



ARIAN SILVER CORPORATION

**Audited Consolidated
Financial Statements
Year Ended 31 December 2010
(In thousands of U.S. dollars)**

Statement of directors' responsibilities

The directors are responsible for preparing financial statements for each financial year that give a true and fair view of the state of affairs of the group and of the profit or loss of the group for that period. The directors have, as required by the AIM Rules of the London Stock Exchange, prepared the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; 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 and the group 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 2010 which comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes. The financial 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 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 2010 and of its loss for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the European Union.

PKF (UK) LLP
London, UK
26 April 2011

Arian Silver Corporation

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

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

We conducted our audit for the year ended 31 December 2010 in accordance with International Standards on Auditing (UK and Ireland). There are no material differences in the form or content of our audit report, as compared to an auditor's report prepared in accordance with Canadian GAAS and if this report were prepared in accordance with Canadian GAAS it would contain an unmodified audit opinion.

PKF (UK) LLP

London, UK

26 April 2011

Arian Silver Corporation

Consolidated statement of financial position

(Expressed in United States dollars)

As at 31 December 2010

	Note	2010 \$'000	2009 \$'000
Assets			
Intangible assets	10	1,241	7,703
Property, plant and equipment	9	5,423	86
Total non-current assets		<u>6,664</u>	<u>7,789</u>
Trade and other receivables	13	934	349
Cash and cash equivalents	14, 24	8,255	101
Inventories	15	139	-
Assets held for sale	16	2,884	-
Investments - available for sale assets	12	-	5,637
Total current assets		<u>12,212</u>	<u>6,087</u>
Total assets		<u>18,876</u>	<u>13,876</u>
Equity attributable to equity shareholders of the parent			
Share capital	17	45,420	38,238
Share-based payment reserve	17	813	1,648
Foreign exchange translation reserve	17	(1,234)	(1,444)
Available for sale reserve	17	-	504
Accumulated losses	17	(28,255)	(27,203)
Total equity		<u>16,744</u>	<u>11,743</u>
Trade and other payables	22	476	521
Current borrowings	21	-	1,612
Deferred income	16	1,495	-
Total current liabilities		<u>1,971</u>	<u>2,133</u>
Provision for mine closure	23	161	-
Total non-current liabilities		<u>161</u>	<u>-</u>
Total liabilities		<u>2,132</u>	<u>2,133</u>
Total equity and liabilities		<u>18,876</u>	<u>13,876</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 26 April 2011 and were signed on its behalf by:

“J T Williams”
J T Williams
Chief Executive Officer

“V Parkes”
V Parkes
Acting Chief Financial Officer

Arian Silver Corporation

Consolidated Statement of Comprehensive Income

(Expressed in United States dollars)

For the year ended 31 December 2010

	2010	2009
<i>Note</i>	\$'000	\$'000
Continuing operations		
Revenue	3(1) 184	-
Cost of sales	(175)	-
Gross Profit	<u>9</u>	<u>-</u>
Administrative expenses	(2,095)	(2,068)
Operating loss	5 <u>(2,086)</u>	(2,068)
Finance income	7 380	-
Net financing income	<u>380</u>	<u>-</u>
Loss before tax	<u>(1,706)</u>	<u>(2,068)</u>
Income tax	8 (196)	196
Loss for the year attributable to equity shareholders of the parent	<u>(1,902)</u>	<u>(1,872)</u>
Other comprehensive income		
Foreign exchange translation differences recognised directly in equity	17 210	529
Available for sale reserve	12, 17 (700)	700
Income tax relating to available for sale reserve	196	(196)
Other Comprehensive Income for the year	<u>(294)</u>	<u>1,033</u>
Total comprehensive income for the year attributable to equity shareholders of the parent	<u>(2,196)</u>	<u>(839)</u>
Basic and diluted loss per share (\$)	18 (0.01)	(0.01)

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

Arian Silver Corporation

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

For the year ended 31 December 2010

	Note	2010 \$'000	2009 \$'000
Cash flows from operating activities			
Operating loss before tax		(1,706)	(2,068)
Adjustments for:			
Depreciation and amortisation		44	41
Impairment of fixture & fittings		-	17
Write down of exploration costs		185	-
Exchange difference		(356)	(166)
Finance income		(380)	-
Equity-settled share-based payment transactions		15	351
		<u>(2,198)</u>	<u>(1,825)</u>
(Increase)/decrease in trade and other receivables	13	(450)	315
(Decrease)/increase in trade and other payables	22	(22)	238
(Increase) in inventories	15	(139)	-
Net cash used in operating activities		<u>(2,809)</u>	<u>(1,272)</u>
Cash flows from investing activities			
Interest received	7	11	-
First instalment from disposal of Tepal project	16	750	-
Proceeds from disposal of investments	16	1,128	-
Acquisition of intangibles	10	(916)	(1,048)
Acquisition of property, plant and equipment	9	(510)	-
Generated from / (used in) investing activities		<u>463</u>	<u>(1,048)</u>
Cash flows from financing activities			
Proceeds from issue of share capital	17	11,362	-
(Repayment of) / Proceeds from borrowings	21	(862)	1,612
Net cash from financing activities		<u>10,500</u>	<u>1,612</u>
Net increase/(decrease) in cash and cash equivalents		8,154	(708)
Cash and cash equivalents at 1 January		101	753
Effect of exchange rate fluctuations on cash held		-	56
Cash and cash equivalents at 31 December	14	<u>8,255</u>	<u>101</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 2010

	Share Capital \$000's	Share based payment Reserve \$000's	Foreign exchange translation reserve \$000's	Available for sale reserve \$000's	Accumulated Losses \$000's	Total \$000's
Balance – 1 January 2009	33,303	2,184	(1,973)	-	(26,218)	7,296
Loss for the year	-	-	-	-	(1,872)	(1,872)
Unrealised gain	-	-	-	504	-	504
Foreign exchange	-	-	529	-	-	529
Total comprehensive income and expense for the year	-	-	529	504	(1,872)	(839)
Shares issued in exchange for Grafton shares	4,935	-	-	-	-	4,935
Fair value of share options	-	351	-	-	-	351
Lapsed share options	-	(887)	-	-	887	-
Balance – 31 December 2009	38,238	1,648	(1,444)	504	(27,203)	11,743
Loss for the year	-	-	-	-	(1,902)	(1,902)
Foreign exchange	-	-	210	-	-	210
Reversal of unrealised gain	-	-	-	(504)	-	(504)
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	45,420	813	(1,234)	-	(28,255)	16,744

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

Notes to the consolidated financial statements

1. Reporting entity

Arian Silver Corporation (the “Company”) is a company domiciled in the British Virgin Islands. The consolidated financial statements for the year ended 31 December 2010 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 2010 have been prepared in accordance with International Financial Reporting Standards (“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 as adopted by the EU that are relevant to its operations and effective for accounting periods beginning 1 January 2010. The adoption of these new and revised Standards and Interpretations, including IFRS 3 Business Combinations, 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 26 April 2010.

(b) Going concern and adequacy of project finance

The directors regularly review cashflow 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 the final quarter of 2010, the Group commenced commercial production at the Company's 100%-owned San José mine, Zacatecas State, Mexico. The first batch of silver concentrate was produced and delivered to the smelter before the end of the year. This operation is now generating cashflow which will be allocated to fund further exploration on the San José property.

The Group is at an early stage of development. 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.

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

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 3e, 3g, 10
- Estimation of share based payment costs – Notes 3k, 20
- Depreciation on property, plant and equipment – Note 3d

(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 directly as a separate component of equity. They are released into the income statement 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 directly as a separate component of equity.

(c) Financial instruments

(i) Non-derivative financial instruments

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

Notes to the consolidated financial statements

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

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

(ii) Trade and other receivables

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

(iii) Financial liabilities

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

(iv) Cash and cash equivalents

Cash and cash equivalents represent bank balances and call deposits.

(v) Investments - available for sale assets

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

(d) 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

(iii) Depreciation

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

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

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

(e) Intangible assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill arises on the acquisition of subsidiaries, associates and joint ventures. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

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

(ii) Deferred exploration and evaluation costs

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

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

(f) Leased assets

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

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.

(g) Impairment

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

(h) Inventories

Inventories comprise silver concentrate produced, ore stockpiles and consumables and are stated at the lower of cost and net realisable value. Silver concentrate produced and ore stockpiles are calculated on an average cost basis and include all costs directly incurred up to the relevant point of the process, such as mining costs, milling costs, transport, operating and administration costs. Net realisable value is determined with reference to market prices.

Notes to the consolidated financial statements

(i) Assets held for sale

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.

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.

(j) Share capital – Common shares

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

(k) 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.

(l) Revenue Recognition

The Company enters into contracts for the sale of silver concentrate. Revenue arising from silver concentrate sales is recognised when the price is determinable, the product has been delivered and the significant risks and rewards of ownership have been transferred to the customer and the sales price is reasonably assured. These criteria are assessed to have occurred when the silver concentrate has been received by the smelter.

In cases where the terms of the executed sales agreements allow for an adjustment to the sales price based on a survey of the goods by the customer (for instance an assay for mineral content), recognition of the sales revenue is based on the most recently determined estimate of product specifications and market price.

(m) 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.

Notes to the consolidated financial statements

(n) 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.

(o) Income tax expense

Income tax expense comprises current and deferred tax.

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

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

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

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

(p) Earnings per share

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

4. Segment reporting

The Group has adopted IFRS 8 Operating Segments. 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.

Arian Silver Corporation

Notes to the consolidated financial statements

(i) Segment information

	San José		Tepal		Calicanto		All other segments		Total	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Revenue	184	-	-	-	-	-	-	-	184	-
Profit/(Loss) before tax	9	-	369	-	-	-	(2,084)	(2,068)	(1,706)	(2,068)
Capital Expenditure	1,394	732	-	578	-	16	32	-	1,426	1,326
Depreciation and amortisation	7	-	-	-	-	-	37	41	44	41
Total assets	5,827	3,644	2,884	2,629	843	885	9,322	6,718	18,876	13,876
Total liabilities	161	-	1,495	-	-	-	476	2,133	2,132	2,133

All other segments include assets common to all projects.

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

(ii) Geographical information

	Mexico		UK		Total	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Non current assets excluding investments	6,660	7,784	4	5	6,664	7,789
Revenue	184	-	-	-	184	-

5. Loss on operating activities is stated after charging:

	2010 \$'000	2009 \$'000
Auditors remuneration		
Audit – Remuneration for audit of Arian Silver Corporation	43	45
Audit – Remuneration for audit of Arian Silver de Mexico S.A. de C.V.	7	6
Taxation	7	6
Depreciation	44	41
Deferred exploration writedown	185	-
Exchange gain	293	56

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 2010	Number of Employees 2009
Finance and administration	11	12
Technical	35	16
	46	28

Arian Silver Corporation

Notes to the consolidated financial statements

The aggregate staff costs of these persons were as follows:

	2010	2009
	\$'000	\$'000
Wages and salaries	767	703
Social security costs	402	67
Share based payments	15	339
	1,184	1,109

Remuneration of key management personnel

Key management personnel remuneration is detailed below:

	2010			2009
	Salary	Fees	Total	Total
	\$'000	\$'000	\$'000	\$'000
Executive Directors				
A J Williams	111	-	111	113
J T Williams	247	-	247	251
Non-executive Directors				
T A Bailey	23	-	23	23
J S Cable	23	-	23	23
J A Crombie	23	-	23	23
D Cather (appointed 23 June 2009, resigned 18 March 2010)	11	-	11	12
Other key management				
Country Manager – Mexico	-	58	58	36
Company Secretary	124	-	124	126
	562	58	620	607

7. Finance income and expense

	2010	2009
	\$'000	\$'000
Gain on disposal of assets held for sale	369	-
Interest income	11	-
Net financing income	380	-

8. Income tax recognised in the income statement

	2010	2009
	\$'000	\$'000
Current tax		
Current year	(196)	196

Reconciliation of effective tax rate

	2010	2009
	\$'000	\$'000
Loss before tax	(1,706)	(2,068)
Income tax using the domestic corporation tax rate of 28% (2009 – 28%)	(478)	(579)
Non-deductible expenses	259	168
Share options disallowed	(731)	99
Losses utilised	(394)	-
Depreciation in excess of capital allowances	(1)	5
Short term timing differences	317	(156)
Tax losses carried forward	1,224	267
Total tax expense/(credit)	196	(196)

Notes to the consolidated financial statements

At the year end the Group had tax losses to carry forward of approximately \$17,940,000 (2009 – \$15,054,000). This includes losses and exploration costs expensed under Mexican GAAP but capitalised under IFRS. It should be noted that recent changes in Mexican tax legislation may limit the extent and timing of the use of the Mexican allowable tax losses.

Under IFRS a net deferred tax asset of approximately \$3,599,000 (2009 – \$2,940,000) has not been recognised due to the uncertainty as to the amount that can be utilised.

9. Property, plant and equipment

	Mine development costs \$'000	Plant and equipment \$'000	Fixtures & fittings \$'000	Vehicles \$'000	Total \$'000
Cost					
Balance – 1 January 2009	-	92	67	88	247
Disposals	-	-	(27)	-	(27)
Foreign Exchange movement	-	6	5	5	16
Balance – 31 December 2009	-	98	45	93	236
Balance – 1 January 2010	-	98	45	93	236
Transfer from intangible assets	4,695	-	-	-	4,695
Additions	478	24	-	8	510
Other movements	161	-	-	-	161
Foreign Exchange movement	-	3	2	4	9
Balance – 31 December 2010	5,334	125	47	105	5,611
Depreciation and impairment losses					
Balance – 1 January 2009	-	31	26	55	112
Disposals	-	-	(10)	-	(10)
Depreciation and amortisation charge for the year	-	20	2	19	41
Foreign Exchange movement	-	2	2	3	7
Balance – 31 December 2009	-	53	20	77	150
Balance – 1 January 2010	-	53	20	77	150
Depreciation and amortisation charge for the year	7	16	6	15	44
Foreign Exchange movement	-	(2)	(1)	(3)	(6)
Balance – 31 December 2010	7	67	25	89	188
Carrying amounts					
At 31 December 2010	5,327	58	22	16	5,423
At 31 December 2009	-	45	25	16	86
At 1 January 2009	-	61	41	33	135

The mine development costs at 31 December 2010, relate to the 100% owned San José property in Zacatecas State, Mexico which commenced production of silver ore in the final quarter of 2010.

Other movements consist of the mine closure provision (see Note 23)

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Notes to the consolidated financial statements

10. Intangible assets

	Goodwill	Deferred exploration costs	Total
	\$'000	\$'000	\$'000
Cost			
Balance – 1 January 2009	13,446	6,038	19,484
Additions	-	1,326	1,326
Foreign Exchange	-	339	339
Balance – 31 December 2009	<u>13,446</u>	<u>7,703</u>	<u>21,149</u>
Balance – 1 January 2010	13,446	7,703	21,149
Additions	-	916	916
Transfer to asset held for sale	-	(2,884)	(2,884)
Transfer to property, plant and equipment	-	(4,695)	(4,695)
Foreign Exchange	-	386	386
Balance – 31 December 2010	<u>13,446</u>	<u>1,426</u>	<u>14,872</u>
Impairment losses and amortisation			
Balance – 1 January 2009	(13,446)	-	(13,446)
Balance – 31 December 2009	<u>(13,446)</u>	<u>-</u>	<u>(13,446)</u>
Balance – 1 January 2010	(13,446)	-	(13,446)
Write down	-	(185)	(185)
Balance – 31 December 2010	<u>(13,446)</u>	<u>(185)</u>	<u>(13,631)</u>
Carrying amounts			
At 31 December 2010	<u>-</u>	<u>1,241</u>	<u>1,241</u>
At 31 December 2009	-	7,703	7,703
At 1 January 2009	-	6,038	6,038

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 as described in Note 16. The transfer to property, plant and equipment, has been categorised as mining and development costs. This has taken place as a result of the commencement of the mining operation at the San José property. These costs relate to the property payments, drilling and assay costs that were incurred during the exploration stage of the project.

Deferred exploration costs as at 31 December 2010 consisted mainly of costs relating to Calicanto \$843,000 (2009 - \$885,000), San Celso \$87,000 (2009 - \$84,000) and Los Compos \$99,000 (2009 - \$94,000).

11. Group entities

Significant Subsidiaries	Country of incorporation and operation	Principal activity	Arian Silver Corporation effective interest	
			2010	2009
Arian Silver de Mexico S.A. de C.V.	Mexico	Exploration and Production of Silver	100%	100%

Notes to the consolidated financial statements

12. 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.

13. Trade and other receivables

	2010	2009
	\$'000	\$'000
Receivables due from related parties	8	-
Other receivables	594	323
Accrued income	184	-
Prepayments	148	26
	934	349

14. Cash and cash equivalents

	2010	2009
	\$'000	\$'000
Bank balances	5,352	101
Call deposits	2,903	-
Cash and cash equivalents in the statement of cash flows	8,255	101

15. Inventories

	2010	2009
	\$'000	\$'000
Consumables	25	-
Silver concentrate produced	114	-
	139	-

16. Assets held for sale

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. Settlement was effected by way 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.

As provided in the agreement Geologix could complete the purchase of 100% of the Tepal property by making a further payment of \$1.55 million before 23 February 2011 to the Company. At Geologix’s election, up to 50% of this payment could be satisfied in the form of Geologix shares. The Option Agreement provides that Geologix shall be responsible for satisfying all of the Company’s obligations relating to the Tepal property, including the remaining underlying property option agreement payments. In this regard of \$900,000 was paid in June 2010, and a further \$2.3million is payable by June 2011.

Notes to the consolidated financial statements

At the year end, the Tepal project was classified as assets held for sale valued at \$2,884,000 which represents the deferred exploration cost of the project (2009 - \$2,629,000). The non-refundable first instalment has been accounted for as deferred income pending exercise of the option or termination of the Option Agreement. The Geologix Shares were disposed of during the year realising a profit of \$369,000.

Geologix exercised the option and acquired the Tepal project during the first quarter of 2011 (see Note 27).

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 2010 and 2009 are detailed in the following table:

	2010		2009	
	Number of Shares 000's	Amount \$000's	Number of Shares 000's	Amount \$000's
Balance – 1 January	258,143	38,238	149,052	33,303
Shares (redeemed and cancelled)/issued re Grafton	(109,091)	(4,935)	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	17,957	1,752	-	-
Exercise of share options	7,475	657	-	-
Balance – 31 December	282,448	45,420	258,143	38,238

During the years ended 31 December 2010 and 2009, the Company made the following share and warrant issues:

2009

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

2010

- Redemption and cancellation of 109,090,909 common shares in consideration for the redemption of 128,591 Grafton participating shares (see Note 12).
- 15,762,000 common shares issued in respect of the loan settlement (see Note 12)
- 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.

Notes to the consolidated financial statements

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.

Available for sale reserve

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

Accumulated losses

Accumulated losses contain losses in the current and prior years.

Warrants

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

18. Loss per share

Basic loss per share

The calculation of basic loss per share at 31 December 2010 was based on the loss attributable to common shareholders of \$1,902,000 (2009 – \$1,872,000) and a weighted average number of common shares outstanding during the year ended 31 December 2010 of 245,923,617 (2009 – 229,110,068).

See Note 27 for a description of subsequent transactions giving rise to significant changes in the number of issued and outstanding common shares.

Diluted Loss per share

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

19. Warrants

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

	2010		2009	
	Warrants outstanding (000's)	Weighted average exercise price (\$)	Warrants outstanding (000's)	Weighted average exercise price (\$)
Balance – 1 January	-	-	8,773	0.43
Repriced	-	-	-	(0.36)
Lapsed	-	-	(4,386)	(0.06)
Lapsed	-	-	(4,387)	(0.09)
Issued	35,299	0.10	-	-
Exercised	(17,957)	0.10	-	-
Balance – 31 December	17,342	0.10	-	-

The outstanding warrants have all been exercised post year end (see note 27).

20. Share-based payment transactions

The Company currently has in place an incentive share option plan (the "Plan") covering Directors, officers, employees and consultants of the Company and its subsidiary companies. The exercise price of a future option grant will be determined by the Board on the basis of the closing market price of the Company's shares on the trading day prior to the date of issue of the option. Options may be granted for a period of up to ten years and the Board determines the

Notes to the consolidated financial statements

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 10% of issued share capital. As at 31 December 2010 a total of 23,519,774 options remained available for grant under the Plan.

The number and weighted average exercise prices of share options for the years ended 31 December 2010 and 2009 is set out below:

	2010		2009	
	Out-standing (000's)	Weighted average exercise price (\$)	Out-standing (000's)	Weighted average exercise price (\$)
Balance – 1 January	16,300	0.41	12,040	0.36
Issued	-	-	9,850	0.09
Lapsed	(75)	(0.36)	(4,130)	(0.24)
Lapsed	(500)	(0.39)	(580)	(0.43)
Lapsed	-	-	(880)	(0.19)
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)	-	-
Balance – 31 December	4,725	0.13	16,300	0.41

Share options in issue at 31 December 2010:

Outstanding shares	Exercise price	Expiry
2,200,000	£0.12/Cdn\$0.25	4 June 2013
2,525,000	£0.055/Cdn\$0.10	16 July 2014

The weighted average remaining contractual life of share options as at 31 December 2010 was 1,104 days.

Share options held by directors and senior management at 31 December 2010:

Holder	Shares	Exercise price	Grant Date	Vesting Date	Expiry
A Williams	750,000	£0.12/Cdn\$0.25	5 June 2008	5 October 2008	4 June 2013
J Williams	750,000	£0.12/Cdn\$0.25	5 June 2008	5 October 2008	4 June 2013
J Cable	200,000	£0.055/Cdn\$0.10	17 July 2009	17 July 2009	16 July 2014
T Bailey	200,000	£0.055/Cdn\$0.10	17 July 2009	17 July 2009	16 July 2014
J Crombie	550,000	£0.055/Cdn\$0.10	17 July 2009	17 July 2009	16 July 2014
Senior Management	975,000	£0.055/Cdn\$0.10	17 July 2009	17 July 2009	16 July 2014
	475,000	£0.055/Cdn\$0.10	17 July 2009	17 January 2010	16 July 2014
	500,000	£0.12/Cdn\$0.25	5 June 2008	5 October 2008	4 June 2013

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Changes to share options held by directors and senior management in the year ended 31 December 2010:

Holder	At	Granted	Lapsed	Exercised	At
	1 January				31 December
	2010				2010
	000s	000s	000s	000s	000s
A Williams	4,000	-	(1,000)	(2,250)	750
J Williams	4,000	-	(1,000)	(2,250)	750
J Cable	950	-	(400)	(350)	200
T Bailey	550	-	-	(350)	200
J Crombie	1,050	-	(500)	-	550
D Cather	550	-	-	(550)	-
Senior Management	3,750	-	(500)	(1,300)	1,950
Total	14,850	-	(3,400)	(7,050)	4,400

During the year the share options outlined in the table above were exercised and the resulting shares sold at a price of £0.31 per share. The aggregate gains made by directors and senior management on these share sales for the year ended 31 December 2010 was \$2,547,000 (2009 - \$nil).

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 year ended 31 December 2010.

	2010	2009
Fair value	-	\$1,648,000
Share price 31 December 2009	-	\$0.06
Share price 31 December 2010	\$0.83	-
Exercise price (expressed as weighted average)	-	\$0.10
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes model)	-	74%
Option life (expressed as weighted average life used in the modelling under Black-Scholes model)	-	2-5 yrs
Expected dividends	-	0%
Risk-free interest rate (based on national government bonds)	-	2.98%

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 \$15,000 (2009 - \$351,000) during the year ended 31 December 2010.

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21. Borrowings

As at 31 December 2010 the Company had current borrowings amounting to \$nil (2009 -\$1,612,000).

During the year the Company repaid the following loans:

(a) As part of the Share Redemptions, the Company issued to Grafton 15,762,000 common shares at Cdn\$0.05 per common share in settlement of \$750,000 of loans from Grafton. In addition to this the Company repaid the balance owing of \$300,000. As at 31 December 2010, the Company had borrowings with Grafton totalling \$nil (2009 - \$1,050,000)

(b) The Company repaid a loan from Geologix of \$518,000, which had been advanced to the Company to complete a deferred outstanding property option payment due to the vendor of the Tepal property of equal amount. As at December 2010, the Company had borrowings with Geologix totalling \$nil (2009 - \$518,000)

22. Trade and other payables

	2010	2009
	\$'000	\$'000
Payables due to related parties	34	85
Trade payables	75	165
Other payables	367	271
	476	521

23. Provision for mine closure

As at 31 December 2010 the Group has recorded the following mine closure provision.

	2010	2009
	\$'000	\$'000
Opening balance	-	-
Increase in provision	161	-
Closing balance	161	-

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 at the end of the 4 years at 31 December 2010 using a discount rate of 5%. Closure activities include decommissioning, reclamation and rehabilitation.

24. Financial instruments and financial risk management

Categories of financial instruments	Loans and receivables		Financial liabilities measured at amortised cost		Available-for-sale and assets held for sale	
	2010	2009	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	8,255	101	-	-	-	-
Available-for-sale investments	-	-	-	-	-	5,637
Assets held for sale	-	-	-	-	2,884	-
Trade and other receivables	786	323	-	-	-	-
Trade and other payables	-	-	476	521	-	-
Current borrowings	-	-	-	1,612	-	-
	9,041	424	476	2,133	2,884	5,637

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

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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 \$310,000. Management consider this is recoverable as this is due from the Mexican authorities.

Valuation hierarchy

The carrying amount of the available for sale investments stated above is based on unadjusted quoted prices in active markets for identical assets i.e. Level 1. The available for sale investments were disposed during the year.

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

	Cash Held 2010 \$'000	Cash Held 2009 \$'000
Pounds Sterling	4,530	1
United States Dollars	1,007	74
Canadian Dollars	2,714	2
Mexican Pesos	4	24
	8,255	101

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or cashflows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that the Group uses. Treasury activities take place under procedures and policies approved and monitored by the Board to minimise the financial risk faced by the Group. Interest bearing assets comprise cash and cash equivalents which are considered to be short-term liquid assets. 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 the management of liquidity risk is set out in Note 2 to the financial statements.

Credit risk

The Group is exposed to credit risk on its financial assets as per the Consolidated statement of financial position. At the date of the Consolidated statement of financial position there was no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Consolidated statement of financial position which at the year end amounted to \$11,925,000 (2009 - \$6,061,000).

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Market risk

The Group is exposed to commodity price risk through fluctuations in the market price for silver concentrate. These prices are subject to global economic conditions and industry related cycles. The directors consider the sensitivity of financial assets and liabilities to changes in silver prices as immaterial.

Fair values

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

Capital Management

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

The Group's capital structure comprises all components of equity (i.e. common share capital, accumulated losses and other reserves). When considering the future capital requirements of the Group and the potential to fund specific project development via debt the Board considers the risk characteristics of all of the underlying assets in assessing the optimal capital structure.

Sensitivity Analysis

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

Foreign currency risk sensitivity analysis:

	Profit/Loss		Equity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
If there was a 10% weakening of Mexican Peso against US\$ with all other variables held constant – increase/(decrease)	(41)	(26)	1,127	706
If there was a 10% strengthening of Mexican Peso against US\$ with all other variables held constant – increase/(decrease)	35	32	(921)	(840)
If there was a 10% weakening of Pounds Sterling against US\$ with all other variables held constant – increase/(decrease)	(55)	-	737	-
If there was a 10% strengthening of Pounds Sterling against US\$ with all other variables held constant – increase/(decrease)	55	-	(737)	-
If there was a 10% weakening of Canadian Dollar against US\$ with all other variables held constant – increase/(decrease)	-	-	(159)	-
If there was a 10% strengthening of Canadian Dollar against US\$ with all other variables held constant – increase/(decrease)	-	-	195	-

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

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25. Future commitments

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

	Milling contract		Buildings		Total	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Payable in less than one year	1,550	-	115	-	1,665	-
Payable in two to three years	-	-	29	-	29	-
	1,550	-	144	-	1,694	-

At 31 December 2010 the Group had a potential liability to pay a discretionary property payment of \$2.3 million in the event of termination of the Tepal Option Agreement with Geologix (see Note 16). However, Geologix exercised the option and acquired the Tepal project during the first quarter of 2011 (see Note 27).

26. Related parties

Control of the Group

In the opinion of the Board, at 31 December 2010 there was no ultimate controlling entity of the Group.

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 2010 the Directors of the Company and their immediate relatives controlled approximately 3.6% per cent of the voting shares of the Company.

During the year ended 31 December 2010 the Company entered into the following transactions involving key management personnel:

(a) Companies in the Dragon Group charged the Company a total of \$132,950 (2009 – \$158,746). This includes reimbursement of \$130,102 (2009 – \$123,712) 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 \$20,027 (2009 - \$44,736) was outstanding.

(b) Kopane Diamond Developments PLC ("KDD") charged the Company a total of \$62,664 (2009 – \$91,214). This includes reimbursement of \$19,623 (2009 – \$33,688) 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 \$32,899 (2009 – \$34,640) for the provision of accounting support services. James Cable and Tony Williams are Directors of the Company. James Cable is a Director of KDD and Tony Williams is a former Director of KDD. At 31 December 2010 \$14,317 (2009 - \$40,879) was outstanding due to KDD and \$8,292 (2009 - \$nil) was outstanding due from KDD.

Key management personnel also participate in the Group's share option programme as disclosed in note 20.

Key management personnel compensation is disclosed in note 6.

Directors' interests in the common shares of the Company as at 31 December 2010 and 2009 were:

	2010	2009
A J Williams	2,000,000	2,000,000
J T Williams	6,800,000	6,800,000
J A Crombie	1,500,000	1,500,000

Notes to the consolidated financial statements

During the year, the only change in the Directors' share interests was the exercise of share options as disclosed in note 20.

Transactions with Grafton

Details relating to transactions with Grafton are stated in Note 12 "Investments and significant non-cash transactions".

27. Post-year end events

Tepal Project

In February 2011 Geologix exercised the option pursuant to the Option Agreement and completed the purchase of a 100% interest in the Tepal project (see Note 16).

On completion of the transaction the final instalment of \$1,550,000 was satisfied by payment of \$775,000 and the balance of \$775,000 through the issue of 1,089,318 Geologix shares at a price of approximately Cdn\$0.70 per share and all of the Company's obligations relating to the Tepal project ceased.

Issue of shares

Since 31 December 2010, the Company has issued the following shares:

- a) 17,342,000 common shares in relation to the exercise of share purchase warrants, generating funding of \$1.7million.
- b) 1,400,000 common shares in relation to the exercise of share options generating funding of £90,000.

Grant of options

On 19 January 2011, the Company granted 14,860,000 share options under the Company's share option plan, of which 8,950,000 were granted to the directors and the balance granted to employees and other associates of the Company. These share options are exercisable at £0.4925 or Cdn\$0.79 per share up to 18 January 2016, subject to a four months hold period from date of grant.