



**ARIAN SILVER CORPORATION**

**Audited Consolidated  
Financial Statements  
Year Ended 31 December 2011  
(In thousands of U.S. dollars)**

## Directors' responsibilities statement

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, elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group 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 company and the group and hence for 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. Legislation in the British Virgin Islands governing the preparation and dissemination of the financial statements and other information included in the annual reports may differ from legislation in other jurisdictions.

## Independent auditor's 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 2011 which comprise, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 auditor's 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 auditor**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes the assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2011 and of its loss for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the European Union.

### **Separate opinion in relation to IFRSs as issued by the IASB**

As explained in Note 2(a) to the group financial statements the group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

**PKF (UK) LLP**  
London, UK  
28 February 2012

# Arian Silver Corporation

## Consolidated statement of comprehensive income

(Expressed in United States dollars)

**For the year ended 31 December 2011**

	<b>2011</b>	<b>2010</b>
<i>Note</i>	<b>\$'000</b>	<b>\$'000</b>
<b>Continuing operations</b>		
Revenue	7,467	184
Cost of sales	(6,655)	(175)
<b>Gross Profit</b>	<b>812</b>	<b>9</b>
Administrative expenses	(11,322)	(2,095)
<b>Operating loss</b>	<b>5 (10,510)</b>	<b>(2,086)</b>
Net investment income	7 (460)	380
<b>Loss before tax</b>	<b>(10,970)</b>	<b>(1,706)</b>
Income tax	8 -	(196)
<b>Loss for the year attributable to equity shareholders of the parent</b>	<b>(10,970)</b>	<b>(1,902)</b>
<b>Other comprehensive income</b>		
Foreign exchange translation differences recognised directly in equity	17 (1,317)	210
Available for sale reserve	17 -	(700)
Income tax relating to available for sale reserve	8 -	196
<b>Other comprehensive income for the year</b>	<b>(1,317)</b>	<b>(294)</b>
<b>Total comprehensive income for the year attributable to equity shareholders of the parent</b>	<b>(12,287)</b>	<b>(2,196)</b>
Basic and diluted loss per share (\$)	9 (0.04)	(0.01)

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

# Arian Silver Corporation

## Consolidated statement of financial position

(Expressed in United States dollars)

As at 31 December 2011

	<i>Note</i>	<b>2011</b> \$'000	<b>2010</b> \$'000
<b>Assets</b>			
Intangible assets	10	1,093	1,241
Property, plant and equipment	11	8,082	5,423
<b>Total non-current assets</b>		<u>9,175</u>	<u>6,664</u>
Trade and other receivables	12	1,890	934
Cash and cash equivalents	13	3,991	8,255
Inventories	14	922	139
Non-current assets held for sale	15	-	2,884
Financial assets held at fair value through profit or loss	15	272	-
<b>Total current assets</b>		<u>7,075</u>	<u>12,212</u>
<b>Total assets</b>		<u>16,250</u>	<u>18,876</u>
<b>Equity attributable to equity shareholders of the parent</b>			
Share capital	17	47,326	45,420
Share-based payment reserve	17	9,359	813
Foreign exchange translation reserve	17	(2,551)	(1,234)
Accumulated losses	17	(39,225)	(28,255)
<b>Total equity</b>		<u>14,909</u>	<u>16,744</u>
Trade and other payables	20	1,171	476
Deferred income	15	-	1,495
<b>Total current liabilities</b>		<u>1,171</u>	<u>1,971</u>
Provision for mine closure	21	170	161
<b>Total non-current liabilities</b>		<u>170</u>	<u>161</u>
<b>Total liabilities</b>		<u>1,341</u>	<u>2,132</u>
<b>Total equity and liabilities</b>		<u>16,250</u>	<u>18,876</u>

*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 28 February 2012 and were signed on its behalf by:*

“J T Williams”  
J T Williams  
Chief Executive Officer

“S Clarke”  
S Clarke  
Chief Financial Officer

Arian Silver Corporation

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

For the year ended 31 December 2011

	<i>Note</i>	<b>2011</b>	<b>2010</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>			
Operating loss before tax		(10,970)	(1,706)
Adjustments for:			
Depreciation and amortisation		218	44
Loss on disposal of fixture & fittings		1	-
Write down of exploration costs		-	185
Exchange difference		(961)	(356)
Net investment income		442	(380)
Equity-settled share-based payment transactions		8,546	15
		<u>(2,724)</u>	<u>(2,198)</u>
Increase in trade and other receivables		(992)	(450)
Increase/(decrease) in trade and other payables		700	(22)
Increase in inventories		(786)	(139)
<b>Net cash used in operating activities</b>		<u>(3,802)</u>	<u>(2,809)</u>
<b>Cash flows from investing activities</b>			
Interest received		44	11
Proceeds from disposal of Tepal project		775	750
Proceeds from disposal of Geologix shares		-	1,128
Acquisition of intangibles		-	(916)
Acquisition of property, plant and equipment		(3,482)	(510)
<b>(Used in)/ generated from investing activities</b>		<u>(2,663)</u>	<u>463</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		1,906	11,362
Repayment of borrowings		-	(862)
<b>Net cash from financing activities</b>		<u>1,906</u>	<u>10,500</u>
<b>Net (decrease)/ increase in cash and cash equivalents</b>		<u>(4,559)</u>	<u>8,154</u>
Cash and cash equivalents at 1 January		8,255	101
Effect of exchange rate fluctuations on cash held		295	-
<b>Cash and cash equivalents at 31 December</b>	<i>13</i>	<u>3,991</u>	<u>8,255</u>

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

Arian Silver Corporation

Consolidated statement of changes in equity

(Expressed in United States dollars)

For the year ended 31 December 2011

	Share Capital	Share based payment Reserve	Foreign exchange translation reserve	Available for sale reserve	Accumulated Losses	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance – 1 January 2010	38,238	1,648	(1,444)	504	(27,203)	11,743
Loss for the year	-	-	-	-	(1,902)	(1,902)
Reversal of unrealised gain	-	-	-	(504)	-	(504)
Foreign exchange	-	-	210	-	-	210
Total comprehensive income and expense for the year	-	-	210	(504)	(1,902)	(2,196)
Shares redeemed and cancelled re: Grafton	(4,935)	-	-	-	-	(4,935)
Shares issued for debt	755	-	-	-	-	755
Shares issued for cash	9,475	-	-	-	-	9,475
Shares issue costs	(522)	-	-	-	-	(522)
Exercise of warrants	1,752	-	-	-	-	1,752
Exercise of share options	657	-	-	-	-	657
Fair value of share options	-	15	-	-	-	15
Lapsed share options	-	(850)	-	-	850	-
Balance – 31 December 2010	<b>45,420</b>	<b>813</b>	<b>(1,234)</b>	<b>-</b>	<b>(28,255)</b>	<b>16,744</b>
Loss for the year	-	-	-	-	(10,970)	(10,970)
Foreign exchange	-	-	(1,317)	-	-	(1,317)
Total comprehensive income and expense for the year	-	-	(1,317)	-	(10,970)	(12,287)
Exercise of share options	143	-	-	-	-	143
Exercise of warrants	1,763	-	-	-	-	1,763
Fair value of share options	-	8,546	-	-	-	8,546
<b>Balance – 31 December 2011</b>	<b>47,326</b>	<b>9,359</b>	<b>(2,551)</b>	<b>-</b>	<b>(39,225)</b>	<b>14,909</b>

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

# Arian Silver Corporation

## 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 2011 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) Statement of compliance**

The consolidated financial statements for the year ended 31 December 2011 have been prepared in accordance with both International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board and IFRSs and Interpretations adopted by the EU in force at the reporting date.

The Group has adopted all of the new and revised Standards and Interpretations that are relevant to its operations and effective for accounting periods beginning 1 January 2011. The adoption of these new and revised Standards and Interpretations had no material effect on the profit or loss or financial position of the Group.

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

The accounts were approved by the board and authorised for issue on 28 February 2012.

#### **(b) Going concern and adequacy of project finance**

The directors regularly review cash flow forecasts to determine whether the Group has sufficient cash reserves to meet future working capital requirements and to fund future exploration projects and business opportunities. In particular the directors believe the cash flows from the sale of concentrate will be adequate to cover operational cash flow expenditure.

The Group is at an early stage of development. In the past the Company has been successful at raising equity funds, however there can be no assurance that the Group will be able to raise funds for future development.

The directors currently believe that the Group has adequate financial resources or access to such resources in order to continue in operational existence for the foreseeable future and to meet its currently projected working capital and project expenditure requirements for the next 12 months. They therefore believe it appropriate to prepare the Group’s financial statements on a going concern basis.

#### **(c) 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.



Notes to the consolidated financial statements

**2. Basis of preparation (continued)**

**(c) Use of estimates and judgement (continued)**

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 2b
- Capitalisation and impairment of exploration and evaluation costs – Notes 3h, 3j, 10
- Estimation of share based payment costs – Notes 3p, 19
- Depreciation on property, plant and equipment – Note 3i
- Revenue – Note 3c
- Inventories – Note 3k

**(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 are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control is obtained.

**(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 in other comprehensive income. They are reclassified to profit or loss upon disposal.

Further foreign exchange differences arise from the translation required for the presentation of the financial statements in United States dollars. This is recognised in other comprehensive income.

Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

**(c) Revenue recognition**

Revenue from sales of metal concentrate is recognised when title transfers and the rights and obligations of ownership pass to the customer. The Group's sales of concentrate are made under pricing arrangements where final sales prices are determined by quoted market prices in a period subsequent to the date of sale. In these circumstances, revenue from sales is recorded at the time of the sale based on forward prices for the expected date of final settlement. Subsequent variations in prices are recognised as revenue adjustments as they occur.

In a period of extreme and unusual price volatility, the effect of mark-to-market price adjustments related to the quantity of metal which remains to be settled with independent smelters could be significant.

**(d) 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.

All other leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

**(e) Finance income and expenses**

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

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

**(f) Income tax expense**

Income tax expense comprises current and deferred tax.

Income tax expense is recognised in profit or loss to the extent that it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income.

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.

**(g) 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.

Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

**(h) Intangible assets**

*(i) Goodwill*

All business combinations are accounted for by applying the purchase method. Goodwill arises on the acquisition of subsidiaries. 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 j). 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.

**(i) Property, plant and equipment**

*Mine development costs*

Mine development costs include appropriate deferred exploration and evaluation costs transferred on development of an exploration property. Before reclassification, such costs are assessed for impairment, with any impairment recognised in profit or loss for the period.

All subsequent development costs are capitalised, including all costs incurred as commissioning costs. When the mine is capable of operating in the manner intended by management, the mining assets are amortised over the estimated life of the reserves on a unit of production basis.

*Other 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.

Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

**(i) Property, plant and equipment (continued)**

*(iii) Depreciation*

Depreciation is charged to profit or loss 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.

**(j) 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.

**(k) Inventories**

Concentrate and stockpiled ore are valued at the lower of the average production costs and net realisable value. The assumptions used in the valuation of those inventories include estimates of metal contained in stockpiled ore, assumptions of the amount of metal that is expected to be recovered, assumptions of the smelting terms as well as assumptions of the metal prices and exchange rates expected to be realised when the metals are recovered. If these estimates or assumptions prove to be inaccurate, the Group could be required to write-down the recorded value of its inventories, which would reduce the Group's earnings and working capital. Net realisable value is determined with reference to market prices.

**(l) Financial instruments**

*(i) Non-derivative financial instruments*

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, trade and other payables, available for sale financial assets and financial assets at fair value through profit or loss.

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. 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 and call deposits.

Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

**l) Financial instruments (continued)**

*(v) Investments - available for sale financial 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 recognised in other comprehensive income with the exception of impairment losses which are recognised directly in profit or loss. When an investment is disposed of, any cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss.

*(vi) Other financial assets at fair value through profit or loss*

Financial assets at fair value through profit and loss comprise investments acquired principally for the purpose of selling. Subsequent to initial recognition financial assets at fair value through profit and loss are stated at fair value. Movements in fair values are recognised in profit or loss as finance income or expenditure.

**(m) Non-current assets held for sale**

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than continuing use. This is the case when the asset is available for immediate sale in its present condition and the sale is highly probable.

Non-current assets held for sale are measured at the lower of its carrying amount or fair value less costs to sell.

A sale is considered to be highly probable if the appropriate level of management is committed to a plan to sell the asset and the active plan to complete the sale has been initiated, the sale has been actively marketed at a price that is reasonable in relation to its fair value and the sale is expected to qualify for recognition as a completed sale within one year from the date it is classified as held for sale.

**(n) 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.

***Provisions for decommissioning and site restoration costs***

An obligation to incur decommissioning and site rehabilitation costs occurs when environmental disturbance is caused by the development or ongoing production of a mining property. Costs are estimated on the basis of a closure plan and are subject to regular review.

Such costs arising from the installation of plant and other site preparation work, discounted to their net present value, are provided and capitalised within mine development costs at the start of each project, as soon as the obligation to incur such cost arises. These decommissioning costs are charged against profits over the life of the mine, through depreciation of the asset and unwinding or amortisation of the discount on the provision. Depreciation is included in operating costs while the unwinding of the discount is included in financing costs. Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work are added to, or deducted from, the cost of the related asset in the current period.

**(o) Share capital – Common shares**

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

Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

**(p) 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.

**4. Segment reporting**

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.

The operating segments included in internal reports are determined on the basis of their significance to the Group. In particular, operating mines are reported as separate segments together with exploration projects that have significant capitalised expenditure. An analysis of the Group's business segments is set out below.

**(i) Segment information**

	San José		All other segments		Total	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Revenue	7,467	184	-	-	7,467	184
Profit/(loss) before tax	812	9	(11,782)	(1,715)	(10,970)	(1,706)
Capital Expenditure	3,463	1,394	19	32	3,482	1,426
Depreciation and amortisation	201	7	17	37	218	44
Total assets	8,927	5,827	7,323	13,049	16,250	18,876
Total liabilities	170	161	1,171	1,971	1,341	2,132

San José revenue relates to transactions with a single external customer during the year.

**(ii) Geographical information**

	Mexico		UK		Total	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Non current assets excluding investments	9,167	6,660	8	4	9,175	6,664
Revenue	7,467	184	-	-	7,467	184

# Arian Silver Corporation

## Notes to the consolidated financial statements

### 5. Operating loss is stated after charging:

	2011	2010
	\$'000	\$'000
Auditors remuneration		
Audit – Remuneration for audit of Arian Silver Corporation	48	48
Audit – Remuneration for audit of Arian Silver de Mexico S.A. de C.V.	15	7
Taxation	24	13
Depreciation and amortisation	218	44
Deferred exploration writedown	-	185
Gain on disposal of non-current assets held for sale	112	-
Exchange loss / (gain)	295	(293)

### 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 2011	Number of Employees 2010
Finance and administration	15	11
Technical	36	35
	<b>51</b>	<b>46</b>

The aggregate staff costs of these persons were as follows:

	2011	2010
	\$'000	\$'000
Wages and salaries	1,008	767
Social security costs	137	402
Share based payments	7,960	15
	<b>9,105</b>	<b>1,184</b>

### Remuneration of key management personnel

Key management personnel remuneration is detailed below:

	2011			2010
	Salary	Fees	Total	Total
	\$'000	\$'000	\$'000	\$'000
<b>Executive Directors</b>				
A J Williams	115	-	115	111
J T Williams	257	-	257	247
<b>Non-executive Directors</b>				
T A Bailey	24	-	24	23
J S Cable	24	-	24	23
J A Crombie	24	-	24	23
D Cather (resigned 18 March 2010)	-	-	-	11
<b>Other key management</b>				
Country Manager – Mexico	-	60	60	58
Chief Financial Officer (appointed 9 May 2011)	107	-	107	-
Company Secretary (appointed 13 October 2011)	28	-	28	-
Former Company Secretary (retired 13 October 2011)	104	-	104	124
	<b>683</b>	<b>60</b>	<b>743</b>	<b>620</b>

Notes to the consolidated financial statements

**6. Staff numbers and costs(continued)**

The above remuneration excludes social security costs incurred by the Group. Including these social security costs, the total short-term employee benefits for the year in respect of key management personnel amounted to \$1,003,000 (2010 - \$728,000).

Key management personnel also participate in the Group's share option programme as disclosed in note 19.

**7. Net investment income**

	2011	2010
	\$'000	\$'000
Revaluation of financial assets held at fair value through profit or loss	(495)	-
Gain on disposal of financial assets	-	369
Unwinding of provision for mine closure	(9)	-
Interest income	44	11
	<b>(460)</b>	<b>380</b>

**8. Income tax recognised in the income statement**

	2011	2010
	\$'000	\$'000
<b>Current tax</b>		
Current year	-	(196)
<b>Reconciliation of effective tax rate</b>		
Loss before tax	(10,970)	(1,706)
Income tax using the domestic corporation tax rate of 26.49% (2010 – 28%)	(2,906)	(478)
Non-deductible expenses	584	259
Share options disallowed	2,264	(731)
Losses utilised	(88)	(394)
Exchange rate differences	(566)	-
Depreciation in excess of capital allowances	12	(1)
Short term timing differences not recognised in a deferred tax asset	(482)	317
Tax losses carried forward	1,182	1,224
Total tax expense/(credit)	-	196

At the year end the Group had tax losses to carry forward of approximately \$22,635,000 (2010 – \$17,940,000). 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 \$2,787,000 (2010 – \$3,599,000) has not been recognised due to the uncertainty as to the amount that can be utilised.

**9. Loss per share**

**Basic loss per share**

The calculation of basic loss per share at 31 December 2011 was based on the loss attributable to common shareholders of \$10,970,000 (2010 – \$1,902,000) and a weighted average number of common shares outstanding during the year ended 31 December 2011 of 300,252,683 (2010 – 245,923,617). See Note 26 for a description of subsequent transactions giving rise to 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 Group 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.



Notes to the consolidated financial statements

**10. Intangible assets**

	Goodwill	Deferred exploration costs	Total
Cost	\$'000	\$'000	\$'000
Balance – 1 January 2010	13,446	7,703	<b>21,149</b>
Additions	-	916	<b>916</b>
Transfer to non-current assets held for sale	-	(2,884)	<b>(2,884)</b>
Transfer to property, plant and equipment	-	(4,695)	<b>(4,695)</b>
Foreign exchange	-	386	<b>386</b>
Balance – 31 December 2010	<u>13,446</u>	<u>1,426</u>	<u><b>14,872</b></u>
Balance – 1 January 2011	13,446	1,426	<b>14,872</b>
Foreign exchange	-	(148)	<b>(148)</b>
<b>Balance – 31 December 2011</b>	<u><b>13,446</b></u>	<u><b>1,278</b></u>	<u><b>14,724</b></u>
<b>Impairment losses and amortisation</b>			
Balance – 1 January 2010	(13,446)	-	<b>(13,446)</b>
Write down	-	(185)	<b>(185)</b>
Balance – 31 December 2010	<u>(13,446)</u>	<u>(185)</u>	<u><b>(13,631)</b></u>
Balance – 1 January 2011	(13,446)	(185)	<b>(13,631)</b>
<b>Balance – 31 December 2011</b>	<u><b>(13,446)</b></u>	<u><b>(185)</b></u>	<u><b>(13,631)</b></u>
<b>Carrying amounts</b>			
<b>At 31 December 2011</b>	<u>-</u>	<u>1,093</u>	<u><b>1,093</b></u>
At 31 December 2010	-	1,241	<b>1,241</b>
At 1 January 2010	-	7,703	7,703

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 transfer to asset held for sale relates to the Tepal project, the sale of which was completed in February 2011, as described in Note 15. The transfer to property, plant and equipment, has been categorised as mining and development costs. These costs relate to the property payments, drilling and assay costs for the San Jose property.

Deferred exploration costs as at 31 December 2011 consisted mainly of costs relating to Calicanto \$746,000 (2010 - \$843,000), San Celso \$88,000 (2010 - \$99,000) and Los Compos \$79,000 (2010 - \$88,000).

Notes to the consolidated financial statements

**11. Property, plant and equipment**

	Mine development costs \$'000	Plant and equipment \$'000	Fixtures & fittings \$'000	Vehicles \$'000	Total \$'000
<b>Cost</b>					
Balance – 1 January 2010	-	98	45	93	<b>236</b>
Transfer from intangible assets	4,695	-	-	-	<b>4,695</b>
Additions	478	24	-	8	<b>510</b>
Other movements	161	-	-	-	<b>161</b>
Foreign exchange movement	-	3	2	4	<b>9</b>
Balance – 31 December 2010	5,334	125	47	105	<b>5,611</b>
Balance – 1 January 2011	5,334	125	47	105	<b>5,611</b>
Additions	3,463	19	-	-	<b>3,482</b>
Disposals	-	-	(15)	-	<b>(15)</b>
Foreign exchange movement	(591)	(12)	(4)	(12)	<b>(619)</b>
<b>Balance – 31 December 2011</b>	<b>8,206</b>	<b>132</b>	<b>28</b>	<b>93</b>	<b>8,459</b>
<b>Depreciation and impairment losses</b>					
Balance – 1 January 2010	-	(53)	(20)	(77)	<b>(150)</b>
Depreciation and amortisation charge for the year	(7)	(16)	(6)	(15)	<b>(44)</b>
Foreign exchange movement	-	2	1	3	<b>6</b>
Balance – 31 December 2010	(7)	(67)	(25)	(89)	<b>(188)</b>
Balance – 1 January 2011	(7)	(67)	(25)	(89)	<b>(188)</b>
Depreciation and amortisation charge for the year	(195)	(14)	(3)	(6)	<b>(218)</b>
Disposals	-	-	14	-	<b>14</b>
Foreign exchange movement	1	6	1	7	<b>15</b>
<b>Balance – 31 December 2011</b>	<b>(201)</b>	<b>(75)</b>	<b>(13)</b>	<b>(88)</b>	<b>(377)</b>
<b>Carrying amounts</b>					
<b>At 31 December 2011</b>	<b>8,005</b>	<b>57</b>	<b>15</b>	<b>5</b>	<b>8,082</b>
At 31 December 2010	5,327	58	22	16	5,423
At 1 January 2010	-	45	25	16	86

The mine development costs at 31 December 2011, relate to the 100% owned San José property in Zacatecas State, Mexico. Other movements consist of the mine closure provision (see Note 21)

**12. Trade and other receivables**

	2011 \$'000	2010 \$'000
Receivables due from related parties	-	8
Other receivables	1,789	594
Accrued income	-	184
Prepayments	101	148
	<b>1,890</b>	<b>934</b>

**13. Cash and cash equivalents**

	2011 \$'000	2010 \$'000
Bank balances	3,991	5,352
Call deposits	-	2,903
Cash and cash equivalents in the statement of cash flows	<b>3,991</b>	<b>8,255</b>

Notes to the consolidated financial statements

**14. Inventories**

	2011	2010
	\$'000	\$'000
Consumables	28	25
Stockpiled ore	576	-
Silver concentrate produced	318	114
	<b>922</b>	<b>139</b>

**15. Disposal of Tepal Copper-Gold Project**

In January 2010 the Company and Geologix Explorations Inc (“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 in the form of a cash payment of \$725,000 (before foreign exchange differences) 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. These shares were subsequently disposed of by the Company realising a profit of \$369,000, which was recognised as a component of net investment income for the period.

At 31 December 2010, as the disposal of the Tepal project was considered to be probable, but the option had not yet been exercised by Geologix, intangible assets totalling \$2,884,000 were identified as relating to the Tepal Copper-Gold Project and were reclassified to non-current assets held for sale in the consolidated statement of financial position. The non-refundable first instalment was recognised as deferred income pending exercise of the option or termination of the Option Agreement, and was determined to have a fair value of \$1,495,000.

In February 2011, as provided in the agreement, Geologix completed the purchase of 100% of the Tepal property by exercising the option and making a further payment of \$1.55 million to the Company. Geologix elected to satisfy \$775,000 of this payment in the form of 1,089,318 Geologix shares and the balance in cash. The Option Agreement provided 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. Following the completion of the sale of the Tepal property, the group realised a profit on disposal of \$112,000.

The group did not dispose of any further Geologix shares during the year ended 31 December 2011, however the shares held at the year end were acquired with the principal intent to be disposed of in the near future and have therefore been classified as financial assets held at fair value through the profit and loss. At the year, these shares were therefore revalued to their fair value of \$272,000, with a corresponding loss of \$495,000 being recognised as a component of net finance income.

**16. Investments and significant non-cash transactions**

In February 2009, the Company issued 26,097,230 common shares to Grafton Resource Investments Ltd (“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”)

In January 2010 the Company and Grafton completed the reversal of the Share Exchange by way of share redemptions (the “Share Redemptions”). Pursuant to the Share Redemptions, the Company redeemed 109,090,909 of its common shares at the original issue price of Cdn\$0.055 per common share and Grafton redeemed 128,591 of its participating shares at the approximate original average issue price of \$38 per Grafton share. In addition, the Company issued to Grafton 15,762,000 common shares at Cdn\$0.05 per common share in settlement of \$750,000 of loans outstanding to Grafton.

Notes to the consolidated financial statements

**17. 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 2011 and 2010 are detailed in the following table:

	2011		2010	
	Number of Shares 000's	Amount \$000's	Number of Shares 000's	Amount \$000's
Balance – 1 January	282,448	45,420	258,143	38,238
Shares redeemed and cancelled re Grafton	-	-	(109,091)	(4,935)
Shares issued for debt	-	-	15,762	755
Shares issued for cash	-	-	92,202	9,475
Issue costs of share issuance	-	-	-	(522)
Exercise of warrants	17,342	1,763	17,957	1,752
Exercise of share options	1,400	143	7,475	657
<b>Balance – 31 December</b>	<b>301,190</b>	<b>47,326</b>	<b>282,448</b>	<b>45,420</b>

During the years ended 31 December 2011 and 2010, the Company made the following share and warrant issues:

**2011**

- 17,341,370 common shares issued at Cdn\$0.10 per share to provide additional working capital of Cdn\$1,734,200 in connection with warrants exercised.
- 1,200,000 common shares issued at £0.055 per share to provide additional working capital of £66,000 in connection with share options exercised.
- 200,000 common shares issued at £0.12 per share to provide additional working capital of £24,000 in connection with share options exercised.

**2010**

- Redemption and cancellation of 109,090,909 common shares in consideration for the redemption of 128,591 Grafton participating shares.
- 15,762,000 common shares issued in respect of the loan settlement.
- 70,597,139 common shares; 69,997,139 common shares of the Company issued at Cdn\$0.05 per share (the “Placement”) to provide additional working capital of Cdn\$3,499,857 and 600,000 common shares issued at Cdn\$0.05 per share in satisfaction of Cdn\$30,000 finders fees.
- 21,604,435 common shares issued at £0.18 to provide additional working capital of £3,888,800.
- 17,957,199 common shares issued at Cdn\$0.10 to provide additional working capital of Cdn\$1,795,720 in connection with warrants exercised.
- 7,325,000 common shares issued at £0.055 to provide additional working capital of £402,875 in connection with share options exercised.
- 150,000 common shares issued at £0.12 to provide additional working capital of £18,000 in connection with share options exercised.

**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

**17. Share capital and reserves (continued)**

**Available for sale reserve**

The available for sale reserve comprises the available for sale assets net valuation profit or loss recognised in other comprehensive income.

**Accumulated losses**

Accumulated losses contain losses in the current and prior years.

**18. Warrants**

A summary of the changes in the Company's share purchase warrants for the years ended 31 December 2011 and 2010 is set out below:

	2011		2010	
	Warrants outstanding (000's)	Weighted average exercise price (\$)	Warrants outstanding (000's)	Weighted average exercise price (\$)
Balance – 1 January	17,342	0.10	-	-
Issued	-	-	35,299	0.10
Exercised	(17,342)	(0.10)	(17,957)	0.10
<b>Balance – 31 December</b>	<b>-</b>	<b>-</b>	<b>17,342</b>	<b>0.10</b>

**19. Share-based payment transactions**

The Company's incentive share option plan (the "Plan") covering Directors, officers, employees and consultants of the Company and its subsidiary companies lapsed on 7 June 2011 and no further options may be issued under this scheme. As a result of the lapse of the rolling share option plan the share option plan automatically became a fixed share option plan.

The number and weighted average exercise prices of share options for the years ended 31 December 2011 and 2010 is set out below:

	2011		2010	
	Outstanding (000's)	Weighted average exercise price (\$)	Outstanding (000's)	Weighted average exercise price (\$)
Balance – 1 January	4,725	0.13	16,300	0.41
Issued	14,860	0.79	-	-
Issued	300	0.48	-	-
Exercised	(1,200)	(0.09)	(75)	(0.36)
Exercised	(200)	(0.25)	-	-
Lapsed	-	-	(500)	(0.39)
Lapsed	-	-	(3,075)	(0.42)
Lapsed	-	-	(113)	(0.30)
Lapsed	-	-	(112)	(0.40)
Lapsed	-	-	(113)	(0.50)
Lapsed	-	-	(112)	(0.60)
Exercised	-	-	(7,325)	(0.09)
Exercised	-	-	(150)	(0.19)
<b>Balance – 31 December</b>	<b>18,485</b>	<b>0.67</b>	<b>4,725</b>	<b>0.13</b>

Notes to the consolidated financial statements

**19. Share-based payment transactions (continued)**

Share options in issue at 31 December 2011:

Outstanding shares	Exercise price	Expiry
2,000,000	£0.12/Cdn\$0.25	4 June 2013
1,325,000	£0.055/Cdn\$0.10	16 July 2014
14,860,000	£0.4925/Cdn\$0.79	18 January 2016
300,000	£0.30/Cdn\$0.48	6 June 2016

The weighted average remaining contractual life of share options as at 31 December 2011 was 1,338 days.

Share options held by directors and senior management at 31 December 2011:

Holder	Shares '000s	Exercise price	Grant Date	Vesting Date	Expiry <sup>1</sup>
A Williams	3,500	£0.4925/Cdn\$0.79	19 January 2011	19 April 2011	18 January 2016
	750	£0.12/Cdn\$0.25	5 June 2008	5 October 2008	4 June 2013
J Williams	3,500	£0.4925/Cdn\$0.79	19 January 2011	19 April 2011	18 January 2016
	750	£0.12/Cdn\$0.25	5 June 2008	5 October 2008	4 June 2013
J Cable	650	£0.4925/Cdn\$0.79	19 January 2011	19 April 2011	18 January 2016
	200	£0.055/Cdn\$0.10	17 July 2009	17 July 2009	16 July 2014
T Bailey	650	£0.4925/Cdn\$0.79	19 January 2011	19 April 2011	18 January 2016
	200	£0.055/Cdn\$0.10	17 July 2009	17 July 2009	16 July 2014
J Crombie	650	£0.4925/Cdn\$0.79	19 January 2011	19 April 2011	18 January 2016
	550	£0.055/Cdn\$0.10	17 July 2009	17 July 2009	16 July 2014
Senior Management	150	£0.30/Cdn\$0.48	7 June 2011	7 June 2012	6 June 2016
	150	£0.30/Cdn\$0.48	7 June 2011	7 June 2013	6 June 2016
	3,000	£0.4925/Cdn\$0.79	19 January 2011	19 April 2011	18 January 2016
	600	£0.4925/Cdn\$0.79	19 January 2011	19 July 2011	18 January 2016
	600	£0.4925/Cdn\$0.79	19 January 2011	19 January 2012	18 January 2016
	250	£0.055/Cdn\$0.10	17 July 2009	17 January 2010	16 July 2014
	500	£0.12/Cdn\$0.25	5 June 2008	5 October 2008	4 June 2013

<sup>1</sup> The expiry date is subject to the option holder holding office on the expiry date and not having previously exercised the share option. Share options may lapse at an earlier date in accordance with the rules of the share option plan, for example, should an option holder cease to hold office.

Changes to share options held by directors and senior management in the year ended 31 December 2011:

Holder	At				At
	1 January 2011	Granted	Lapsed	Exercised	31 December 2011
	'000s	'000s	'000s	'000s	'000s
A Williams	750	3,500	-	-	4,250
J Williams	750	3,500	-	-	4,250
J Cable	200	650	-	-	850
T Bailey	200	650	-	-	850
J Crombie	550	650	-	-	1,200
Senior Management	1,950	4,500	-	(1,200)	5,250
<b>Total</b>	<b>4,400</b>	<b>13,450</b>	<b>-</b>	<b>(1,200)</b>	<b>16,650</b>

Notes to the consolidated financial statements

**19. Share-based payment transactions (continued)**

During the year 13,150,000 share options were issued at an exercise price of £0.4925/Cdn\$0.79 and 300,000 at an exercise price of £0.30/Cdn\$0.48. In addition 1,200,000 share options were exercised by senior management at an exercise price of £0.055/Cdn\$0.10. The aggregate gains made by directors and senior management on these share sales for the year ended 31 December 2011 was \$481,000 (2010 - \$2,547,000).

The balance of share options held by senior management as at 31 December 2011 included share options of 3,500,000 common shares held by the former Company Secretary, of which 500,000 were exercised in January 2012 (see note 26). The remainder of options held by the former Company Secretary lapsed in January 2012 in accordance with the rules of the share option plan.

**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. There were no share options granted during the year ended 31 December 2010.

	2011	2010
Fair value	\$8,626,000	-
Share price 31 December 2010		\$0.83
Share price 31 December 2011	\$0.24	-
Exercise price (expressed as weighted average)	\$0.76	-
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes model)	90%	-
Option life (expressed as weighted average life used in the modelling under Black-Scholes model)	5yrs	-
Expected dividends	-	-
Risk-free interest rate (based on national government bonds)	2.18%	-

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 total expense relating to the fair value of the share options recognised in administrative expenses was \$8,546,000 (2010 - \$15,000) during the year ended 31 December 2011; of these expenses \$7,373,000 (2010 - \$nil) relate to share options issued to key management personnel.

**20. Trade and other payables**

	2011	2010
	\$'000	\$'000
Payables due to related parties	10	34
Trade payables	1,039	75
Other payables	122	367
	<b>1,171</b>	<b>476</b>

**21. Provision for mine closure**

	2011	2010
	\$'000	\$'000
Opening balance	161	-
Increase in provision	-	161
Unwinding of discount	9	-
Closing balance	<b>170</b>	<b>161</b>

The provision has been made to cover projected closure costs in the event that the operations at the San José mine are not prolonged beyond the initial mining period of approximately 4 years. Closure costs are calculated to be \$206,000 (2010 - \$206,000) at the end of the 4 years using a discount rate of 5% (2010 - 5%). Closure activities include decommissioning, reclamation and rehabilitation.

Notes to the consolidated financial statements

**22. Group entities**

Significant Subsidiaries	Country of incorporation and operation	Principal activity	Arian Silver Corporation effective interest	
			2011	2010
Arian Silver de Mexico S.A. de C.V.	Mexico	Exploration and Production of Silver	100%	100%

**23. Financial instruments and financial risk management**

Categories of financial instruments	Loans and receivables		Financial liabilities measured at amortised cost		Financial assets at fair value through profit or loss	
	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	3,991	8,255	-	-	-	-
Other financial assets at fair value through profit or loss	-	-	-	-	272	-
Trade and other receivables	1,789	786	-	-	-	-
Trade and other payables	-	-	1,171	476	-	-
	<b>5,780</b>	<b>9,041</b>	<b>1,171</b>	<b>476</b>	<b>272</b>	<b>-</b>

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.

The trade and other receivables balance includes an ageing IVA (Mexican sales tax) balance of \$544,000 (2010-\$310,000). Management consider this is recoverable as this is due from the Mexican authorities.

**Valuation hierarchy**

The carrying amount of the financial assets at fair value through profit or loss stated above is based on unadjusted quoted prices in active markets for identical assets i.e. Level 1.

**Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for Arian comprises two types of risk: currency risk and price risk.

**Price risk**

The price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments in the market. As at 31 December 2011, the Group has amounts that had only been provisionally priced relating to the sale of silver concentrate. A 25% fluctuation in silver prices would affect trade receivables and profit by approximately \$463,000. The Group does not use derivatives to manage its exposure to price risk. As at 31 December 2011, the Group held other financial assets at fair value of \$272,000 (2010 – nil) relating to the Geologix shares (see Note 15), a fluctuation of 50% would affect other financial assets at fair value through profit and loss and profit by \$143,000.



Notes to the consolidated financial statements

**23. Financial instruments and financial risk management (continued)**

**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 Canadian dollars. The Group therefore also has downside exposure to any strengthening of the United States dollar, Pounds Sterling or the Mexican Peso against the Canadian dollar as this would increase expenses in Canadian dollars terms and accelerate the depletion of the Group's cash resources. Any weakening of the United States dollar, Pounds Sterling or the Mexican Peso 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 Pounds 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.

	<b>Cash Held</b>	<b>Cash Held</b>
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Pounds Sterling	663	4,530
United States Dollars	345	1,007
Canadian Dollars	2,375	2,714
Mexican Pesos	608	4
	<b>3,991</b>	<b>8,255</b>

**Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument or cash flows 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. The Group is not exposed to any significant interest rate risk as the amount of interest receivable is insignificant.

**Liquidity risk**

The Group's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at 31 December 2011, the Group had cash of \$3,991,000 to settle accounts payable of \$1,171,000. The Group's accounts payable have contractual maturities of less than 30 days and are subject to normal trade terms. management expects that the Group will generate sufficient cash from the sale of concentrates to settle operating accounts payable.

**Credit risk**

Credit risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligations. The Group's credit risk is attributable to cash and trade receivables. The credit risk on cash is limited because the Group invests its cash in deposits with well capitalised financial institutions with strong credit ratings. Credit risk attributable to trade receivables is managed in offtake agreements. The Group receives advances of 70% of the estimated value of the concentrate shipped the previous month. 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 \$5,780,000 (2010 - \$11,925,000).

Notes to the consolidated financial statements

**23. Financial instruments and financial risk management (continued)**

**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 financial assets held at fair value through profit or loss is set out in the valuation hierarchy section of this note.

**Capital Management**

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern and have access to adequate funding for its exploration and development projects, so that it can provide returns for shareholders and benefits for other stakeholders. The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Group may issue new shares, acquire debt, or sell assets. Management regularly review cashflow forecasts to determine whether the Group has sufficient cash reserves to meet future working capital requirements and to take advantage of business opportunities.

**Sensitivity Analysis**

The Group holds cash in Canadian dollars and Pounds Sterling arising from fund raising. The main risk is through foreign exchange fluctuations and how this moves in companies where the cash balances are held in a currency that is different to the functional currency.

Exposure to foreign currency risk sensitivity analysis:

	Profit/Loss		Equity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
If there was a 10% weakening of Canadian Dollar against GBP with all other variables held constant – increase/(decrease)	(153)	(159)	(153)	(159)
If there was a 10% strengthening of Canadian Dollar against GBP with all other variables held constant – increase/(decrease)	341	195	341	195

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

**24. Future commitments**

The Group is committed to make the following payments under non-cancellable operating lease arrangements:

	Milling contract		Buildings		Total	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Payable in less than one year	5,153	1,550	167	115	5,320	1,665
Payable in one to two years	2,147	-	14	29	2,161	29
	<u>7,300</u>	<u>1,550</u>	<u>181</u>	<u>144</u>	<u>7,481</u>	<u>1,694</u>

Notes to the consolidated financial statements

**25. Related parties**

**Control of the Company**

In the opinion of the Board, at 31 December 2011 there was no ultimate controlling party of the Company.

**Identity of related parties**

The Company and its subsidiaries have a related party relationship, with its Directors and executive officers and with Grafton, a significant shareholder until the reversal of the share exchange transaction.

**Transactions with key management personnel**

At 31 December 2011 the Directors of the Company and their immediate relatives controlled approximately 2.8% per cent of the voting shares of the Company.

During the year ended 31 December 2011 the Company entered into the following transactions involving key management personnel:

Companies in the Dragon Group charged the Company a total of \$124,574 (2010 – \$132,950). This includes reimbursement of \$124,574 (2010 – \$130,102) in respect of Tony Williams' remuneration paid on behalf of the Company with the balance relating to 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 2010 \$10,002 (2010 - \$20,027) was outstanding.

Key management personnel also participate in the Group's share option programme as disclosed in note 19.

Key management personnel compensation is disclosed in note 6.

Directors' interests in the common shares of the Company as at 31 December 2011 and 2010 were:

	<b>2011</b>	<b>2010</b>
A J Williams	2,200,000	2,000,000
J T Williams	4,800,000	6,800,000
J A Crombie	1,500,000	1,500,000

**26. Post balance sheet events**

**Issue of shares**

Since 31 December 2011, the Company has issued 500,000 common shares in relation to the exercise of share purchase options, generating funding of £60,000.