**	**22,448**	**19,770**	**2,604**

During the years ended December 2006 and 2005, the Company made the following share and warrant issues:

2005

During the year, ASCL issued 117,600 common shares of $0.01 each as consideration in respect of services provided to the Company of $49,350 and 8,652,000 common shares of $0.01 each to provide additional working capital of $2,773,000.

2006

During the year, ASCL issued 4,400,000 common shares of $0.01 each to provide additional working capital of $2,306,000 and 280,000 common shares of $0.01 each as consideration in respect of agents commission.

In respect of the merger with ASCL, on May 24, 2006, the Company issued 48,899,200 common shares on the basis of two shares for every one share exisiting at that date.

Under the reverse acquisition method of accounting, it was deemed that 37,000,003 shares were issued in consideration for Hard Assets Inc., being its issued share capital immediately prior to the merger.

During the year, the Company issued 416,666 common shares at £0.30 per share in consideration of services provided to the Company of $245,000.

During the year 300,000 share options and 7,000 share warrants were exercised at CAD$0.12 and $0.175 respectively.

During the year the Company issued 14,060,000 common shares at CAD$0.25 to provide additional working capital of CAD$3,515,000. In addition, the Company issued 14,060,000 share purchase warrants exercisable for a period of one year at CAD$0.42 and subject to accelerated exercise conditions at the Company's option.

Notes to the consolidated financial statements

(Expressed in United States dollars)

16. Capital and reserves

Reconciliation of movement in shareholders equity

	Share Capital	Share based payment reserve	Foreign exchange translation reserve	Retained Earnings	Total
	$'000	$'000	$'000	$'000	$'000
Opening balance January 1, 2005	110	-	-	-	110
Shares issued for cash	1,722	-	-	-	1,722
Shares issued in lieu of services	50	-	-	-	50
Warrants exercised	1,050	-	-	-	1,050
Share issue costs	(328)	-	-	-	(328)
Net loss	-	-	-	(1,029)	(1,029)
Foreign exchange loss	-	-	2	-	2
December 31, 2005	**2,604**	**-**	**2**	**(1,029)**	**1,577**
Shares issued for cash	5,442	-	-	-	5,442
Share issue costs	(147)	-	-	-	(147)
Shares/options issued on reverse take over	14,121	-	-	-	14,121
Shares issued in lieu of services	392	-	-	-	392
Fair value of share options	-	947	-	-	947
Proceeds from options exercised	35	-	-	-	35
Proceeds from warrants exercised	1	-	-	-	1
Net loss	-	-	-	(17,033)	(17,033)
Foreign exchange loss	-	-	(912)	-	(912)
Balance end of period December 31, 2006	**22,448**	**947**	**(910)**	**(18,062)**	**4,423**

No apportionment of fair value has been made to the warrants issued in conjunction with common share issues in year to December 31, 2006 as this represents an allocation between non distributable reserves.

	Common shares	
	2006	**2005**
	'000	**'000**
On issue at January 1	19,770	11,000
Issued for cash	18,767	8,770
Issued on reverse take-over	61,449	-
Issued in lieu of payment for services	697	-
On issue at December 31 – fully paid	100,683	19,770

At 31 December 2006, the authorised share capital comprised unlimited common shares of no par value (2005: 100,000,000).

Notes to the consolidated financial statements

(Expressed in United States dollars)

16. Capital and reserves (continued)

Share options

Employee share options at December 31, 2006

Holder	Shares	Exercise price		Vesting Date	Expiry
A Williams	1,200,000	£0.15		June 15, 2006	January 31, 2009
J Williams	1,200,000	£0.15		June 15, 2006	January 31, 2009
J Cable	400,000	£0.15		June 15, 2006	January 31, 2009
D Cohen	500,000	£0.15		June 15, 2006	January 31, 2009
T Bailey	400,000	£0.15		June 15, 2006	January 31, 2009
M Roberts	500,000	£0.15		June 15, 2006	January 31, 2009
J Crombie	-	-		-	-
Senior management	1,500,000	£0.15	1,000,000	June 15, 2006	January 31, 2009
			500,000	February 1, 2007	January 31, 2009
Other employees	130,000	£0.15	65,000	June 15, 2006	January 31, 2009
			65,000	February 1, 2007	January 31, 2009
Other share options at December 31, 2006					
Share options issued to third parties	350,000	$0.50		April 13, 2006	April 13, 2008

Translation reserve

This translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

The retranslation of goodwill written off from Sterling to US Dollars using the average exchange rate for the year has resulted in an exchange loss of $840,000 which is included in the foreign exchange translation reserve.

17. Loss per share

Basic loss per share

The calculation of basic loss per share at December 31, 2006 was based on the loss attributable to common shareholders of $17,033,000 (2005: $1,029,000) and a weighted average number of common shares outstanding during the year ended December 31, 2006 of 70,507,727 (2005: 14,968,792).

Diluted Loss per share

The potential increase in common shares from the exercise of any of the warrants or share options would be anti-dilutive as the Company has a net loss. These potential common shares are therefore excluded from the calculation and the diluted loss per share figure reported is the same as the basic earnings per share.

17. Loss per share (continued)

Warrants

A summary of the changes in the Company's share purchase warrants for the years ended December 31, 2006 and 2005 is set out below:

	2006		2005	
	Warrants outstanding '000	Weighted average exercise price ($)	Warrants outstanding '000	Weighted average exercise price ($)
Opening balance	2,900	0.17	-	-
Exercised	(7)	(0.17)	(6,000)	0.17
Issued	14,268	0.36	8,900	0.17
Closing balance	17,161	0.33	2,900	0.17

At December 31, 2006 the warrants in issue are analysed below:

Shares	Exercise price	Expiry
2,892,600	$0.175	April 7, 2007
208,333	£0.30	May 25, 2007
14,060,000	Cdn$0.42	November 30, 2007

Notes to the consolidated financial statements

(Expressed in United States dollars)

18. Employee benefits

Share-based payments

The Company currently has in place two incentive share option plans (the "Plans") covering Directors, officers, employees and consultants of the Company and its subsidiary companies. The exercise price of a future option grant will be determined by the Board of Directors on the basis of the closing market price of the Company's shares on the trading day prior to the date of issue of the option. Options may be granted for a period of up to ten years and the Board of Directors determines the vesting provisions of each option granted, which may vary. The aggregate number of shares which may be issued and sold under the Plans may not exceed 10% of issued share capital. As at December 31, 2006, a total of 3,888,287 options remained available for grant under the Plan.

A summary of the Company's share options (as adjusted to reflect the terms of the merger referred to in note 5) for the years ending December 31, 2006 and 2005 is set out below:

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Employees entitled	Grant date	Number	Vesting conditions	Remaining life of options (years)
Options granted to directors	February 1, 2006	3,200,000	June 15, 2006	2
Options granted to directors	April 7, 2006	500,000	June 15, 2006	2
Options granted to directors	May 25, 2006	500,000	June 15, 2006	2
Options granted to senior management and other staff	February 1, 2006	1,065,000	June 15, 2006	2
Options granted to senior management and other staff	February 1, 2006	565,000	February 01, 2007	2

The number and weighted average exercise prices of share options are as follows:

	2006 Outstanding '000	2006 Weighted average exercise price ($)	2005 Outstanding '000	2005 Weighted average exercise price ($)
Opening balance	-	-	-	-
Options assumed on acquisition of Hard Assets Inc.	300	0.11	-	-
Issued on acquisition of ASCL*	5,830	0.28	-	-
Issued	350	0.5	-	-
Exercised	(300)	(0.11)	-	-
Balance – end of period	6,180	0.29	-	-

* Converted to $US. Actual exercise price was £0.15.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The contractual lives of the options (2-3 years) are used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes model.

Notes to the consolidated financial statements

(Expressed in United States dollars)

18. Employee benefits (continued)

Fair value of share options and assumptions	2006	2005
Fair value at measurement date	$947,000	-
Share price December 31, 2006	$0.303	-
Exercise price	$0.28	-
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes model)	80%	-
Option life (expressed as weighted average life used in the modelling under Black-Scholes model)	2-3 yrs	-
Expected dividends	0%	-
Risk-free interest rate (based on national government bonds)	3.98% to 4.18%	-

The expected volatility is based on the historical volatility of comparative companies in the mining industry (calculation based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. There are no market conditions associated with the share option grants. The fair value of stock options granted for the year ended December 31, 2006 was $947,000 (2005: nil) which was expensed in the income statement.

Employee expenses

	2006 $'000	2005 $'000
Share options granted in 2005	-	-
Share options granted in 2006	947	-
Total expense recognised as employee costs	947	-

19. Trade and other payables

	2006 $'000	2005 $'000
Payables due to related parties	140	169
Trade payables	85	3
Other payables	148	37
	373	209

20. Financial instruments

Exposure to interest rate and currency risks arises in the normal course of the Group's business. Derivative financial instruments are not used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

The Group's policy is to retain its surplus funds on short term deposits, usually between one week and four weeks duration, at prevailing market rates.

Effective interest rates and deposit terms

In respect of income-earning financial assets the following table indicates their effective interest rates at the balance sheet date and the deposit terms:

	2006			2005		
	Effective interest rate	Total $'000	Six months or less $'000	Effective interest rate	Total $'000	Six months or less $'000
Call Deposits	4.00%	3,008	3,008	-	-	-
		3,008	3,008		-	-

Notes to the consolidated financial statements

(Expressed in United States dollars)

20. Financial instruments (continued)

Foreign currency risk

The Group's exploration expenditure is made in Mexico in Mexican Peso and head office expenses are predominantly made in London in Pounds Sterling and US dollars. The Group is therefore exposed to the movement in exchange rates for these currencies. The Group does not currently hedge foreign exchange risk but seeks to minimise cash held in foreign currencies. This situation is monitored.

As a result of a recent Canadian dollar share placement, the majority of the Group's cash resources are currently held in Canadian dollars. The Group therefore also has downside exposure to any strengthening of the Pound Sterling, Mexican Peso or US dollar against the Canadian dollar as this would increase expenses in Canadian dollar terms and accelerate the depletion of the Group's cash resources. Any weakening of the Pound Sterling, Mexican Peso or US dollar against the Canadian dollar would, however, result in a reduction in expenses in Canadian dollar terms and preserve the Group's cash resources.

In addition, any movements in Pound Sterling, Mexican Peso or Canadian dollar would affect the presentation of the Consolidated Balance Sheet when the net assets of the Mexican subsidiary and parent company in the UK are translated from their functional currencies into US dollars.

In view of the potential significance of any strengthening of the Pound Sterling, Mexican Peso or US dollar against the Canadian dollar, the policy of holding the majority of the Group's cash resources in Canadian dollars is kept under review.

There is not considered to be any material exposure in respect of liabilities incurred by the Group as these are of a short-term nature. The table below shows an analysis of cash and cash equivalents denominated by currency at December 31, 2006 and 2005.

	Cash Held 2006 $'000	Cash Held 2005 $'000
Pounds Sterling	67	-
United States Dollars	16	1,354
Canadian Dollars	3,096	-
Mexican Pesos	14	26
	3,193	**1,380**

Fair values

The fair values of the Groups financial instruments reflect the carrying amounts shown in the balance sheet.

21. Future project expenditure

The Company does not have any capital commitments at December 31, 2006 (2005: nil).

The Company does not have any exploration and development expenditure commitments in respect of its projects. However, the following are the material payments that will need to be made in order to maintain certain properties in good standing:

(a) In order to maintain the Company's interest in the Calicanto property, the Company is required to pay, over the period to June 30, 2011, $380,000 in option payments. At December 31, 2006, $124,000 had been paid.

(b) In order to maintain the recently acquired Tepal option agreement in good standing, the Company is required to pay the vendor $5 million in instalments over the five-year period through to June 2011 and will also grant the vendor a Net Smelter Return ("NSR") of 2.5%. The company has the right of first refusal to buy out the NSR for an unspecified amount. At December 31, 2006, $256,000 had been paid.

(c) In order to maintain the recently acquired San Jose option agreement in good standing the Company is required to pay the vendor $1.5 million in instalments over the three-year period through to 2009 and will also grant the vendor a NSR of 2%. The company has the right to buy out the NSR for $1.15m. At December 31, 2006, $50,000 had been paid.

The Company has the right to withdraw from the option agreements relating to Calicanto, Tepal and San Jose at any time during the term of each option without financial penalty.

Total planned expenditure is set out below:

Project Name	2007 $'000	2008-9 $'000
Calicanto	1,028	2,387
San Celso	-	1,822
Tepal	1,124	6,578
San Jose	1,967	5,965
Total	**4,119**	**16,752**

The expenditure discussed above is discretionary and not yet committed as it is dependent on timing, availability of funds and the results of exploration. However, as explained above, certain payments in respect of Calicanto, Tepal and San Jose will be necessary in order to maintain the interests in good standing.

22. Related parties

Control of the Group

In the opinion of the Directors, there is no ultimate controlling entity of the Group.

Identity of related parties

The Group has a related party relationship with its subsidiaries and with its Directors and executive officers.

Transactions with key management personnel

Directors of the Company and their immediate relatives control 8.8% per cent of the voting shares of the Company. During

Notes to the consolidated financial statements

(Expressed in United States dollars)

the year ended December 31, 2006, the Company entered into the following transactions involving related parties:

Companies in the Dragon Group charged the Company a total of $671,155 (Period to December 31, 2005: $155,185) in respect of the provision of staff, office facilities, general office overheads and re-charged costs incurred on behalf of the Company. Tony Williams, Chairman and a director of the Company, beneficially owns the Dragon Group.

Endeavour Financial Limited ("EF") charged the Company a total of $62,740 (Period to December 31, 2005: $51,424) in respect of the provision of office facilities incurred on behalf of the Company. Gordon Keep, a director of the Company up to the date of the Merger, is a director of EF.

Anfield Sujir Kennedy & Durno ("ASKD") charged the Company a total of $86,895 (Period to December 31, 2005 nil) in respect of the provision of legal services incurred on behalf of the Company. Henry Jay Sujir, a director of the Company up to the date of the Merger, is a partner in ASKD.

European Diamonds PLC ("EPD") charged the Company a total of $82,594 (Period to December 31, 2005 $23,324) in respect of a recharge of remuneration on behalf of the Company. James Cable and Tony Williams are Directors of the Company and EPD.

Transactions with subsidiaries were as follows:

The Company made loans to Arian Silver de Mexico S.A. de C.V. ("Arian Mexico") of $986,790 (2005: $396,062) and paid charges on behalf of Arian Mexico of $32,647 (2005: nil)

Arian Silver Corporation (UK) Limited ("Arian UK") charged the Company a total of $783,821 (2005: $55,000) in respect of staff payroll and other costs and was charged by the Company $101,334 (2005: nil) in respect of management fees. In addition the Company made loans to Arian UK of $136,443 (2005: $36,657).

These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Executive officers also participate in the Group's share option programme (see note 18).

The key management personnel compensations are shown in Personnel expense (see note 7).

The Directors who held office at the end of the financial year held the following common shares of the company:

	Shares held at December 31, 2006	Shares held at January 1 2006 or date appointed
A J Williams	2,000,000	2,000,000
J T Williams	6,800,000	6,800,000
J S Cable	-	-
T A Bailey	-	-
D W Cohen	-	-
J A Crombie	-	-

There have been no changes in the Directors' shares held between January 1, 2007 and April 27, 2007.

23. Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

24. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on managements' best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements.

Information about such judgements and estimation is contained in the accounting policies and/or the Notes to the financial statements, and the key areas are summarised below. Areas of judgement that have the most significant effect on the amounts recognised in the financial statements:

Capitalisation and impairment of exploration and evaluation costs – Note 3e, 3g, 11

Estimation of share based compensation amounts – Note 3h, 16

25. Explanation of transition to IFRSs

The Group has adopted IFRSs with effect from January 1, 2006. The directors have elected a transition date of January 1, 2005 as this is the start date for which the Group has presented full comparative information under IFRSs in the 2006 financial statements.

Basis of transition

The accounting policies set out in note 3 have been applied in preparing the restatement of the financial statements for the year ended December 31, 2005 and in the preparation of an opening IFRS balance sheet at January 1, 2005 (the Group's date of transition).

Notes to the consolidated financial statements

(Expressed in United States dollars)

There are no material differences between equity at the date of transition or profit and cash flows for 2005 presented under IFRSs and as previously presented under UK GAAP.

26. Subsequent events

The Company issued 3,792,000 common shares to provide additional working capital of US$652,326 and £75,000 in connection with the exercise of warrants and share options.

Corporate Information

Directors	Anthony (Tony) J. Williams, Chairman and Director James (Jim) T. Williams, Chief Executive Officer and Director James S. Cable, Chief Financial Officer and Director James A Crombie, Director Thomas A. Bailey, Director David W. Cohen, Director
Company Secretary	Graham A. Potts
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Nominated Adviser	Grant Thornton UK LLP Grant Thorton House Melton Street Euston Square London, NW1 2EP
Broker	Haywood Securities (UK) Ltd Ryder Court 14 Ryder Street London, SW1Y 6QB
Auditors	PKF (UK) LLP Farringdon Place 20 Farringdon Road London EC1M 3AP
Registrar	Computershare Investor Services 100 University Avenue Toronto, Ontario M5J 2Y1 Canada
Stock Exchanges	The AIM Market of the London Stock Exchange TSX Venture Exchange Frankfurt Stock Exchange
Trading Symbols	AIM: AGQ (stock is quoted in Pounds Sterling) TSXV: AGQ (stock is quoted in Canadian Dollars) Frankfurt: 13A (Stock is quoted in Euros)

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