



## **ARIAN SILVER CORPORATION**

### **Interim Consolidated Financial Statements (Unaudited)**

**Three Months ended 31 March, 2010**

#### ***NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS***

*The accompanying unaudited financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of financial statements by an entity's auditor.*

**Arian Silver Corporation**  
**Consolidated Statement of Financial Position (Unaudited)**  
**At 31 March, 2010 and 31 December, 2009**  
(In U.S. dollars)

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	2010 \$'000	2009 \$'000
<b>Assets</b>		
Property, plant and equipment	88	86
Intangible assets	5,862	7,703
<b>Total non-current assets</b>	<b>5,950</b>	<b>7,789</b>
Trade and other receivables	411	349
Cash and cash equivalents	2,069	101
Investments – available for sale assets	-	5,637
Other financial assets at fair value through profit and loss	640	-
	<b>3,120</b>	<b>6,087</b>
Non-current assets held for sale	2,862	-
<b>Total current assets</b>	<b>5,982</b>	<b>6,087</b>
<b>Total assets</b>	<b>11,932</b>	<b>13,876</b>
<b>Equity</b>		
Share capital	37,230	38,238
Share-based payment reserve	1,656	1,648
Foreign exchange translation reserve	(1,302)	(1,444)
Available for sale reserve	-	504
Retained loss	(27,574)	(27,203)
<b>Total equity</b>	<b>10,010</b>	<b>11,743</b>
Current borrowings	-	1,612
Trade and other payables	431	521
Deferred income	1,491	-
<b>Total current liabilities</b>	<b>1,922</b>	<b>2,133</b>
<b>Total liabilities</b>	<b>1,922</b>	<b>2,133</b>
<b>Total equity and liabilities</b>	<b>11,932</b>	<b>13,876</b>

*The accompanying notes are an integral part of these consolidated financial statements.  
These consolidated financial statements have been approved by the Company's directors.*

**Arian Silver Corporation**  
**Consolidated Income Statement (Unaudited)**  
**For the three months ended 31 March, 2010 and 2009**  
(In U.S. dollars)

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	3 Months ended 31 March 2010 \$'000	3 Months ended 31 March 2009 \$'000
Administrative expenses	(270)	(482)
<b>Operating loss</b>	<b>(270)</b>	<b>(482)</b>
Investment expense	(105)	-
Finance income	4	1
<b>Loss before tax</b>	<b>(371)</b>	<b>(481)</b>
<b>Loss for the period attributable to equity shareholders of the parent</b>	<b>(371)</b>	<b>(481)</b>
Basic and diluted loss per share (\$)	(0.01)	(0.00)

**Consolidated Statement of Comprehensive Income (Unaudited)**  
**For the three months ended 31 March, 2010 and 2009**  
(In U.S. dollars)

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	3 Months ended 31 March 2010	3 Months ended 31 March 2009
<b>Loss for the period attributable to equity shareholders of the parent</b>	<b>(371)</b>	<b>(481)</b>
<b>Other comprehensive income and expense</b>		
Foreign exchange translation differences recognised directly in equity	142	(172)
Available for sale reserve	(504)	(161)
<b>Total comprehensive income and expense for the year attributable to equity shareholders of the parent</b>	<b>(733)</b>	<b>(814)</b>

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**Arian Silver Corporation**  
**Consolidated Statement of Cash Flows (Unaudited)**  
**For the three months ended 31 March, 2010 and 2009**  
(In U.S. dollars)

	<b>3 Months ended 31 March 2010 \$'000</b>	<b>3 Months ended 31 March 2009 \$'000</b>
<b>Cash flows from operating activities</b>		
Operating loss before financing costs	(270)	(482)
Adjustments for:		
Depreciation	3	10
Impairment of fixtures and fittings	-	11
Exchange Difference	(27)	108
Equity-settled share-based payment transactions	8	16
	<u>(286)</u>	<u>(337)</u>
Increase/(decrease) in trade and other receivables	65	(44)
Increase/(decrease) in trade and other payables	(55)	6
<b>Net cash used in operating activities</b>	<u>(276)</u>	<u>(375)</u>
<b>Cash flows from investing activities</b>		
Interest received	4	1
First instalment from Tepal Project option	750	-
Acquisition of intangibles	(641)	(443)
Acquisition of property, plant and equipment	-	(6)
<b>Net cash used in investing activities</b>	<u>113</u>	<u>(448)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	3,171	-
(Repayment of)/proceeds from borrowings	(854)	309
<b>Net cash from financing activities</b>	<u>2,317</u>	<u>309</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	2,154	(514)
Cash and cash equivalents at 1 January	101	753
Effect of exchange rate fluctuations on cash held	(186)	8
<b>Cash and cash equivalents at 31 March</b>	<u>2,069</u>	<u>247</u>

**Arian Silver Corporation**  
**Consolidated Statement of Changes in Equity (Unaudited)**  
**For the three months ended 31 March, 2010 and 2009**  
(In U.S. dollars)

	Share Capital \$'000	Share based payment reserve \$'000	Foreign exchange translation reserve \$'000	Available for sale reserve \$'000	Retained Earnings \$'000	Total \$'000
<b>Period to 31 March, 2009</b>						
Opening Balance	33,303	2,184	(1,973)	-	(26,218)	7,296
Loss for the period	-	-	-	-	(481)	(481)
Foreign exchange	-	-	(172)	-	-	(172)
Unrealised loss	-	-	-	(161)	-	(161)
Total comprehensive income and expense for the year	-	-	(172)	(161)	(481)	(814)
Shares issued re: Grafton	1,133	-	-	-	-	1,133
Fair value of share options	-	16	-	-	-	16
Lapsed share options	-	(817)	-	-	817	-
Balance 31 March, 2009	34,436	1,383	(2,145)	(161)	(25,882)	7,631

<b>Period to 31 March, 2010</b>						
Opening Balance	38,238	1,648	(1,444)	504	(27,203)	11,743
Loss for the period	-	-	-	-	(371)	(371)
Foreign exchange	-	-	142	-	-	142
Reversal of unrealised gain	-	-	-	(504)	-	(504)
Total comprehensive income and expense for the year	-	-	142	(504)	(371)	(733)
Shares redeemed and cancelled re:						
Grafton	(4,935)	-	-	-	-	(4,935)
Shares issued for debt	755	-	-	-	-	755
Shares issued for cash	3,358	-	-	-	-	3,358
Share issue costs	(186)	-	-	-	-	(186)
Fair value of share options	-	8	-	-	-	8
<b>Balance 31 March, 2010</b>	<b>37,230</b>	<b>1,656</b>	<b>(1,302)</b>	<b>-</b>	<b>(27,574)</b>	<b>10,010</b>

**Arian Silver Corporation**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**For the three months ended 31 March, 2010 and 2009**  
(In U.S. dollars)

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**1. Basis of preparation, going concern and adequacy of project finance**

These interim unaudited consolidated financial statements for Arian Silver Corporation (“ASC” or the “Company”) have been prepared in accordance with International Financial Reporting Standards.

ASC is a company domiciled in the British Virgin Islands. The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the “Group”). The Group is primarily involved in the acquisition and exploration of mineral resource assets.

The accounting policies and methods of computation used in the preparation of the interim unaudited consolidated financial statements are the same as those described in the Company’s audited consolidated financial statements and notes thereto for the year ended 31 December 2009. In the opinion of the management, the interim unaudited consolidated financial statements include all adjustments considered necessary for fair and consistent presentation of financial statements. These interim unaudited consolidated financial statements should be read in conjunction with the Company’s audited financial statements and notes for the year ended 31 December 2009.

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.

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 the period the Group received new funding from (i) a private placement of common shares by the Company which raised approximately Cdn\$3.5 million (see Note 5) and (ii) the first instalment of \$1.45 million under an option granted to Geologix Explorations Inc (“Geologix”) in relation to the Tepal Project (see Notes 3, 4 and 9).

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. However, it is anticipated that such funding will be generated from cash flow from the proposed initial contract mining operation at the San José Project, 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.

**Arian Silver Corporation**  
**Notes to Consolidated Financial Statements (Unaudited)**  
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**2. Intangible assets - 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 the Company can establish economically recoverable reserves on its properties, the ability of the Company to obtain necessary financing to complete the development of such reserves and future profitable production or proceeds from the disposition thereof.

Changes in intangible assets for the three months ended 31 March, 2010 and the year ended 31 December, 2009 are detailed in the following table:

	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
Opening balance	<b>7,703</b>	6,038
Additions for the period	<b>641</b>	1,326
Reclassification as Non-current assets held for sale	<b>(2,862)</b>	-
Foreign Exchange	<b>380</b>	339
<b>Closing balance</b>	<b>5,862</b>	<b>7,703</b>

The balances at 31 March, 2010 and at 31 December, 2009 relate entirely to deferred exploration and development costs.

**3. Other financial assets at fair value through profit and loss**

Other financial assets at fair value through profit and loss are classified as current assets and relate to the Geologix Shares (see Note 9).

They are initially stated at cost and subsequently measured at fair value. Fair values are derived by reference to the market pricing of such assets and movements in fair values are accounted for as Investment income or expense and taken to the Consolidate Income Statement. When these assets are disposed of, any gains and losses are included in the Consolidated Income Statement.

**4. Non-current assets held for sale**

Non-current assets held for sale are classified as current assets. They have arisen on reclassification of the carrying value of the Tepal Project from intangible assets following the grant of a purchase option to Geologix (see Note 9).

A first instalment of \$1.45 million paid in respect of the option has been accounted for as deferred income in the Consolidated Statement of Financial Position pending exercise of the option. Part of this instalment was settled by the Geologix Shares which are classified as other financial assets at fair value through profit and loss (see Note 3). On exercise of the option, any gains and losses on disposal of these assets are taken to the Consolidated Income Statement.

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**5. 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 in share capital for the three months ended 31 March, 2010 and the year ended 31 December, 2009 are as follows:

	2010		2009	
	Number of Shares '000	Amount \$'000	Number of Shares '000	Amount \$'000
Opening balance	258,143	38,238	149,052	33,303
Shares issued/(redeemed and cancelled) re: Grafton	(109,091)	(4,935)	109,091	4,935
Shares issued for debt	15,762	755	-	-
Shares issued for cash	70,597	3,358	-	-
Issue costs of share issuance	-	(186)	-	-
<b>Closing balance</b>	<b>235,411</b>	<b>37,230</b>	<b>258,143</b>	<b>38,238</b>

**Three months ended 31 March 2010**

- Redemption and cancellation of 109,090,909 common shares (see Note 8).
- Issue of 15,762,000 common shares in respect of the loan settlement (see Note 8).
- Issue of 70,597,139 common shares in respect of a private placement (the "Private Placement"). The Private 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 Private Placement. Each Unit consisted of one common share of the Company and one-half of a common share purchase warrant.

**Year ended 31 December, 2009**

- Issue of 109,090,909 common shares at Cdn\$0.055 per common share in exchange for 128,591 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.

A summary of the changes in the Company's contributed surplus for the three months ended 31 March, 2010 and the year ended 31 December, 2009, is set out below:

	2010	2009
	\$'000	\$'000
Opening balance	1,648	2,184
Incentive stock options vested	8	351
Incentive stock options lapsed	-	(887)
<b>Closing balance</b>	<b>1,656</b>	<b>1,648</b>



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**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.

A summary of the changes in the Company's foreign exchange translation reserve for the three months ended 31 March, 2010 and the year ended 31 December, 2009, is set out below:

	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
Opening balance	<b>(1,444)</b>	(1,973)
Movement in the period	<b>142</b>	529
<b>Closing balance</b>	<b>(1,302)</b>	(1,444)

**Available for sale reserve**

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

The reserve adjustment of \$504,000 for the three months ended 31 March, 2010 relates to an unrealised gain of \$700,000 and related deferred income tax of \$196,000 which were reversed on redemption of the shareholding in Grafton Resource Investments Ltd (see Note 8).

**Retained loss**

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

**Share purchase 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.

A summary of the changes in the Company's share purchase warrants for the three months ended 31 March, 2010 and the year ended 31 December, 2009 is set out below:

	<b>2010</b>		2009	
	<b>Warrants outstanding</b>	<b>Weighted average exercise price</b>	Warrants outstanding	Weighted average exercise price
	'000	\$	'000	\$
Opening balance	-	-	8,773	0.43
Issued	<b>35,299</b>	<b>0.10</b>	-	-
Repriced	-	-	-	(0.36)
Lapsed	-	-	(4,386)	(0.06)
Lapsed	-	-	(4,387)	(0.09)
<b>Closing balance</b>	<b>35,299</b>	<b>0.10</b>	-	-

During the three months ended 31 March 2010 the Company issued 35,298,569 "F" warrants in connection with the Private Placement, which entitle 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.

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**Incentive stock options**

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 March, 2010 a total of 1,930,833 options remained available for grant under the Plan.

A summary of the Company's stock options as at 31 March, 2010 is set out below:

<b>Outstanding shares</b>	<b>Exercise price</b>	<b>Expiry</b>
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 number and weighted average exercise prices of share options for the three months ended 31 March, 2010 and the year ended 31 December, 2009 are as follows:

	<b>2009</b>		<b>2008</b>	
	<b>Outstanding</b>	<b>Weighted average exercise price</b>	<b>Outstanding</b>	<b>Weighted average exercise price</b>
	<b>000's</b>	<b>price \$</b>	<b>000's</b>	<b>price \$</b>
Opening balance	<b>16,300</b>	<b>0.41</b>	12,040	0.36
Issued	-	-	9,850	0.09
Lapsed	<b>(75)</b>	<b>(0.34)</b>	(4,130)	(0.24)
Lapsed	<b>(500)</b>	<b>(0.37)</b>	(580)	(0.43)
Lapsed	-	-	(880)	(0.19)
<b>Balance – end of period</b>	<b>15,725</b>	<b>0.39</b>	16,300	0.41

**6. Stock-based compensation**

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.

The fair value of stock options granted for the three months ended 31 March, 2010 was \$8,000 (2009 - \$16,000) which was expensed in the Consolidated Income Statement. The fair value of stock options used to calculate compensation expense is estimated using the Black-Scholes option pricing model with the following

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assumptions:

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	<b>2010</b>	2009
Risk free interest rate	2.79%	2.45%
Expected dividend yield	0%	0%
Expected stock price volatility	81%	75%
Expected option life in years	2 to 5 years	2 to 5 years

Pricing models require the input of highly subjective assumptions, including the expected price volatility. In the current period it was deemed that enough information on historic share prices was available to calculate the expected stock price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of units granted by the Company.

**7. Related party transactions**

These unaudited interim consolidated financial statements include balances and transactions with directors and officers of the Company and/or corporations related to them. All transactions have been recorded at the exchange amount which is the consideration established and agreed to between the related parties. During the three months ended 31 March, 2010 and 2009 the Company entered into the following transactions involving related parties:

***Transactions with key management personnel***

(a) Companies in the Dragon Group charged the Company a total of \$30,319 (2009 – \$42,838). This includes reimbursement of \$30,319 (2009 – \$27,600) 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 March, 2010 \$32,576 (2009 - \$14,462) was outstanding.

(b) Kopane Diamond Developments PLC (“KDD”) charged the Company a total of \$6,761 (2009 – \$23,316). This includes reimbursement of \$6,605 (2009 – \$12,025) 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 \$8,113 (2009 – \$10,501) 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 March, 2010 \$6,526 (2009 - \$6,317) was outstanding due to KDD and \$7,892 (2009 - \$10,991) was outstanding due from KDD.

Key management personnel also participate in the Group’s share option programme.

***Transactions with subsidiaries***

The Company made loans to Arian Silver de Mexico S.A. de C.V. of \$nil (2009 - \$312,825).

**8. Reorganisation of Grafton relationship**

In January 2010 the share exchanges that took place in 2009 with Grafton Resource Investments Ltd (“Grafton”) were reversed by way of share redemptions. Pursuant to the share redemptions, the Company redeemed and cancelled 109,090,909 common shares issued to Grafton at the original issue price of Cdn\$0.055 per common share and the Company’s holding of 128,591 Grafton participating shares were redeemed at the approximate original average issue price of \$38 per participating 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 outstanding loans and repaid the balance of \$300,000 to Grafton in cash.

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**9. Tepal Project Option Agreement**

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 underlying property option agreement payment of \$900,000 payable by June, 2010.

Following receipt of the first instalment under the Option Agreement, the Company repaid to Geologix a loan of \$517,500.

**10. Segment reporting**

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

As at 31 March 2010, the Group had one operational segment being the exploration for and development of silver and associated metal deposits in Mexico. All capital assets of the Group are held in Mexico.