ARIAN SILVER CORPORATION

Audited Consolidated
Financial Statements

Year Ended 31 December, 2009
(In thousands of U.S. dollars)

Statement of directors' responsibilities

The directors are responsible for preparing financial statements for each financial year that 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. The directors have, as required by the AIM Rules of the London Stock Exchange, prepared the group financial statements in accordance with International Financial Reporting Standards as adopted by the International Accounting Standards Board. 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;
- 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 records that are sufficient to show and explain the Company's transactions and will, at any time, enable the financial position of the Company to be determined with reasonable accuracy. 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.

Independent auditors' report 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 31 December, 2009 which comprise the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in 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 in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and 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 also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

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 in the United Kingdom. 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 and Company'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 31 December, 2009 and of its loss for the year then ended.

Emphasis of matter — going concern and adequacy of project finance

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 and progress its exploration projects. Further funding will be required in the next 12 months for project development and working capital purposes and the directors believe that this will be forthcoming from cash flows from the initial San Jose mining operations and other possible sources of funds described in note 2(a). However, the funds raised from these sources may not be sufficient to meet projected working capital and project expenditure requirements. 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 and in particular the amounts shown as intangible assets may not be fully recoverable.

PKF (UK) LLP
London, UK
29 April, 2010

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 31 December, 2009 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 31 December, 2009 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
29 April, 2010

Consolidated statement of financial position
(Expressed in United States dollars)

As at 31 December, 2009

	Note	**2009 $'000**	**2008 $'000**
Assets			
Property, plant and equipment	*9*	86	135
Intangible assets	*10*	7,703	6,038
Total non-current assets		7,789	6,173
Trade and other receivables	*13*	349	625
Cash and cash equivalents	*14, 21*	101	753
Investments - available for sale assets	*12*	5,637	-
Total current assets		6,087	1,378
Total assets		13,876	7,551
Equity			
Share capital	*15*	38,238	33,303
Share-based payment reserve	*15, 18*	1,648	2,184
Foreign exchange translation reserve	*15*	(1,444)	(1,973)
Available for sale reserve	*15*	504	-
Retained loss	*15*	(27,203)	(26,218)
Total equity		11,743	7,296
Current borrowings	*19*	1,612	-
Trade and other payables	*20*	521	255
Total current liabilities		2,133	255
Total liabilities		2,133	255
Total equity and liabilities		13,876	7,551

The accompanying notes are an integral part of these consolidated financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 29 April 2010 and were signed on its behalf by:

"J T Williams"
J T Williams
Chief Executive Officer

"G A Potts"
G A Potts
Chief Financial Officer

Consolidated income statement
(Expressed in United States dollars)

For the year ended 31 December, 2009

	Note	2009 $'000	2008 $'000
Administrative expenses		(2,068)	(3,720)
Operating loss before financing costs		(2,068)	(3,720)
Finance income	7	-	31
Net financing income		-	31
Loss before tax	5	(2,068)	(3,689)
Income tax		196	-
Loss for the year attributable to equity shareholders of the parent		(1,872)	(3,689)
Basic and diluted loss per share	16	(0.01)	(0.03)

Consolidated statement of comprehensive income
(Expressed in United States dollars)

For the year ended 31 December, 2009

	Note	2009 $'000	2008 $'000
Loss for the year attributable to equity shareholders of the parent		(1,872)	(3,689)
Other comprehensive income and expense			
Foreign exchange translation differences recognised directly in equity	15	529	(1,108)
Available for sale reserve	12, 15	700	-
Income tax relating to available for sale reserve		(196)	-
Total comprehensive income and expense for the year attributable to equity shareholders of the parent		(839)	(4,797)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
(Expressed in United States dollars)

For the year ended 31 December, 2009

	Note	2009 $'000	2008 $'000
Cash flows from operating activities			
Operating loss before financing costs		(2,068)	(3,720)
Adjustments for:			
Depreciation		41	55
Impairment of fixture & fittings		17	-
Exchange difference		(166)	34
Equity-settled share-based payment transactions		351	542
		(1,825)	(3,089)
Increase/(decrease) in trade and other receivables	*13*	315	(68)
Increase in trade and other payables	*20*	238	10
Net cash used in operating activities		(1,272)	(3,147)
Cash flows from investing activities			
Interest received	*7*	-	31
Acquisition of intangibles	*10*	(1,048)	(2,651)
Acquisition of property, plant and equipment	*9*	-	(48)
Net cash used in investing activities		(1,048)	(2,668)
Cash flows from financing activities			
Proceeds from issue of share capital	*15*	-	3,451
Proceeds from borrowings	*19*	1,612	-
Net cash from financing activities		1,612	3,451
Net decrease in cash and cash equivalents		(708)	(2,364)
Cash and cash equivalents at 1 January		753	3,134
Effect of exchange rate fluctuations on cash held		56	(17)
Cash and cash equivalents at 31 December	*14*	101	753

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

(Expressed in United States dollars)

For the year ended 31 December, 2009

	Share Capital $000's	Share based payment Reserve $000's	Foreign exchange translation reserve $000's	Available for sale reserve $000's	Retained Earnings $000's	Total $000's
Balance – 1 January, 2008	29,852	2,068	(865)	-	(22,955)	8,100
Loss for the year	-	-	-	-	(3,689)	(3,689)
Foreign exchange	-	-	(1,108)	-	-	(1,108)
Total comprehensive income and expense for the year	-	-	(1,108)	-	(3,689)	(4,797)
Shares issued for cash	3,612	-	-	-	-	3,612
Share issue costs	(161)	-	-	-	-	(161)
Fair value of share options	-	542	-	-	-	542
Lapsed Options	-	(426)	-	-	426	-
Balance – 31 December, 2008	**33,303**	**2,184**	**(1,973)**	**-**	**(26,218)**	**7,296**
Loss for the year	-	-	-	-	(1,872)	(1,872)
Foreign exchange	-	-	529	-	-	529
Unrealised gain	-	-	-	504	-	504
Total comprehensive income and expense for the year	-	-	529	504	(1,872)	(839)
Shares issued in exchange for shares	4,935	-	-	-	-	4,935
Fair value of share options	-	351	-	-	-	351
Lapsed share options	-	(887)	-	-	887	-
Balance – 31 December, 2009	**38,238**	**1,648**	**(1,444)**	**504**	**(27,203)**	**11,743**

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Reporting entity

Arian Silver Corporation (the “Company”) is a company domiciled in the British Virgin Islands. The consolidated financial statements for the year ended 31 December, 2009 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.

2. Basis of preparation

(a) Going concern and adequacy of project finance

The Group is at an early stage of development and currently does not generate any revenues from its operations. In the past the Company has raised equity funds in several discrete share placements, which is a common practice for junior mineral exploration companies. Although the Company has been successful in the past in raising equity finance, there can be no assurance that the funding required by the Group will be made available to it when needed or, if such funding were to be available, that it would be offered on reasonable terms. The terms of such financing might not be favourable to the Group and might involve substantial dilution to existing shareholders.

During 2009 the Group’s operations were largely funded by way of loans from Grafton Resource Investments Ltd (“Grafton”), a significant shareholder in the Company, pending the proposed disposal of the Grafton Shares to raise funding for the Company. See Note 12 – “Investments and significant non-cash transactions”, Note 19 – “Borrowings” and Note 24 – “Post-year end events – Reorganisation of Grafton relationship” for further information.

Since the year end the Group has received new funding from the following sources:

(a) a private placement of common shares by the Company which raised approximately Cdn$3.5 million. See Note 24 “Post-year end events – Private Placement”; and;

(b) the first instalment of $1.45 million under an option granted to Geologix Explorations Inc (“Geologix”) in relation to the Tepal Project. This instalment was settled as to $725,000 in cash and the balance by the issue to the Company of the Geologix Shares with a market value of $725,000. See Note 24 “Post-year end events – Tepal Project”.

In addition, the Group has accumulated recoverable IVA (sales tax) on past expenditure in Mexico which amounted to approximately $317,000 at 31 December, 2009. IVA is generally repaid in instalments by the Mexican tax authorities, however there is no precise timing as to future repayments of this IVA receivable.

During 2009 a Preliminary Economic Assessment Report was completed by A.C.A. Howe International Limited, independent consultants, which confirmed the economic potential of an initial contract mining and toll milling operation at the Group’s San Jose Project. The Group is currently negotiating contracts to establish such an operation at its San Jose Project. Subject to satisfactory completion of contract negotiations and a metallurgical testwork programme, it is currently anticipated that the proposed contract mining and toll milling operation will commence in Q2 of 2010 and that it will generate positive cash flows in the second half of 2010.

The Group will require additional funding in the next 12 months in order to progress exploration programmes on its mineral projects, for project development and for general working capital requirements. Potential sources of funds available to the Group are from cash flow from the proposed initial contract mining operation at the San José Project described above, proceeds from disposal of the Geologix Shares, through the issue of equity capital, the exercise of outstanding share purchase warrants and options, the sale of its interests in one or more of its projects, by way of project joint ventures or business combinations. In addition, on full exercise of the option relating to the Tepal Project, a second instalment amounting to $1.55 million is due from Geologix in February 2011.

Based on current expectations the directors believe that the Group will have adequate resources to continue in operational existence for the foreseeable future. They therefore believe it appropriate to prepare the Group’s financial statements on a going concern basis. However, if these expectations are not fulfilled the Group may not be able to meet its currently projected working capital and project expenditure requirements without additional finance. If these circumstances arose and other sources of finance were not made available to the Group as needed, then there would be significant concerns regarding 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 and in particular the amounts shown as intangible assets may not be fully recoverable.

Notes to the consolidated financial statements

(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.

Information about such judgements and estimates is contained in the accounting policies and/or the notes to the consolidated financial statements. Areas of judgement that have the most significant effect on the accounts recognised in the consolidated financial statements:

- Going concern and adequacy of project finance – Note 2a
- Capitalisation and impairment of exploration and evaluation costs – Notes 3e, 3g, 10
- Estimation of share based payment costs – Notes 3h, 18

(c) Statement of compliance
The consolidated financial statements for the year ended 31 December, 2009 have been prepared in accordance with IFRSs and Interpretations adopted by the International Accounting Standards Board ("IASB") in force at the reporting date.

During 2009 the following accounting standards and guidance were adopted by the Group:

- IAS 1 (Revised) Presentation of Financial Statements.
  The revised standard has changed the way the Group's primary financial statements have been presented. The revision required information to be aggregated on the basis of shared characteristics and introduced a "statement of comprehensive income" to enable readers to analyse changes in an entity's equity resulting from transactions with owners separately from "non-owner" changes. Comparative information has been re-presented so that it also is in conformity with the revised standard.

- IFRS 7 (Amendment) Financial Instruments: Disclosures
  The amendment introduced a three-level hierarchy for fair value measurement disclosures and required entities to provide additional disclosures about the relative reliability of those fair valued instruments. In addition the amendment clarified and enhanced liquidity risk disclosure requirements to enable users to better evaluate the nature and extent of liquidity risk arising from financial instruments and how the entity managed risk. The group has provided these additional disclosures in the notes to the financial statements.

- IFRS 8 Operating Segments
  IFRS 8 replaced IAS 14 and requires operating segments to be identified on the basis of internal reports about components that are regularly reviewed by the Board of Directors (the "Board"). The new standard has not significantly impacted the way management reports segmental information as this is the basis on which the Group is organised and managed.

During 2009 the following standards and interpretations were adopted by the Group and were mandatory for the accounting period, but either had no material impact on the Group's financial statements or were not relevant to the operations of the Group:

- IFRS 1 (Amendment) First time adoption of IFRS
- IFRS 2 (Amendment) Share-based payment
- IAS 23 (Amendment) Borrowing Costs.
- IAS 27 (Amendment) Consolidated and Separate Financial Statements
- IAS 32 (Amendment) Financial Instruments Presentation
- IAS 39 and IFRS 7 (Amendment) Financial Instruments Recognition and Measurement
- IAS 40 (Amendment) Investment Property

- IFRIC 9 (amendment) Financial instruments: Recognition and measurement, and Reassessment of embedded derivatives
- IFRIC 13 Customer loyalty programmes
- IFRC 15 Agreements for the construction of real estate
- IFRIC 16 Hedges of a net investment in a foreign operation

The Group has not adopted any standards or interpretations in advance of the required implementation dates. It is not expected that adoption of standards or interpretations which have been issued by the IASB but have not been adopted will have a material impact on the financial statements.

Of these standards:

- IAS 27 (Amendment) “Consolidated and Separate Financial Statements” would impact only on the presentation of these financial statements.

- IFRS 3 (Revised) “Business combinations” would only have an impact on future business combinations

The accounts were approved by the board and authorised for issue on 29 April, 2010.

(d) Functional and presentation currency

These consolidated financial statements are presented in United States dollars as the Company believes it to be the most appropriate and meaningful currency for investors. The functional currencies of the Company and its subsidiary are Pounds Sterling and Mexican Peso respectively.

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.

(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 date of the Consolidated statement of financial position are translated 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 at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of operations

The assets and liabilities of operations, including goodwill and fair value adjustments arising on consolidation, are translated to United States dollars at exchange rates ruling at the date of the Consolidated statement of financial position. The revenues and expenses of operations and net investments in subsidiaries are translated to United States dollars at rates approximating to the 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.

Notes to the consolidated financial statements

Further foreign exchange differences arise from the translation required for the presentation of the financial statements in United States dollars. This is recognised directly as a separate component of equity.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, trade and other payables and available for sale assets.

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.

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.

(ii) Trade and other receivables

Trade and other receivables that are short term in nature are stated at cost less any impairment provision.

(iii) Financial liabilities

Financial liabilities include current borrowings and trade and other payables that are short term in nature and are stated at amortised cost.

(iv) Cash and cash equivalents

Cash and cash equivalents represent bank balances.

(v) Investments - available for sale assets

Available for sale financial assets are classified as current assets. They are initially stated at cost and subsequently measured at fair value. Fair values are derived by reference to net asset value or, where available, market pricing of such assets and movements in fair values are taken directly to equity with the exception of impairment losses which are recognised directly in the income statement. When an investment is disposed of, any cumulative gains and losses previously recognised in equity are included in the Consolidated income statement.

(vi) Share capital – Common shares

Incremental costs directly attributable to the 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 arises on the acquisition of subsidiaries, associates and joint ventures. Goodwill represents the difference between the cost of the acquisition and the fair value 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 decision is taken to develop a mine 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 mineral 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 under 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.

(g) Impairment

The carrying amounts of the Group’s assets are reviewed at the date of each Consolidated statement of financial position to determine whether there is any indication of impairment. If any such indication exists, the asset’s recoverable amount is estimated.

(h) Share-based payment transactions

The share option programme allows Group directors, officers, employees and consultants to acquire shares of the Company. The fair value of options granted is recognised as an 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. 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 Consolidated statement of financial position 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.

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.

4. Segment reporting

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to report two sets of segments (business and geographical).

The Group’s reportable segments, which are those reported to the Board, are the operating business managed by the geographically based management teams responsible for their performance.

As at 31 December 2009, the Group had one operational segment being the exploration for and development of silver and associated metal deposits in Mexico.

Notes to the consolidated financial statements

(i) Segment information

	Mexico		Central Costs		Group	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Loss before tax	1,291	3,038	777	651	2,068	3,689
Total assets	8,055	6,772	5,821	779	13,876	7,551
Total liabilities	539	12	1,594	243	2,133	255

(ii) Geographical information

	Mexico		UK		Total	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Non current assets excluding investments	7,784	6,149	5	24	7,789	6,173

5. Loss on operating activities is stated after charging:

	2009 $'000	2008 $'000
Auditors remuneration		
Audit – Remuneration for audit of the Arian Silver Corporation	45	53
Audit – Remuneration for audit of the Arian Silver Mexico	6	6
Taxation	6	8
Depreciation	41	55
Exchange (loss)	56	(17)

6. 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 2009	Number of Employees 2008
Finance and administration	12	16
Technical	16	32
	28	**48**

The aggregate staff costs of these persons were as follows:

	2009 $'000	2008 $'000
Wages and salaries	703	1,128
Social security costs	67	72
Share based payments	339	508
	1,109	**1,708**

Notes to the consolidated financial statements

Remuneration of key management personnel
Key management personnel remuneration is detailed below:

	2009			2008
	Salary	Fees	Total	Total
Executive Directors	$'000	$'000	$'000	$'000
A J Williams	113	-	113	134
J T Williams	251	-	251	260
Non-executive Directors				
T A Bailey	23	-	23	28
J S Cable	23	-	23	28
D W Cohen (retired 12 June, 2008)	-	-	-	14
J A Crombie	23	-	23	35
D Cather (appointed 23 June, 2009)	12	-	12	-
Other key management				
Country Manager – Mexico	-	36	36	81
CFO & Company Secretary	126	-	126	117
	571	**36**	**607**	**697**

7. Finance income and expense

	2009	2008
	$'000	$'000
Interest income	-	31
Net financing income	**-**	**31**

8. Income tax recognised in the income statement

	2009	2008
Current tax	$'000	$'000
Current year	196	-
Adjustments for prior years	-	-

Reconciliation of effective tax rate	2009	2008
	$'000	$'000
Loss before tax	(2,068)	(3,689)
Income tax using the domestic corporation tax rate of 28.5% (2007 – 30%)	(579)	(1,051)
Non-deductible expenses	168	282
Share options disallowed	99	154
Depreciation in excess of capital allowances	5	5
Short term timing differences	(156)	(1,314)
Tax losses carried forward	267	1,924
Total tax expense	(196)	-

At the year end the Group had tax losses to carry forward of approximately $15,054,000 (2008 – $12,473,000). This includes losses and exploration costs expensed under Mexican GAAP but capitalised under IFRS. It should be noted that recent changes in Mexican tax legislation may limit the extent and timing of the use of the Mexican allowable tax losses.

Under IFRS a net deferred tax asset of approximately $2,940,000 (2008 – $2,457,000) has not been recognised due to the uncertainty as to the amount that can be utilised.

9. Property, plant and equipment

	Plant and equipment $'000	Fixtures & fittings $'000	Vehicles $'000	Total $'000
Cost				
Balance – 1 January, 2008	93	49	111	**253**
Additions	19	29	-	**48**
Foreign Exchange	(20)	(11)	(23)	**(54)**
Balance – 31 December, 2008	92	67	88	**247**
Balance – 1 January, 2009	92	67	88	**247**
Disposals	-	(27)	-	**(27)**
Foreign Exchange	6	5	5	**16**
Balance – 31 December, 2009	98	45	93	**236**
Depreciation and impairment losses				
Balance – 1 January, 2008	18	13	41	**72**
Depreciation charge for the year	17	16	22	**55**
Foreign Exchange	(4)	(3)	(8)	**(15)**
Balance – 31 December, 2008	31	26	55	**112**
Balance – 1 January, 2009	31	26	55	**112**
Disposals	-	(10)	-	**(10)**
Depreciation charge for the year	20	2	19	**41**
Foreign Exchange	2	2	3	**7**
Balance – 31 December, 2009	53	20	77	**150**
Carrying amounts				
At 31 December, 2009	45	25	16	**86**
At 31 December, 2008	61	41	33	135
At 1 January, 2008	75	36	70	181

10. Intangible assets

	Goodwill $'000	Deferred Exploration costs $'000	Total $'000
Cost			
Balance – 1 January, 2008	13,446	4,407	**17,853**
Additions	-	2,651	**2,651**
Writedown	-	(103)	**(103)**
Foreign Exchange	-	(917)	**(917)**
Balance – 31 December, 2008	13,446	6,038	**19,484**
Balance – 1 January, 2009	13,446	6,038	**19,484**
Additions	-	1,326	**1,326**
Foreign Exchange	-	339	**339**
Balance – 31 December, 2009	13,446	7,703	**21,149**

Impairment losses and amortisation			
Balance – 1 January, 2008	(13,446)	-	**(13,446)**
Balance – 31 December, 2008	(13,446)	-	**(13,446)**
Balance – 1 January, 2009	(13,446)	-	**(13,446)**
Balance – 31 December, 2009	(13,446)	-	**(13,446)**
Carrying amounts			
At 31 December, 2009	-	7,703	**7,703**
At 31 December, 2008	-	6,038	**6,038**
At 1 January, 2008	-	4,407	4,407

The goodwill recognised in the table above is a combination of the goodwill arising on the merger with Arian Silver Corporation Limited in 2006 and the goodwill on the acquisition of Arian Silver Corporation (UK) Ltd in 2006.

The deferred exploration cost at 31 December, 2009 consisted mainly of costs relating to the three major projects as stated below:

Project	**Carrying value**	
	2009	**2008**
	$’000	**$’000**
Calicanto	885	869
Tepal	2,629	2,105
San Jose	3,644	2,766

The Tepal Project is subject to an option as described in Note 24 “Post-year end events – Tepal Project”.

11. Group entities

Significant Subsidiaries	**Country of incorporation and operation**	**Principal activity**	**Arian Silver Corporation effective interest**	
			2009	**2008**
Arian Silver de Mexico S.A. de C.V.	Mexico	Exploration	100%	100%

12. Investments and significant non-cash transactions

In February, 2009 the Company issued 26,097,230 common shares to Grafton at Cdn$0.055 per share (equating to approximately Cdn$1,435,347) in exchange for the issue to the Company of 26,322 participating shares of Grafton (equating to approximately Cdn$1,435,347 determined by reference to the net asset value per Grafton participating share of $43.98 as at the close of business on 30 January, 2009). In April, 2009 the Company issued a further 82,993,679 common shares to Grafton at Cdn$0.055 per share (equating to approximately Cdn$4,564,653) in exchange for the issue to the Company of 102,269 participating shares of Grafton (equating to approximately Cdn$4,564,653 determined by reference to the net asset value per Grafton participating share of $36.93 as at the close of business on 31 March, 2009) (together the “Share Exchange”).

As a result of the Share Exchange, Grafton held an aggregate of 109,090,909 common shares of the Company (the “Arian Shares”) and the Company held an aggregate of 128,591 participating shares of Grafton (the “Grafton Shares”). It was intended that Grafton and its associates would place the Grafton Shares for cash on behalf of the Company to provide new funding for the Company. However, the disposal of the Grafton Shares experienced delays and the Share Exchange was subsequently reversed. See Note 24 “Post-year end events – Reorganisation of Grafton relationship”.

The Grafton Shares are held in current assets as Investments - Available for sale assets valued at $5.6 million as at 31 December, 2009 (2008 - $nil). They are defined by IFRS 7 as level 2 financial instruments and are valued by reference to the underlying net asset value. Any gain or loss is recognised through the Available for sale reserve in the Consolidate statement of comprehensive income.

13. Trade and other receivables

	2009 $'000	2008 $'000
Other receivables	323	598
Prepayments	26	27
	349	**625**

14. Cash and cash equivalents

	2009 $'000	2008 $'000
Bank balances	101	140
Call deposits	-	613
Cash and cash equivalents in the statement of cash flows	**101**	**753**

15. Share capital and reserves

Authorised

The Company is authorised to issue an unlimited number of common shares of no par value.

Issued and outstanding common shares

Changes for the years ended 31 December, 2009 and 2008 are detailed in the following table:

	2009		2008	
	Number of Shares 000's	Amount $000's	Number of Shares 000's	Amount $000's
Balance – 1 January	149,052	33,303	119,460	29,852
Shares issued for cash	-	-	29,592	3,612
Shares issued in exchange for shares	109,091	4,935	-	-
Issue costs of share issuance	-	-	-	(161)
Exercise of warrants	-	-	-	-
Exercise of share options	-	-	-	-
Balance – 31 December	**258,143**	**38,238**	**149,052**	**33,303**

During the years ended 31 December, 2009 and 2008, the Company made the following share and warrant issues:

2008

- 12,092,000 common shares at Cdn$0.25 to provide additional working capital of Cdn$3,023,000;
- 17,500,000 common shares at Cdn$0.10 to provide additional working capital of Cdn$1,747,000; and
- 6,046,000 share purchase warrants exercisable for a period of 18 months at Cdn$0.35 and subject to accelerated exercise conditions at the Company's option.

2009

- 26,097,230 common shares at Cdn$0.055 in exchange for 26,322 Grafton participating shares.
- 82,993,679 common shares at Cdn$0.055 in exchange for 102,269 Grafton participating shares.

Share-based payment reserve

The share based payment reserve arises on the grant of share options to directors, employees and other eligible persons under the share option plan.

Foreign exchange translation reserve

The translation reserve comprises both foreign exchange differences arising on the translation of amounts relating to overseas operations and the presentation of the financial statements in United States dollars.

Notes to the consolidated financial statements

Available for sale reserve
The available for sale reserve comprises the available for sale assets net valuation profit or loss taken directly to equity.

Retained loss
Retained loss comprises accumulated losses in the current and prior years.

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

16. Loss per share

Basic loss per share
The calculation of basic loss per share at 31 December, 2009 was based on the loss attributable to common shareholders of $2,068,000 (2008 – $3,689,000) and a weighted average number of common shares outstanding during the year ended 31 December, 2009 of 229,110,068 (2008 – 130,045,827).

See Note 24 “Post-year end events” for a description of subsequent transactions giving rise to significant changes in the number of issued and outstanding common shares.

Diluted Loss per share
The potential increase in common shares from the exercise of any outstanding share purchase 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. Warrants
A summary of the changes in the Company’s share purchase warrants for the years ended 31 December, 2009 and 2008 is set out below:

	2009		2008	
	Warrants outstanding (000’s)	Weighted average exercise price ($)	Warrants outstanding (000’s)	Weighted average exercise price ($)
Balance – 1 January	8,773	0.43	2,727	0.61
Repriced	-	(0.36)	-	-
Lapsed	(4,386)	(0.06)	-	-
Lapsed	(4,387)	(0.09)	-	-
Issued	-	-	6,046	0.35
Balance – 31 December	**-**	**-**	**8,773**	**0.43**

In April, 2009 warrant holders approved proposals to vary the exercise prices and expiry dates of the 2,727,250 common share purchase warrants that were exercisable up to 1 August, 2009 at Cdn$0.65 per share (the “B Warrants”) and the 6,046,000 share purchase warrants exercisable up to 29 November, 2009 at Cdn$0.35 (the “C Warrants”) (the “Warrants Variation”). As a result of the Warrants Variation the Company issued 4,386,625 share purchase warrants exercisable up to 23 July, 2009 at Cdn$0.07 (the “D Warrants”) and 4,386,625 share purchase warrants exercisable up to 31 December, 2009 at Cdn$0.10 (the “E Warrants”) in place of the B Warrants and the C Warrants which were cancelled. No D Warrants or E Warrants were exercised prior to their respective expiry dates.

18. Share-based payment transactions
The Company currently has in place an incentive share option plan (the “Plan”) 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 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 determines the vesting provisions of each option granted, which may vary. The aggregate number of shares which may be issued and sold under the Plan may not exceed 7.5% of issued share capital. As at 31 December, 2009 a total of 3,060,715 options remained available for grant under the Plan.

Notes to the consolidated financial statements

The number and weighted average exercise prices of share options for the years ended 31 December, 2009 and 2008 is set out below:

	2009		2008	
	Out-standing (000's)	Weighted average exercise price ($)	Out-standing (000's)	Weighted average exercise price ($)
Balance – 1 January	12,040	0.36	10,535	0.41
Issued	9,850	0.09	3,380	0.22
Issued	-	-	113	0.28
Issued	-	-	112	0.38
Issued	-	-	113	0.47
Issued	-	-	112	0.57
Lapsed	(4,130)	(0.24)	(150)	(0.22)
Lapsed	(580)	(0.43)	(870)	(0.28)
Lapsed	(880)	(0.19)	(200)	(0.37)
Lapsed	-	-	(180)	(0.42)
Lapsed	-	-	(375)	(0.50)
Lapsed	-	-	(350)	(0.50)
Lapsed	-	-	(200)	(0.63)
Balance – 31 December	**16,300**	**0.41**	**12,040**	**0.36**

Share options in issue at 31 December 2009:

Outstanding shares	Exercise price	Expiry
500,000	£0.245/Cdn$0.56	22 February, 2010
75,000	£0.225/Cdn$0.56	27 February, 2010
3,075,000	£0.27/Cdn$0.57	13 June, 2010
2,350,000	£0.12/Cdn$0.25	4 June, 2013
112,500	Cdn$0.30	19 June, 2010
112,500	Cdn$0.40	19 June, 2010
112,500	Cdn$0.50	19 June, 2010
112,500	Cdn$0.60	19 June, 2010
9,850,000	£0.055/Cdn$0.10	16 July, 2014

The weighted average remaining contractual life of share options as at 31 December, 2009 was 1,220 days.

Share options held by directors and senior management at 31 December 2009:

Holder	Shares	Exercise price	Grant Date	Vesting Date	Expiry
A Williams	2,250,000	£0.055/Cdn$0.10	17 July, 2009	17 July, 2009	16 July, 2014
	750,000	£0.12/Cdn$0.25	5 June, 2008	5 October, 2008	4 June, 2013
	1,000,000	£0.27/Cdn$0.57	14 June, 2007	14 June, 2007	13 June, 2010
J Williams	2,250,000	£0.055/Cdn$0.10	17 July, 2009	17 July, 2009	16 July, 2014
	750,000	£0.12/Cdn$0.25	5 June, 2008	5 October, 2008	4 June, 2013
	1,000,000	£0.27/Cdn$0.57	14 June, 2007	14 June, 2007	13 June, 2010
J Cable	550,000	£0.055/Cdn$0.10	17 July, 2009	17 July, 2009	16 July, 2014
	400,000	£0.27/Cdn$0.57	14 June, 2007	14 June, 2007	13 June, 2010
T Bailey	550,000	£0.055/Cdn$0.10	17 July, 2009	17 July, 2009	16 July, 2014

J Crombie	550,000	£0.055/Cdn$0.10	17 July, 2009	17 July, 2009	16 July, 2014
	500,000	£0.245/Cdn$0.56	23 February, 2007	23 February, 2007	22 February, 2010
D Cather	550,000	£0.055/Cdn$0.10	17 July, 2009	17 July, 2009	16 July, 2014
Senior	2,275,000	£0.055/Cdn$0.10	17 July, 2009	17 July, 2009	16 July, 2014
management	475,000	£0.055/Cdn$0.10	17 July, 2009	17 January, 2010	16 July, 2014
	500,000	£0.12/Cdn$0.25	5 June, 2008	5 October, 2008	4 June, 2013
	500,000	£0.27/Cdn$0.57	14 June, 2007	14 June, 2007	13 June, 2010

Fair value of share options and assumptions
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 following inputs were used in the calculation of the fair value of the share options granted during the period.

	2009	2008
Fair value	$1,648,000	$2,184,000
Share price 31 December, 2008	-	$0.06
Share price 31 December, 2009	$0.06	-
Exercise price (expressed as weighted average)	$0.10	$0.25
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes model)	74%	62%
Option life (expressed as weighted average life used in the modelling under Black-Scholes model)	2-5 yrs	2-5 yrs
Expected dividends	0%	0%
Risk-free interest rate (based on national government bonds)	2.98%	4.75%

The expected volatility is based on the historical share price of the Company. There are no market conditions associated with the share option grants. The fair value of stock options granted for the year ended 31 December, 2009 was $351,000 (2008 – $542,000) which was expensed in the income statement.

	2009	2008
Share option expenses		
	$'000	$'000
Share options granted in 2008	-	542
Share options granted in 2009	351	-
Total expense recognised in administrative expenses	**351**	542

19. Borrowings

As At 31 December 2009 the Company had current borrowings amounting to $1.6 million (2008 -$nil) which were advanced during the year as follows:

(a) Grafton made advances to the Company totalling $1,050,000 (2008 - $nil) (the "Grafton Loans") to fund the Company's operating overheads. These advances were unsecured and interest free. Whilst it was intended that the Grafton Loans would be repaid from the proceeds from disposal of the Grafton Shares, $500,000 had a repayment date of 31 December 2009, and $250,000 had a repayment date of 31 March, 2010. Repayment of the balance of $300,000 was related to the sale of the Grafton Shares. See Note 12 "Investments and significant non-cash transactions" and Note 24 "Post-year end events – Reorganisation of Grafton relationship".

(b) Pursuant to the terms of an agreement with Geologix, whereby Geologix was granted an exclusive option right to purchase the Company's 100% interest in the Tepal property, it advanced to the Company $517,500 (the "Geologix Loan"). The Geologix Loan was used by the Company to complete a deferred outstanding property option payment due

Notes to the consolidated financial statements

to the vendor of the Tepal property of equal amount. The Geologix Loan was an unsecured, interest free loan that would become due for repayment on 23 April, 2010 unless Geologix elected to exercise its option right to acquire the Tepal property. See Note 24 “Post-year end events – Tepal Project”.

20. Trade and other payables

	2009	2008
	$’000	$’000
Payables due to related parties	41	31
Trade payables	209	72
Other payables	271	152
	521	**255**

21. Financial instruments and financial risk management

Categories of financial instruments	Loans and receivables		Financial liabilities measured at amortised cost		Available-for-sale	
	2009	2008	2009	2008	2009	2008
	$’000	$’000	$’000	$’000	$’000	$’000
Cash and cash equivalents	101	753	-	-	-	-
Available-for-sale investments	-	-	-	-	5,637	-
Trade receivables	349	625	-	-	-	-
Current borrowings	-	-	1,612	-	-	-
	450	1,378	1,612	-	5,637	-

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. Credit risk is managed by ensuring that surplus funds are only deposited with well established financial institutions of high quality credit standing.

Foreign currency risk

The Group’s exploration expenditure is made in Mexico in Mexican Peso and head office expenses are predominantly made in the UK in Pounds Sterling, United States dollars and Canadian dollars. The Group is therefore exposed to the movement in exchange rates for these currencies. The Group does not currently hedge foreign exchange risk.

At the year end the majority of the Group’s cash resources were held in United States dollars. The Group therefore also has downside exposure to any strengthening of the Pound Sterling, the Mexican Peso or the Canadian dollar against the United States dollar as this would increase expenses in United States dollar terms and accelerate the depletion of the Group’s cash resources. Any weakening of the Pound Sterling, the Mexican Peso or the Canadian dollar against the United States dollar would, however, result in a reduction in expenses in United States dollar terms and preserve the Group’s cash resources.

In addition, any movements in Pound Sterling or Mexican Peso would affect the presentation of the Consolidated statement of financial position when the net assets of the Mexican subsidiary and parent company in the UK are translated from their functional currencies into United States dollars.

There is not considered to be any material exposure in respect of other monetary assets and liabilities of the Group as these are of a short-term nature. The table below shows an analysis of cash and cash equivalents denominated by currency.

	Cash Held 2009 $'000	Cash Held 2008 $'000
Pounds Sterling	1	(8)
United States Dollars	74	2
Canadian Dollars	2	654
Mexican Pesos	24	105
	101	**753**

Interest rate risk
Interest rate risk is the risk that the value of a financial instrument or cashflows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that the group uses. Treasury activities take place under procedures and policies approved and monitored by the Board to minimise the financial risk faced by the Group. Interest bearing assets comprise cash and cash equivalents which are considered to be short-term liquid assets. There were no interest bearing deposits in 2009.

Liquidity risk
The Group's approach to the management of liquidity risk is set out in Note 2 to the financial statements.

Credit risk
The Group is exposed to credit risk on its financial assets as per the Consolidated statement of financial position. At the date of the Consolidated statement of financial position there was no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Consolidated statement of financial position which at the year end amounted to $6,087,000 (2008: $1,378,000).

Market risk
The Group is exposed to market price risk through interest rate and currency fluctuations.

Fair values
It is the Board's opinion that the carrying values of the cash and cash equivalents, the other receivables, all trade and other payables, current borrowings and investments in the Consolidated statement of financial position represent their fair values. The basis of assessing the fair value of the Investments – available for sale assets is set out in Note 3(c)(v).

Capital Management
The Group's objective when managing capital is to safeguard the entity's ability to continue as a going concern, and develop its mining activities to provide returns for shareholders and benefits for other stakeholders.

The Group's capital structure comprises all components of equity (i.e. common share capital, retained earnings and other reserves.) At 31 December, 2009 the Group had current borrowings of approximately $1.6 million. When considering the future capital requirements of the Group and the potential to fund specific project development via debt the Board considers the risk characteristics of all of the underlying assets in assessing the optimal capital structure.

Sensitivity Analysis
The Company's main assets and subsidiaries are held in Mexico and having a functional currency different than the presentation currency (note 2(d)). The Group can also hold cash in Canadian dollars arising from fund raising. The Group's Consolidated statement of financial position can be affected significantly by movements in the United States dollar to the Mexico Peso and the Canadian dollar.

Foreign currency risk sensitivity analysis:

	Profit/Loss		Equity	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
If there was a 10% weakening of Mexican Peso against US$ with all other variables held constant – increase/(decrease)	(26)	(38)	(706)	(789)
If there was a 10% strengthening of Mexican Peso against US$ with all other variables held constant – increase/(decrease)	32	47	840	965
If there was a 10% weakening of Canadian Dollar against US$ with all other variables held constant – increase/(decrease)	-	(7)	-	(65)
If there was a 10% strengthening of Canadian Dollar against US$ with all other variables held constant – increase/(decrease)	-	7	-	65

A 10% variation is considered an appropriate level of sensitivity given recent levels of foreign exchange volatility.

22. Future project expenditure

The Company does not have any capital commitments at 31 December, 2009 (2008 – nil). However, the following refer to material payments that will become due under the agreements relating to the San José and Tepal properties:

(a) In relation to the San José Project the final instalment of $500,000 that was due in December, 2009 was deferred to January 2010 following negotiations with the vendor. See Note 24 “Post-year end events – San Jose Project”.

(b) In relation to the Tepal Project the Company is required to pay the vendor $5 million in instalments through to June 2011. At 31 December, 2009, $1,800,000 had been paid and the next instalment of $900,000 is due in June 2010. See Note 24 “Post-year end events – Tepal Project”.

23. Related parties

Control of the Group

In the opinion of the Board, at 31 December, 2009 there was no ultimate controlling entity of the Group.

Identity of related parties

The Group has a related party relationship with its subsidiaries, with its Directors and executive officers and with Grafton, a significant shareholder.

Transactions with key management personnel

At 31 December, 2009 the Directors of the Company and their immediate relatives controlled approximately 4% per cent of the voting shares of the Company.

During the year ended 31 December, 2009 the Company entered into the following transactions involving key management personnel:

(a) Companies in the Dragon Group charged the Company a total of $158,746 (2008 – $449,147). This includes reimbursement of $123,712 (2008 – $105,873) in respect of Tony Williams’ remuneration paid on behalf of the Company with the balance relating to the provision of support services, office accommodation and other reimbursable expenses incurred on behalf of the Company. Tony Williams, Chairman and a director of the Company, beneficially owns the Dragon Group. At 31 December, 2009 $44,736 (2007 - $30,746) was outstanding.

(b) Kopane Diamond Developments PLC (“KDD”) charged the Company a total of $91,214 (2008 – $18,374). This includes reimbursement of $33,688 (2008 – $30,752) in respect of James Cable’s remuneration paid on behalf of the Company with the balance relating to the provision of office accommodation and reimbursable expenses incurred on behalf of the Company. The Company charged KDD $34,640 (2008 – $24,523) for the provision of accounting support services. James Cable and Tony Williams are Directors of the Company. James Cable is a Director of KDD and Tony Williams is a former Director of KDD. At 31 December, 2009 $40,879 (2008 - $nil) was outstanding due to KDD and $nil (2008 - $10,111) was outstanding due from KDD.

Key management personnel also participate in the Group's share option programme as disclosed in note 18.

Key management personnel compensation is disclosed in note 6.

Directors' interests in the common shares of the Company as at 31 December, 2009 and 2008 were:

	2009	2008
A J Williams	2,000,000	2,000,000
J T Williams	6,800,000	6,800,000
J A Crombie	1,500,000	1,500,000

During the year, the only change in the Directors' share interests was the grant of share options as disclosed in note 18.

Transactions with subsidiaries

The Company made loans to Arian Silver de Mexico S.A. de C.V. ("Arian Mexico") of $393,447 (2008 – $2,813,992) and paid charges on behalf of Arian Mexico of $nil (2008 – $138,821). A management fee was also charged to Arian Mexico of $8,233 (2008 – $7,240).

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.

Transactions with Grafton

Pursuant to the Share Exchange the Company issued to Grafton an aggregate of 109,090,909 common shares of the Company, which amounted to approximately 42.2% of the Company's issued and outstanding common shares. See Note 12 – "Investments and significant non-cash transactions".

Note 19 – "Borrowings" sets out details of advances made by Grafton to the Company.

24. Post-year end events

Reorganisation of Grafton relationship

In December 2009, it was announced that the Company and Grafton proposed to reverse the Share Exchange by way of share redemptions (the "Share Redemptions"). Pursuant to the Share Redemptions, the Company would redeem the Arian Shares at the original issue price of Cdn$0.055 per Arian share and Grafton would redeem the Grafton Shares at the approximate original average issue price of $38 per Grafton share. In addition, the Company would issue to Grafton 15,762,000 common shares at Cdn$0.05 per common share in settlement of $750,000 of the Grafton Loans (the "Shares for Debt").

In January 2010, the Share Redemptions and Shares for Debt transactions were completed, as a result of which the number of issued and outstanding common shares of the Company was reduced by 93,328,909 common shares to 164,813,969 common shares.

Also in January 2010, following completion of the private placement financing referred to below, the Company repaid $300,000 to Grafton, representing the balance of the Grafton Loans.

Private Placement

In January 2010, subsequent to the completion of the Share Redemptions and Shares for Debt transactions referred to above, the Company completed a private placement financing (the "Placement"). The Placement raised Cdn$3,499,857 and comprised 69,997,139 units of the Company (each, a "Unit") at Cdn$0.05 per Unit. In addition 600,000 Units were issued in satisfaction of Cdn$30,000 of finder's fees payable in connection with the Placement. Each Unit consisted of one common share of the Company and one-half of a common share purchase warrant.

As a result of the Placement the number of issued and outstanding common shares of the Company was increased by 70,597,139 common shares to 235,411,108 common shares. In addition, 35,298,569 "F" warrants were issued entitling the holders thereof to acquire one common share of the Company at an exercise price of Cdn$0.10 per common share up to 22 January 2011.

San Jose Project

In relation to the San José Project the final instalment of $500,000 was paid in January 2010 to increase the Company's interest to 100% of the Project.

Tepal Project

In January 2010 the Company and Geologix executed a definitive agreement granting Geologix the exclusive option to purchase a 100% interest in the Tepal Gold-Copper Project, Mexico (the "Option Agreement").

Under the terms of the Option Agreement, Geologix paid to the Company a first instalment of $1.45 million. Settlement was effected by way of a cash payment of $725,000 and the balance of $725,000 through the issue of 3,434,193 Geologix shares (the "Geologix Shares") at a price of Cdn$0.22 per share. The Geologix Shares are listed on the Toronto Stock Exchange and were issued subject to a regulatory four months hold period.

Geologix can complete the purchase of 100% of the Tepal property by delivering to the Company a further payment of $1.55 million before 23 February, 2011. At Geologix's election, up to 50% of this payment may be satisfied by the issuance of Geologix shares, subject to Toronto Stock Exchange approval. The Option Agreement provides that Geologix shall be responsible for satisfying all of the Company's obligations relating to the Tepal property, including the remaining underlying property option agreement payments of $900,000 payable by June, 2010, and a further $2.3 million payable by June, 2011.

Following receipt of the first instalment under the Option Agreement, the Company repaid the Geologix Loan.