



ARIAN SILVER CORPORATION

ANNUAL REPORT AND ACCOUNTS 2011

COMPANY INFORMATION

DIRECTORS

Anthony (Tony) J. Williams, *Chairman*
James (Jim) T. Williams, *Chief Executive Officer*
Thomas A. Bailey *Non-executive*
James S. Cable *Non-executive*
James A. Crombie *Non-executive*

CORPORATE SECRETARY

David H. Taylor

HEAD OFFICE

Berkeley Square House
Berkeley Square
London, W1J 6BD
United Kingdom
Tel: +44 (0)20 7887 6599
Fax: +44 (0)20 7887 6598

REGISTERED OFFICE

Palm Grove House
P.O. Box 3190
Road Town, Tortola
British Virgin Islands

NOMINATED ADVISER

Grant Thornton UK LLP
30 Finsbury Square
London, EC2P 2YU

BROKER

XCAP Securities PLC
24 Cornhill
London, EC3V 3ND

FINANCIAL PR

Yellow Jersey PR Limited
South Building, Upper Farm
Wootton St. Lawrence
Basingstoke
Hants, RG23 8PE

AUDITOR

PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London, EC1M 3AP

REGISTRAR

Computershare Investor Services Inc
100 University Avenue
Toronto, Ontario, M5J 2Y1
Canada

STOCK EXCHANGES

AIM Market of the London Stock Exchange
TSX Venture Exchange
Frankfurt Stock Exchange
London's PLUS Market

TRADING SYMBOLS

AIM/PLUS: AGQ (stock is quoted in Pounds Sterling)
TSX-V: AGQ (stock is quoted in Canadian Dollars)
Frankfurt: I3A (stock is quoted in Euros)

Arian Silver Corporation – Management’s Discussion and Analysis

This Management’s Discussion and Analysis (“MD&A”) has been prepared based on information available to Arian Silver Corporation (“Arian” or the “Company”) as at 28 February 2012 and compares its consolidated 2011 financial results with tvhhe previous year. This MD&A should be read in conjunction with the Company’s audited Consolidated Financial Statements and the related notes. The audited Consolidated Financial Statements and related notes have been prepared in accordance with International Financial Reporting Standards. All dollar amounts referred to in this discussion are expressed in United States dollars, unless specifically stated otherwise.

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING AND CONTROLS

The audited Consolidated Financial Statements of the Company for the financial year ended 31 December, 2011 and the comparative amounts for 2010 have been prepared by the senior managers of the Company (“Management”) in accordance with International Financial Reporting Standards (“IFRS”) and have been approved by the Company’s Board of Directors (the “Board”). The integrity and objectivity of these audited Consolidated Financial Statements are the responsibility of Management. In addition, Management is responsible for ensuring that the information contained in this MD&A is consistent, where appropriate, with the information contained in the audited Consolidated Financial Statements.

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

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

INTRODUCTION

The following discussion is Management’s assessment and analysis of the results and financial condition of the Company, and should be read in conjunction with the accompanying audited Consolidated Financial Statements for the financial year ended 31 December, 2011 which are also available on SEDAR at www.sedar.com or the Company’s website at www.ariansilver.com.

Arian is a publicly quoted silver exploration, development and production company, operating in one of the richest silver-bearing districts in the world, Zacatecas State, Mexico. The Company is committed to mining existing silver areas, and to exploring new opportunities. Arian’s current main project is in San José, Zacatecas State. As part of the Company’s strategy for future development, Arian will aim to use large scale mechanised mining techniques over wider mineralized structures, thus reducing the overall unit operating cost of metals, and building up compliant resources.

Arian Silver Corporation was co-founded by Jim Williams (President & CEO) and Tony Williams (Chairman).

The Company is incorporated in the British Virgin Islands and its common shares are listed for trading on the TSX Venture Exchange and depository receipts are traded on the London Stock Exchange’s AIM market, on the Frankfurt Stock Exchange and on London’s PLUS Market. The Company’s headquarters are on Berkeley Square, London.

Arian Silver Corporation – Management’s Discussion and Analysis

THE STRATEGY

Arian’s overall objective is to develop additional resources on the San José property concurrent with the existing contract mining and toll milling operation, complete a feasibility study, and move to large-scale independent commercial production.

OVERVIEW OF 2011

Financial

- Revenue: \$7.5 million for the year ended 31 December 2011
- Gross profit: \$0.8 million for the year ended 31 December 2011
- Total assets: \$16.3 million as at 31 December 2011
- Working capital: \$5.9 million as at 31 December 2011

Operation

- Independent laboratory commenced operation in April 2011
- Phase 3 drill campaign completed in June 2011
- Lease of mill extended up to July 2013

Production

	Year 2011	Q4 2011
Tonnes mined	100,223	24,433
Tonnes milled	83,959	22,971
Silver concentrate tonnes produced	750	256
Silver ounces produced	248,226	76,618
Silver ounces per concentrate tonne produced	331	300
Silver ounces sold	235,965	77,738
Silver concentrate tonnes sold	706	242

Exploration

- Updated independent resource estimate published in July 2011, confirming:
 - 88.45 million contained silver ounces, an increase of 105%
 - 30.03 million ounces in the “indicated” resource category, an increase of 233%
 - 58.42 million ounces in the “inferred” resource category, an increase of 74%
 - plus lead and zinc credits
- Phase 4 drilling programme 94% complete at 31 December 2011

Geologix Explorations, Inc.

In February 2011 Geologix Explorations, Inc. (“Geologix”) exercised the Tepal option and the final instalment of \$1.55 million was paid \$775,000 in cash and \$775,000 in Geologix shares.

Subsequent events

- Interim drilling and geophysical IP survey results published in January 2012, evidencing the continuity of vein thickness, silver mineralisation and grade, and providing details of drill hole targets
- Phase 4 drilling completed in February 2012

Arian Silver Corporation – Management’s Discussion and Analysis

REVIEW OF FINANCIAL PERFORMANCE

In the financial year ended 31 December 2011, the Company incurred a pre-tax loss of \$11.0 million (2010: \$1.7 million) primarily on account of the IFRS accounting requirement for the recognition of the fair value non-cash expense of vesting share purchase options of \$8.5 million (2010: \$15,000) and other administrative expenses of \$2.8 million (2010: \$2.1 million).

The San José operation generated gross profit of \$812,000 (2010: \$9,000), which reflects the increase in the mining and milling operations.

As at 31 December 2011, the Company had working capital of approximately \$5.9 million (31 December 2010: \$10.2 million). See *Liquidity, Capital Resources and Working Capital* for further detail on the Company’s working capital.

Intangible assets amounted to \$1.1 million (31 December 2010: \$1.2 million) which relate to deferred exploration and evaluation costs in respect of the Company’s Mexican projects.

During 2011, Arian invested some \$2.7 million on the phase 3 and 4 drill programmes and \$0.8 million on mining development to provide access to further stopes.

The exercise of share options and warrants during 2011 increased share capital by \$1.9 million to \$47.3 million (31 December 2010: \$45.4 million).

Investment income was \$0.4 million loss (2010: \$0.4 million profit).

Interest income was \$44,000 (2010: \$11,000).

SELECTED ANNUAL FINANCIAL INFORMATION

	2011	2010	2009
	\$'000	\$'000	\$'000
Total Revenue and income	7,511	564	-
Gross profit	812	9	-
Net loss before finance income	10,510	2,086	2,068
Net loss for the period	10,970	1,902	1,872
Basic and diluted loss per share	\$0.04	\$0.01	\$0.01
Total assets	16,250	18,876	13,876
Shareholders’ equity	14,909	16,744	11,743
Cash dividend declared per share	-	-	-

Total Revenue and Income

Total revenues for 2011 of \$7.5 million mainly comprised revenue from the sale of silver concentrate representing Arian’s first full year of production.

Total revenues for 2010 of \$0.6 million comprised primarily of \$0.2 million revenue from silver concentrate receipts and \$0.4 million upon the sale of part of Arian’s stake in Geologix that had been acquired as part of the consideration for the disposal by Arian of the Tepal project.

Gross Profit

Trial production continued during 2011, delivering strong growth in gross profit, which increased to over \$0.8 million for the year

Arian commenced trial production in the fourth quarter of 2010, which gave rise to a small gross profit for the year ended 31 December 2010.

Net loss

The net loss attributable to equity shareholders increased in 2011 by approximately \$9.1 million as a consequence primarily, of the IFRS accounting treatment of share purchase options of some \$8.5 million and exchange rate fluctuation of \$0.6 million.

Arian Silver Corporation – Management’s Discussion and Analysis

The net loss attributable to equity shareholders remained at approximately the same level from 2009 to 2010 of \$1.9 million. \$0.3 million UK national insurance contributions paid on the exercise of share purchase options was offset by a \$0.3 million income from exchange rate fluctuation.

Total assets

The overall growth in total assets over the past three years, after making adjustments for foreign exchange movements, was mainly due to Arian’s investment in the exploration projects in Mexico and was primarily funded by issuing equity; from the second half of 2011 it was also funded by revenues generated by the trial mining operation.

During 2011 total assets decreased by \$2.6 million. This overall movement primarily consisted of the following items: increase in receivables and inventory of \$1.0 million and \$0.8 respectively relating to the increase in working capital as a result of an increase in operations; an increase of \$2.7 million in tangible and intangible assets (comprises \$3.5 million of further investment in the San Jose mine offset by depreciation of \$0.2 million and adverse foreign exchange movements of \$0.6 million); an increase of \$0.3 million in other financial assets held at fair value, related to the Geologix shares received as part payment for the sale of Tepal; a decrease in cash of \$4.3 million, and decrease in the assets held for sale of \$2.9 million, which related to the sale of Tepal following the completion of the sale in February 2011.

The increase in total assets between 2009 and 2010 related mostly to an \$8.1 million increase in cash held following a placing and a further \$1.8 million investment by Arian in the San José project. These gains were offset following the reversal of the \$5.6 million Grafton share exchange transaction.

Shareholders’ Equity

During 2011, shareholders’ equity decreased by \$1.8 million to \$15.0 million. This comprised the loss for the year of \$11.0 million and an increase to the exchange translation reserve of \$1.3 million; these were offset by \$1.9 million and \$8.5 million, from the exercise of share options and warrants, and the IFRS expense for the vesting of share options respectively.

During 2010, shareholders’ equity increased by \$5.0 million, to \$16.7 million. This included the cancellation of shares in respect of the unwinding of an arrangement with Grafton Resource Investments Ltd, a private placement of shares, and the exercise of share options and warrants.

REVIEW OF OPERATIONS

The Company currently owns 32 mineral concessions in Mexico totalling approximately 8,038 hectares as set out below.

Property Summary

Project Name	No. of Concessions	Area in hectares (“ha”)
San José	11	6,279.5
Calicanto	7	75.5
Others	14	1,683.4

Qualified Person

Mr Jim Williams, Eur Ing, Eur Geol, BSc, MSc, D.I.C., FIMMM, the Chief Executive Officer of Arian, a "Qualified Person" as defined in the AIM Rules of the London Stock Exchange, and a "Qualified Person" as such term is defined in Canadian National Instrument 43-101 (“NI 43-101”), has reviewed and approved the technical information in this Review of Operations other than the mineral resource estimates referred to under the heading *Exploration Resource*.

San José Project, Zacatecas State

The 100%-owned San José property lies 55 kilometres to the southeast of Zacatecas City and covers 11 mining concessions totalling approximately 6,300 ha. The property has significant infrastructure, including a 4x5 metre (“m”) main haulage ramp (“SJ Ramp”) extending nearly 4.0km along the footwall of the San José Vein (“SJV”) system, and a 350m deep, 500 tonne per day (“tpd”) vertical shaft with operational hoist. In addition, a number of shallower vertical shafts are located in a westerly direction along the SJV.

Arian Silver Corporation – Management’s Discussion and Analysis

Production Information

Production information summary for San José mine is as follows:

	Year	Q4	Q3	Q2	Q1
	2011	2011	2011	2011	2011
Head grade - Ag grams per tonne	190	201	199	178	178
Tonnes mined	100,223	24,433	33,941	22,387	19,462
Tonnes milled	83,959	22,971	21,512	18,348	21,128
Ag concentrate tonnes produced	750	256	204	144	146
Recovery %	48.43	51.68	47.76	56.66	38.08
Ag ounces produced	248,226	76,618	65,804	59,568	46,236
Ag ounces per concentrate tonne	331	300	323	412	316
Ag ounces sold	235,965	77,738	77,587	41,868	38,772
Ag concentrate tonnes sold	706	242	221	117	126

	Year	Q4	Q3	Q2	Q1
	2010	2010	2010	2010	2010
Head grade - Ag grams per tonne	154	154	-	-	-
Tonnes mined	7,600	7,600	-	-	-
Tonnes milled	3,385	3,385	-	-	-
Ag concentrate tonnes produced	22	22	-	-	-
Recovery %	56.31	56.31	-	-	-
Ag ounces produced	9,462	9,462	-	-	-
Ag ounces per concentrate tonne produced	439	439	-	-	-
Ag ounces sold	6,730	6,730	-	-	-
Ag concentrate tonnes sold	13	13	-	-	-

Mining Operations

The initial mining operation is limited to the Ramal Norte/Sur, San José 75m Level Central Zone, and Santa Ana resource blocks. These were selected from several delineated resource blocks to support the initial pilot scale mining operation with the potential, subject to available milling capacity, to increase the mining rate to circa 1,500 tpd.

From January to end December 2011, approximately 400m have been developed along the main westerly strike of the SJ Ramp, in a combination of Run-Of-Mine (“ROM”) and waste material. A substantial amount of ore has been intersected within the ramp, which continues to advance in a westerly direction, and a new parallel, but steeper, decline ramp was being developed in largely waste material to maximise the amount of sulphide-rich ore that could be extracted from the resource blocks. The drilling information indicated the sulphide-rich ore is located deeper within the Santa Ana resource block.

Contract mining expectations are unchanged at up to 500 tpd. Mining is planned to operate 20 days per month.

Total costs to mine and deliver ore to the mill are estimated at approximately \$26/tonne.

Milling Operations

Although the mill has a maximum rating of 400 tpd, it is not designed for the hardness and abrasiveness of the San José ROM material. Arian therefore started with a daily throughput of just 120 tonnes but has now increased this to around 250 following on-going fine-tuning of the operation. A reconditioned impact crusher was installed within the circuit to partly mitigate this issue by grinding the ROM material more finely before it enters the flotation stage of the plant.

This continuing phase of pilot-scale milling has, and continues, to allow Arian to review all key data providing Arian essential information to potentially build an optimised/bespoke plant, should it decide to pursue this route after all the test work and economic parameters have been evaluated. Arian is also

Arian Silver Corporation – Management’s Discussion and Analysis

currently reviewing other alternatives as well as continuing to work to improve the current mill design and recoveries.

The lease with the mill and plant owner was extended in July 2011 for a period of up to two years at a cost of MXP 6 million (approx. US\$ 0.45 million) per month. There is an early break provision in favour of Arian giving it the right to terminate the lease after twelve months.

The increase in the new lease cost is due to the installation and operation of an additional in-line 200 tpd ball mill which, when commissioned, should allow Arian to meet its expected milling target of 400 tpd (for 30 days) with up to 125 tonnes of concentrate to be produced per month and with an anticipated silver content of between 370 and 440 ounces per tonne (“opt”).

Based on a contained silver content of 405 opt at a spot price of \$30/oz silver, a concentrate value of \$11,000/tonne, after deductions, is forecast. Although, the higher the silver price, calculated on a quotation period paying the average of the second month after delivery, the greater the return.

A 2% net smelter royalty (“NSR”) on SJV revenue is payable to the vendor of the San José property.

Plant/Mill Study

Arian has engaged an independent metallurgical and mill consultant to conduct a study for a bespoke milling plant for the San José project. The study will evaluate, amongst other things, the viability of such a plant with proposed future mining operations. Such a plant is expected to significantly increase efficiencies, including recoveries, of silver, lead and zinc at a significantly reduced cost.

Exploration Drilling

In May 2011, Arian completed the Phase 3 10,000m diamond/core drilling programme, which commenced in November 2010. The purpose of the drill programme was to delineate additional areas of mineralisation and to upgrade existing resources, between the Santa Ana and Guanajuatillo resource areas along the SJV. The drill programme had also started to explore in detail the SJV system that lies to the west of the village of Guanajuatillo. The results of Phase 3, which met expectations, are included in the resource table below, under the heading ‘Exploration Resource’.

In April and June 2011, the drill results from the Phase 3 drilling programme were released (see the Company’s press releases dated 4 April 2011 entitled “Arian Silver’s Continuing Exploration Drilling Intercepts High-Grade Silver at San José” and 27 June 2011 entitled “Arian Silver Reports Wide High-Grade Silver and Base Metal Intercepts”).

In June 2011, the Phase 4 drilling programme, commenced and at the end of December 2011, 9,400 m had been drilled. The purpose of that drilling phase was to drill a large proportion of the SJV, combining both infill and step-out drilling with the objectives to: (1) increase inferred resources by step-out drilling in a westerly and easterly direction and, (2) upgrade existing inferred resources into the Indicated category.

On 20 July 2011 an Independent Resource Update which took into account all the Phase 1, 2 and 3 drilling programmes was released, refer under section heading *Exploration Resource*.

In October 2011, Arian released interim drill results relating to the Phase 4 drilling programme. These show the continuity of the vein thickness, silver mineralisation and grade along the SJV (see the Company’s press release dated 24 October 2011 entitled “Arian Silver Reports Encouraging Progress on Phase 4 Drilling at San José”).

In January 2012, Arian released further interim drill results relating to the Phase 4 drilling programme which continues to show continuity of the vein thickness, silver mineralisation and grade along the SJV. Also announced were the results of the Geophysical IP survey which successfully identified the areas of vein displacements which provided targets for the last holes to be drilled in the Phase 4 Drill programme (see the Company’s press release dated 16 January 2012 entitled “Arian Silver Reports Further Encouraging Exploration Progress at San José”).

Arian Silver Corporation – Management’s Discussion and Analysis

Exploration Resource

On 20 July 2011, Arian reported a significant resource estimate upgrade conducted by CSA Global (UK) Ltd (see the Company’s press release entitled “Arian Silver Announces Significant Increase in Mineral Resources at San José”). The highlights of this announcement were:

- 86% increase in resource tonnage along the SJV over the August 2008 mineral resource estimate
 - 10% higher average silver grade;
 - 105% increase in contained silver; and
 - 34% of gross silver mineral content now in the “indicated” category.
- Mineral resource estimates based on all Phase 1, 2 and 3 drill holes (152 drill holes totalling over 28,000 m); and
- Mineralisation remained completely open along the western strike and to depth.

Arian’s resource estimate included all drill programmes from 2006 along the SJV which has a delineated NI 43-101 and a JORC-compliant resource estimate of approximately 30.03 million ounces of silver, 69.9 million pounds of lead and 126.6 million pounds of zinc in the “indicated” mineral resource category, and 58.42 million ounces of silver, 140.1 million pounds of lead and 291.1 million pounds of zinc in the “inferred” mineral resource category. These NI 43-101 and JORC-compliant mineral resources are summarised in the table below:

Resource Category	Tonnes	Average Grade			Contained Metal		
		Ag	Pb	Zn	Ag	Pb	Zn
		(g/t)	%	%	(Moz)	(t)	(t)
Indicated	8,000,000	117	0.40	0.72	30.03	31,706	57,425
Inferred	17,000,000	107	0.37	0.78	58.42	63,548	132,041

1. Geological characteristics and +30 ppm grade envelopes used to define resource volumes.
2. Each mineral resource estimate is in accordance with CIM standards.
3. The effective date of each mineral resource estimate is 15th July 2011.
4. The estimates are based on geological, statistical and geostatistical data assessment and computerised IDW³, Ag grade wireframe restricted, linear block modelling.
5. The resource was estimated using 152 drill holes and more than 28,000 metres.
6. Resource figures were prepared under the supervision of Malcolm Titley who is a Qualified Person (as defined in Canadian National Instrument 43-101).
7. Tonnage figures have been rounded to reflect this as an estimate.
8. Ag (silver) ounces have been calculated using 31.1035 g = 1oz.
9. Pb (lead) and Zn(zinc) tonnes have been calculated using 2204.622 lbs = 1 tonne.
10. The mineral resource is 100% owned by Arian.

The following reports prepared by A.C.A. Howe International Limited relating to the San José project are available on the Company’s website www.ariansilver.com or on SEDAR at www.sedar.com :-

- a) Report dated 22 June, 2009 and entitled “Preliminary Economic Assessment Report (PEAR) on the San José Silver-Lead-Zinc Deposit, Zacatecas, Mexico”; and
- b) Report dated 15 August, 2008 and entitled “Resource Estimation Update for the San José Silver-Lead-Zinc Deposit, Zacatecas, Mexico”.

Readers are reminded that mineral “resources” are not mineral “reserves” as they have not yet demonstrated economic viability. There is no certainty that mineral resources can be upgraded to mineral reserves through continued exploration.

Laboratory Update

The mobile laboratory, purchased in November 2010 from Stewart Group’s Geochemical & Assay Division (“Stewart Group”), became fully operational in April 2011. It comprises a comprehensive sample preparation facility and fire assay and wet chemistry facilities with Atomic Absorption Spectrometry (“AAS”). It is operated under the sole control and management of professional personnel from the Stewart

Arian Silver Corporation – Management’s Discussion and Analysis

Group in order that results are fully compliant with Arian’s quality assurance and quality control (QA/QC) programme. The laboratory has significantly increased the turnaround times for analysis of Arian’s sampled drill cores. During Q3 2011, the “Stewart Group” was acquired by the ALS Group; at the time of reporting there has been no change in (or with) our on-site laboratory personnel.

Calicanto Project, Zacatecas State

Arian owns 100% of the Calicanto Project which consists of seven adjacent mining concessions and at least four main mineralised vein systems, over a 75.5ha area, namely: Calicanto, Vicochea I, Vicochea II, Misie 1 and Misie 2, and Missie 1 and Missie 2 properties, collectively known as the “Calicanto Group”. These concessions are located in the historic mining district of Zacatecas.

Arian will commence further underground evaluation of the deeper levels of the Calicanto Vein once the water has receded to the appropriate level; this will include but not be limited to, mapping and underground sampling and subsequent analyses. There has been no significant expenditure on the Calicanto Project during the past two years.

Additional information in respect of the Calicanto Project is contained in a technical report prepared by A.C.A. Howe International Limited dated 20 March, 2006 and entitled “Technical Report on the Calicanto and San Celso Projects, Zacatecas, Mexico”. A copy of this report is available on the Company’s website www.ariansilver.com or on SEDAR at www.sedar.com.

Tepal Project, Michoacán State

In February 2011, Geologix Explorations, Inc. (“Geologix”) exercised the option granted to it by Arian in January 2010, paid a second instalment of \$1.55 million and acquired 100% of the Tepal property (see *Liquidity, Capital Resources and Working Capital*).

SUMMARY OF QUARTERLY RESULTS

Unaudited	2011	2011	2011	2011
	4 th Quarter	3 rd Quarter	2 nd Quarter	1 st Quarter
	\$’000	\$’000	\$’000	\$’000
Total Revenue and income	2,376	2,445	1,542	1,148
Gross Profit/ (loss)	446	520	59	(213)
Net loss before finance income	411	484	1,358	8,275
Net loss for the period	443	602	1,535	8,390
Basic and diluted loss per share	\$0.00	\$0.00	\$0.01	\$0.03
Total assets	16,250	16,894	18,843	19,631
Shareholders’ equity	14,909	15,806	17,764	18,342
Cash dividend declared per share	-	-	-	-

Unaudited	2010	2010	2010	2010
	4 th Quarter	3 rd Quarter	2 nd Quarter	1 st Quarter
	\$’000	\$’000	\$’000	\$’000
Total Revenue and income	325	144	91	4
Gross Profit	9	-	-	-
Net loss before finance income	936	411	469	270
Net loss for the period	991	267	273	371
Basic and diluted loss per share	\$0.01	\$0.00	\$0.00	\$0.01
Total assets	18,876	12,362	11,393	11,932
Shareholders’ equity	16,744	10,099	9,490	10,010
Cash dividend declared per share	-	-	-	-

Arian Silver Corporation – Management’s Discussion and Analysis

Fourth quarter 2011 vs. third quarter 2011

Revenues of \$2.4 million mainly comprise revenues from the sale of silver concentrate from the San José mining operation. The net loss in the period was \$0.1 million lower than the previous quarter, largely due to a \$0.2 million gain on Geologix shares, \$0.2 million foreign exchange gain, offset by a \$0.1 million decrease in gross profit. Total assets decreased by \$0.6 million to \$16.3 million; cash decreased by \$1.5 million to \$4.0 million, this was offset by an increase of \$0.7 million investment in development of the San José mine. Inventories increased by \$0.2 million; \$0.1 million increase in stockpiled ore and \$0.1 million increase in silver concentrate produced in relation to the San José mine. The decrease in shareholders’ equity is largely attributable to the increase in foreign exchange translation reserves and the loss incurred in the period.

Third quarter 2011 vs. second quarter 2011

Revenues increased by \$0.9 to \$2.4 million comprising \$2.4 million from the final and provisional sales of silver concentrate from the San José mining operation, and \$25,000 interest income. The net loss in the period was \$0.9 million lower than for the previous quarter: \$0.3 million of this difference relates to the expensing of the fair value of options, \$0.5 million relates to the increased profitability of the San José mine, and \$0.1 million to the investment loss on the Geologix shares. Total assets decreased by \$1.9 million; cash decreased by \$1.7 million to \$5.5 million, and financial assets valued at fair value relating to the Geologix shares decreased by \$0.2 million. This was offset by investment in the San José property of \$2.5 million, as well as a \$0.1 million increase in trade and other receivables and \$0.1 million increase in inventories. The decrease in shareholders’ equity is largely attributable to the loss incurred in the period.

Second quarter 2011 vs. first quarter 2011

Revenues of \$1.5 million comprise \$1.5 million from the sale of silver concentrate from the San José mining operation and \$13,000 interest income. The net loss in the period was \$6.9 million lower than for the previous quarter: \$6.7 million of this difference relates to the expensing of the fair value of options and \$0.2 million relates to the increased profitability of the San José mine. Total assets decreased by \$0.8 million; cash decreased by \$1.7 million to \$7.2 million and financial assets valued at fair value relating to the Geologix shares decreased by \$0.3 million. This was offset by investment in the San José property of \$0.7 million, as well as a \$0.2 million increase in trade and other receivables and \$0.2 million increase in inventories. The decrease in shareholders’ equity is largely attributable to the loss incurred in the period.

First quarter 2011 vs. fourth quarter 2010

Revenues of \$1.1 million comprise \$1.1 million from the sale of silver concentrate from the San José mining operation and \$11,000 interest income. The net loss in the period was \$7.4 million higher than the previous quarter, largely due to \$7.3 million for the fair value of options vested. Total assets increased by \$1.9 million; non-current assets increased by \$1.4 million due to investment in mine development and exploration costs at the San José mine. Trade and receivables increased by \$0.6 million: \$1.0 million relates to the sales receipts outstanding for the sale of concentrate from the San José mining operation, offset by the transfer to non-current assets of the deposit paid on the purchase of the assay laboratory for the San José mine. The increase in shareholders’ equity is largely attributable to the fair value of the share options issued, the exercise of share purchase warrants and options offset by the loss incurred in the period.

Fourth quarter 2010 vs. third quarter 2010

Revenues of \$0.3 million comprise \$0.2 million from the sale of silver concentrate from the San José mining operation and \$0.1 million of investment income from the sale of Geologix shares. The net loss before finance income in the period was \$0.5 million higher than the previous quarter, largely due to a \$0.3 million charge for employers UK national insurance contributions on the exercise of share purchase options and a \$0.1 million write off of deferred exploration expenses. Total assets increased by \$6.5 million; cash increased by \$5.8 million to \$8.3 million as a result of a share placement and the exercise of share options and purchase warrants. Non-current assets increased by \$0.6 million due to investment in mine development costs at the San José mine. Trade and receivables increased by \$0.3 million as a result of the deposit paid on the assay laboratory for the San José mine. The increase in shareholders’ equity is largely attributable to a share placement the exercise of share purchase warrants and options offset by the loss incurred in the period.

Arian Silver Corporation – Management’s Discussion and Analysis

Third quarter 2010 vs. second quarter 2010

Revenues of \$0.2 million were from investment income of which \$0.1 million was profit from the sale of Geologix Shares and \$0.1 million was the fair value adjustment gain on the Geologix Shares held at 30 September 2010. The net loss in the period was broadly the same as the loss for the previous quarter. Cash increased by \$0.9 million to \$2.4 million. Intangible assets increased by \$0.3 million in the period due to fluctuating exchange rates. The increase in shareholders’ equity is largely attributable to the exercise of share purchase warrants and options offset by the loss incurred in the period.

Second quarter 2010 vs. first quarter 2010

Revenues were from investment income as a result of financial gain on the Geologix shares held as part consideration for the sale of Tepal. The net loss before finance income in the period was \$0.2 million higher than for the previous quarter mainly due to a \$0.2 million exchange rate gain on cash balances held in the first quarter. Cash decreased by \$0.6 million to \$1.5 million. Intangible assets decreased by \$0.2 million in the period due to fluctuating exchange rates. The decrease in shareholders’ equity is largely attributable to the loss incurred in the period.

LIQUIDITY, CAPITAL RESOURCES AND WORKING CAPITAL

In management’s view, the most meaningful information concerning the Company relates to its current liquidity and solvency.

During the year the Company received new funding from:-

- the exercise of 1,400,000 share purchase options and 17,342,000 “F” share purchase warrants which generated £90,000 and Cdn\$1,734,200 respectively, and
- the exercise of the Tepal option by Geologix which resulted in the receipt of a final instalment of \$1.55 million, satisfied as to \$775,000 in cash and the issue of to the Company of 1,089,318 common shares of Geologix at a price of approximately Cdn\$0.70. The Geologix shares were subject to a four month hold period which expired in June 2011.

Since the year end the Company has received further funding from:-

- the exercise of 500,000 share purchase options which generated £60,000.

Since the year end 3,000,000 share purchase options have lapsed.

The following share purchase options are currently outstanding, each entitling the holder to acquire one common share of the Company:

- 14,985,000 share purchase options with exercise prices in the range £0.055/£0.12/£0.30/£0.4925 or Cdn\$0.10/Cdn\$0.25/Cdn\$0.48/Cdn\$0.79 expiring on various dates up to July 2016.

Working Capital – 31 December, 2011

As at 31 December, 2011, the Company had working capital of approximately \$5.9 million (31 December, 2010: \$10.2 million). The items of working capital and changes compared to 31 December 2010 are as follows:-

Current assets

- cash and cash equivalents \$4.0 million (2010: \$8.3 million) – decrease has largely arisen due to investment in the development of and working capital requirements of the San José mine, offset by funds from the exercise of share purchase warrants and options and funds received from the second part of the sale of Tepal
- trade and other receivables \$1.9 million (2010: \$0.9 million) – this increase of \$1.0 million is due to \$1.0 million increase in monies owed for the sale of silver concentrate, \$0.3 million increase for monies owed for IVA (Mexican good sales tax), offset by \$0.3 million for deposit for assay laboratory which has been acquired during 2011
- inventories \$0.9 million (2010: \$0.1 million) – relates to production at the San José mine

Arian Silver Corporation – Management’s Discussion and Analysis

- other financial assets held at fair value through the profit and loss account \$0.3 million – (2010: \$nil) – relates to the Geologix shares held, received as part payment for the final instalment for the sale of the Tepal project. Geologix shares received for the first instalment in the year ended 31 December 2010 were all disposed of during the 2010.
- non-current assets held for sale \$nil – (2010: \$2.9 million) – relate to intangible assets identified as relating to the Tepal project, the sale of which although highly probable at 31 December 2010, was not completed until February 2011.

Current liabilities

- deferred income \$nil (2010: \$1.5 million) – the reduction of \$1.5 million relates to the value of the non-refundable first instalment of the Tepal option consideration which was exercised in February 2011
- trade payables \$1.2 million (2010: \$0.5 million) – the increase of \$0.7 million relates to an increase in monies owed for operating costs at the San José mine

In relation to funding the Company’s future operations, it is currently anticipated that this will be largely financed from existing working capital as well as from cash flow from the mining operation at the San José project.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During the year ended 31 December, 2011 the Company entered into the following transactions involving related parties:

Transactions with key management personnel

Companies in the Dragon Group charged the Company a total of \$124,574 (2010: \$132,950). This included reimbursement of \$124,574 (2010: \$130,102) in respect of Tony Williams’ remuneration paid on behalf of the Company with the balance relating to reimbursable expenses incurred on behalf of the Company. Tony Williams, Chairman and a director of the Company, beneficially owns the Dragon Group. At 31 December, 2011 \$10,002 (2010: \$20,027) was outstanding.

FUTURE COMMITMENTS

The following table discloses the contractual obligations for the Company as at 31 December 2011.

	Less than 1 year	1 – 2 years	Total
	2011 \$'000	2010 \$'000	2011 \$'000
Milling contract	5,153	2,147	7,300
Building lease	167	14	181
Total	5,320	2,161	7,481

FUTURE OUTLOOK

Management anticipates that 2012 will result in improvements to earnings and production figures, based on the assumptions that silver prices will remain strong, and further efficiencies would be realised at the mill. Cash flows generated from concentrate sales and working capital levels are expected to be sufficient to finance exploration activities on the SJV. Total asset value is expected to be enhanced through another independent technical NI 43-101 compliant report on the San José resource in March 2012. The results of the on-going mill study are expected to be received during the year. It is anticipated this study will provide a platform which is expected to significantly reduce Arian’s silver production cost per ounce. Arian Silver Corporation’s outlook for 2012 is very positive.

Arian Silver Corporation – Management’s Discussion and Analysis

CRITICAL ACCOUNTING ESTIMATES

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

The following section discusses the critical accounting estimates and assumptions that management has made and how they affect the amounts reported in the consolidated financial statements. We consider these estimates to be an important part of understanding our consolidated financial statements.

Going Concern

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

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

The directors currently believe that the Company 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 Company’s financial statements on a going concern basis.

Resource Properties, Deferred Exploration and Development Costs

All costs related to the exploration of mineral properties are capitalised until either the properties are brought into production, at which time they are amortised over the estimated life of the project, or until the properties are sold, or title rights allowed to lapse, or are abandoned or determined not to be commercially viable, at which time they are charged to the income statement.

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

Management is of the view that the current policy is appropriate for the Company at this time and is consistent with many other public mineral exploration and development companies in the UK and Canada. Shareholders are advised that carrying values are not necessarily indicative of present or future values. The Company assesses whether impairment exists in any of its exploration projects and writes down that project to its estimated recoverable value when such impairment is found to exist. Any write down is recorded as an expense in the Company’s income statement in the financial statements for the relevant period.

Share based payments

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

Arian Silver Corporation – Management’s Discussion and Analysis

Revenue Recognition

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

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

Inventories

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

FINANCIAL RISK FACTORS

Market risk

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

Price risk

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

Currency risk

The Company’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 Company is therefore exposed to the movement in exchange rates for these currencies. The Company does not currently hedge foreign exchange risk.

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

Liquidity risk

The Company’s approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at 31 December 2011, the Company had cash of \$3,991,000 to settle accounts

Arian Silver Corporation – Management’s Discussion and Analysis

payable of \$1,171,000. The Company’s accounts payable have contractual maturities of less than 30 days and are subject to normal trade terms. Management expects that the Company will generate sufficient cash from the sale of concentrates to settle operating accounts payable.

Credit risk

Credit risk is the risk of loss associated with a counterparty’s inability to fulfil its payment obligations. The Company’s credit risk is attributable to cash and trade receivables. The credit risk on cash is limited because the Company invests its cash in deposits with well capitalised financial institutions with strong credit ratings. Credit risk attributable to trade receivables is managed in offtake agreements. The Company receives advances of 70% of the estimated value of the concentrate shipped the previous month. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position which at the year end amounted to \$5,780,000 (2010 - \$11,925,000).

OTHER RISK FACTORS

The financing, exploration, development and exploitation of the Company’s properties and the operations of the Company’ business are subject to a number of factors, including metal prices, laws and regulations, political conditions, currency fluctuations, hiring qualified people and obtaining necessary services in jurisdictions where the Company operates.

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

The following is a brief discussion of those distinctive or special characteristics of the Company’s operations and industry that may have a material impact on, or constitute risk factors in respect of the Company’s future financial performance.

Mining concessions and Title

In relation to mining concessions over which the Company holds legal rights, if the Company fails to fulfil the specific terms of any of its concessions or operates in the concession areas in a manner that violates Mexican law, regulators may impose fines, suspend or revoke the concessions, any of which could have a material adverse effect on the Company’s operations and proposed operations.

Whilst the Company has received legal opinions in respect of title to its properties there is no guarantee that title to such properties will not be challenged or impugned by third parties. The Company’s concessions may be subject to prior unregistered agreements, transfers or other claims and title may be affected by unidentified or unknown defects or government actions.

Nature of Mineral Exploration and Mining

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

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

Arian Silver Corporation – Management’s Discussion and Analysis

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

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

The Company is transitioning from an exploration company to a producer. In the mining industry such a transition is sometimes a difficult and challenging exercise due to operational issues and risks.

Volatility of Metal Prices

The value of the Company's resources and financial results of operations will be affected by fluctuations in metal prices over which the Company has no control. A reduction in the metal prices may prevent the Company's properties from being economically mined or result in curtailment of existing production activities or result in the impairment and write-off of assets.

The price of silver, which is affected by numerous factors including inflation levels, fluctuations in the US dollar and other currencies, supply and demand and political and economic conditions, may have a significant influence on the market price of the Company's common shares.

Requirement of Additional Financing

The exploration and development of the Company's concessions, including continuing exploration projects, and the construction of mining facilities and commencement of mining operations, will require substantial additional financing. The Company currently has sufficient funds to finance its projected working capital and project expenditures for the next 12 months but may require further funding in the future to continue to explore and develop its concessions and to maintain its interest in all its projects. No assurance can be given that the Company will be able to raise the additional financing necessary to continue its production activities or to explore and/or develop its concessions. Failure to obtain sufficient financing for any projects will result in a delay or indefinite postponement of exploration, development or production on properties covered by the Company's concessions or even the loss of a concession. The only sources of funds currently available to the Company are through the sale of product from production activities, the issue of equity capital, the sale of concessions or other assets, royalty interests or the entering into of joint ventures. In addition, the Company's ability to obtain further financing will depend in part on the price of silver and the industry's perception of its future price and other factors outside the Company's control. Additional financing may not be available when needed, or if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to shareholders. In the absence of adequate funding the Company may not be able to continue as a going concern in which event the carrying value of the Company's projects would be impaired.

Limited Operating History

The Company has a limited history of producing revenue and its ultimate success will depend on its ability to generate cash flow from its concessions in the future. The Company has not earned any material profits to date and there is no assurance that it will do so in the future. A major portion of the Company's activities will be directed to the development of the SJV as well as the search for and the development of new silver deposits. Significant capital investment will be required for exploration at the concessions and to achieve

Arian Silver Corporation – Management’s Discussion and Analysis

commercial production from the Company's existing projects and from successful exploration efforts. There is no assurance that the Company will be able to raise the required funds to continue these activities.

Mineral Resource Estimates

The mineral resource figures disclosed in this MD&A are estimates and no assurances can be given that the indicated levels of minerals will be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource estimates included in this MD&A are well established, by their nature resource estimates are imprecise and depend, to a certain extent, upon statistical inferences, which may ultimately prove unreliable. If such estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company.

Mineral resources are not mineral reserves and do not have demonstrated economic viability. There is no certainty that mineral resources can be upgraded to mineral reserves through continued exploration.

No Reserves

The Company does not hold any concessions in respect of which mineral reserves estimates have been established that comply with CIM Standards and Guidelines or other similar recognised industry standards.

Insurance and uninsured risks

The mining industry is subject to significant risks that could result in damage to, or destruction of, mineral properties or producing facilities, personal injury or death, environmental damage, delays in mining or monetary losses and possible legal liability.

The Company's insurance policies may not provide adequate coverage for losses related to these or other risks. The Company's insurance policies do not cover all possible risks that may arise in relation to the Company's exploration activities and production facilities and as a result the Company may incur losses or damages that could have a material and adverse effect on the Company's operations and finances.

In the course of the Company's activities certain risks or unexpected or unusual geological conditions both underground and on surface may occur. It is not always possible to insure against such risks due to the absence of available cover or the Company may decide not to insure due to costs considerations of available cover. As a result the Company could incur losses or damages that could have a material and adverse effect on the Company's operations and finances.

Reliance on Sub-Contractors in Mexico

The Company will rely on sub-contractors to implement the Company's exploration and development programmes as well as its current mining operation at the San José project. The failure of a sub-contractor to perform properly its services to the Company could delay or inconvenience the Company's operations, and have a materially adverse effect on the Company.

Key Personnel

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

Environmental Factors

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

Arian Silver Corporation – Management’s Discussion and Analysis

which may exist on or under any of the properties covered by its concessions, or which may be produced as a result of its operations.

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

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

Political Risk

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

Payment Obligations

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

Regulatory Approvals

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

Competition

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

Conflicts of Interest

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

Arian Silver Corporation – Management’s Discussion and Analysis

Forward Looking Statements

This MD&A contains certain "forward-looking statements". All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements relating to the mineral resource estimates, statements regarding the contract mining and milling operation at the San José Project (the "SJ Mining Operation"), the ability of the Company to achieve, maintain and possibly increase planned levels of production from the SJ Mining Operation, the ability of the Company to generate positive cash flow from the SJ Mining Operation, the ability to continue or implement proposed drilling programmes on the SJV system and the Company's exploration, development and production plans and objectives) are forward-looking statements. These forward-looking statements reflect the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking statements are subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements, and even if such actual results are realised or substantially realised, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, the performance of the contractors and plant and equipment engaged in relation to the SJ Mining Operation, failure to achieve anticipated production levels and mineral grades for ore from the SJ Mining Operation, failure to establish estimated mineral reserves, the possibility that future exploration results will not be consistent with the Company's expectations, uncertainties relating to the availability and costs of financing needed in the future, changes in the silver commodity price, changes in equity markets, political developments in Mexico, changes to regulations affecting the Company's activities, delays in obtaining or failures to obtain required regulatory approvals, the uncertainties involved in interpreting exploration results and other geological data, and the other risks involved in the mineral exploration and development industry. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements due to the inherent uncertainty therein.

The mineral resource figures disclosed in this MD&A are estimates and no assurances can be given that the indicated levels of minerals will be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource estimates included in this MD&A are well established, by their nature resource estimates are imprecise and depend, to a certain extent, upon statistical inferences, which may ultimately prove unreliable. If such estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company.

Mineral resources are not mineral reserves and do not have demonstrated economic viability. There is no certainty that mineral resources can be upgraded to mineral reserves through continued exploration.

OTHER INFORMATION

Additional Information

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

Disclosure of Outstanding Share Data

The following table sets out the outstanding securities of the Company as at 28 February, 2012:-

	Number in issue
Common shares of no par value	301,689,112
Share purchase options	14,985,000

Each share option and share purchase warrant entitles the holder thereof to purchase one common share of the Company.

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

Directors' responsibilities statement

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping records that are sufficient to show and explain the company's transactions and will, at any time, enable the financial position of the company to be determined with reasonable accuracy. They are also responsible for safeguarding the assets of the company and the group and hence for reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the British Virgin Islands governing the preparation and dissemination of the financial statements and other information included in the annual reports may differ from legislation in other jurisdictions.

Arian Silver Corporation – Audited Consolidated Financial Statements

Independent auditor's report to the members of Arian Silver Corporation

We have audited the group financial statements ('the financial statements') of Arian Silver Corporation for the year ended 31 December 2011 which comprise, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

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

Separate opinion in relation to IFRSs as issued by the IASB

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

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

PKF (UK) LLP
London, UK
28 February 2012

Arian Silver Corporation – Audited Consolidated Financial Statements

Consolidated statement of comprehensive income

(Expressed in United States dollars)

For the year ended 31 December 2011

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

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

Arian Silver Corporation – Audited Consolidated Financial Statements

Consolidated statement of financial position

(Expressed in United States dollars)

As at 31 December 2011

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

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

The financial statements were approved and authorised for issue by the Board of Directors on 28 February 2012 and were signed on its behalf by:

“J T Williams”
J T Williams
Chief Executive Officer

“S Clarke”
S Clarke
Chief Financial Officer

Arian Silver Corporation – Audited Consolidated Financial Statements

Consolidated statement of cash flows

(Expressed in United States dollars)

For the year ended 31 December 2011

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

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

Arian Silver Corporation – Audited Consolidated Financial Statements

Consolidated statement of changes in equity

(Expressed in United States dollars)

For the year ended 31 December 2011

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

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

Arian Silver Corporation – Audited 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 2011 comprise the Company and its subsidiaries (together referred to as the “Group”).

The Group is primarily involved in the acquisition and development of mineral resource assets.

2. Basis of preparation

(a) Statement of compliance

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

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

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

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

(b) Going concern and adequacy of project finance

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

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

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

(c) Use of estimates and judgement

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

Arian Silver Corporation – Audited Consolidated Financial Statements

Notes to the Consolidated Financial Statements

2. Basis of preparation *(continued)*

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

(c) Use of estimates and judgement

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

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

(d) Functional and presentation currency

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

3. Significant accounting policies

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

(a) Basis of consolidation

(i) *Subsidiaries*

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

(ii) *Transactions eliminated on consolidation*

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

(b) Foreign currency

(i) *Foreign currency transactions*

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

Arian Silver Corporation – Audited Consolidated Financial Statements

Notes to the Consolidated Financial Statements

3. Significant accounting policies (*continued*)

(ii) Financial statements of operations

The assets and liabilities of operations, including goodwill and fair value adjustments arising on consolidation, are translated to United States dollars at exchange rates ruling at the date of the consolidated statement of financial position. The revenues and expenses of operations and net investments in subsidiaries are translated to United States dollars at rates approximating to the exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised in other comprehensive income. They are reclassified to profit or loss upon disposal.

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

(c) Revenue recognition

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

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

(d) Leased assets

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

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

(e) Finance income and expenses

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

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

(f) Income tax expense

Income tax expense comprises current and deferred tax.

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

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

Arian Silver Corporation – Audited Consolidated Financial Statements

Notes to the Consolidated Financial Statements

3. Significant accounting policies (*continued*)

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

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

(g) Earnings per share

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

(h) Intangible assets

(i) Goodwill

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

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

(ii) Deferred exploration and evaluation costs

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

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

(i) Property, plant and equipment

Mine development costs

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

Arian Silver Corporation – Audited Consolidated Financial Statements

Notes to the Consolidated Financial Statements

3. Significant accounting policies (continued)

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.

(iii) Depreciation

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

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

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

(j) Impairment

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

Arian Silver Corporation – Audited Consolidated Financial Statements
Notes to the Consolidated Financial Statements

3. Significant accounting policies (*continued*)

(k) Inventories

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

(l) Financial instruments

(i) Non-derivative financial instruments

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

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

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

(ii) Trade and other receivables

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

(iii) Financial liabilities

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

(iv) Cash and cash equivalents

Cash and cash equivalents represent bank balances and call deposits.

(v) Investments - available for sale financial assets

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

Arian Silver Corporation – Audited Consolidated Financial Statements

Notes to the Consolidated Financial Statements

3. Significant accounting policies (*continued*)

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

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

(m) Non-current assets held for sale

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

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

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

(n) Provisions

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

Provisions for decommissioning and site restoration costs

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

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

(o) Share capital – Common shares

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

Arian Silver Corporation – Audited Consolidated Financial Statements
Notes to the Consolidated Financial Statements

3. Significant accounting policies (continued)

(p) Share-based payment transactions

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

4. Segment reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board in order to allocate resources to the segments and to assess their performance.

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

(i) Segment information

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

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

(ii) Geographical information

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

Arian Silver Corporation – Audited Consolidated Financial Statements
Notes to the Consolidated Financial Statements

5. Operating loss is stated after charging:

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

6. Staff numbers and costs

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

	Number of Employees	Number of Employees
	2011	2010
Finance and administration	15	11
Technical	36	35
	51	46

The aggregate staff costs of these persons were as follows:

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

Remuneration of key management personnel

Key management personnel remuneration is detailed below:

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

Arian Silver Corporation – Audited Consolidated Financial Statements
Notes to the Consolidated Financial Statements

6. Staff numbers and costs (continued)

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

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

7. Net investment income

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

8. Income tax recognised in the income statement

	2011 \$'000	2010 \$'000
Current tax		
Current year	-	(196)

Reconciliation of effective tax rate

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

At the year end the Group had tax losses to carry forward of approximately \$22,635,000 (2010 – \$17,940,000). It should be noted that recent changes in Mexican tax legislation may limit the extent and timing of the use of the Mexican allowable tax losses.

Under IFRS a net deferred tax asset of approximately \$2,787,000 (2010 – \$3,599,000) has not been recognised due to the uncertainty as to the amount that can be utilised.

Arian Silver Corporation – Audited Consolidated Financial Statements
Notes to the Consolidated Financial Statements

9. Loss per share

Basic loss per share

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

Diluted Loss per share

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

10. Intangible assets

	Goodwill	Deferred exploration costs	Total
	\$'000	\$'000	\$'000
Cost			
Balance – 1 January 2010	13,446	7,703	21,149
Additions	-	916	916
Transfer to non-current assets 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	13,446	1,426	14,872
Balance – 1 January 2011	13,446	1,426	14,872
Foreign exchange	-	(148)	(148)
Balance – 31 December 2011	13,446	1,278	14,724
Impairment losses and amortisation			
Balance – 1 January 2010	(13,446)	-	(13,446)
Write down	-	(185)	(185)
Balance – 31 December 2010	(13,446)	(185)	(13,631)
Balance – 1 January 2011	(13,446)	(185)	(13,631)
Balance – 31 December 2011	(13,446)	(185)	(13,631)
Carrying amounts			
At 31 December 2011	-	1,093	1,093
At 31 December 2010	-	1,241	1,241
At 1 January 2010	-	7,703	7,703

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

Arian Silver Corporation – Audited Consolidated Financial Statements
Notes to the Consolidated Financial Statements

10. Intangible assets (continued)

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

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

11. Property, plant and equipment

	Mine development costs \$'000	Plant and equipment \$'000	Fixtures & fittings \$'000	Vehicles \$'000	Total \$'000
Cost					
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
Balance – 1 January 2011	5,334	125	47	105	5,611
Additions	3,463	19	-	-	3,482
Disposals	-	-	(15)	-	(15)
Foreign exchange movement	(591)	(12)	(4)	(12)	(619)
Balance – 31 December 2011	8,206	132	28	93	8,459
Depreciation and impairment losses					
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)
Balance – 1 January 2011	(7)	(67)	(25)	(89)	(188)
Depreciation and amortisation charge for the year	(195)	(14)	(3)	(6)	(218)
Disposals	-	-	14	-	14
Foreign exchange movement	1	6	1	7	15
Balance – 31 December 2011	(201)	(75)	(13)	(88)	(377)
Carrying amounts					
At 31 December 2011	8,005	57	15	5	8,082
At 31 December 2010	5,327	58	22	16	5,423
At 1 January 2010	-	45	25	16	86

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

Arian Silver Corporation – Audited Consolidated Financial Statements
Notes to the Consolidated Financial Statements

12. Trade and other receivables

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

13. Cash and cash equivalents

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

14. Inventories

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

15. Disposal of Tepal Copper-Gold Project

In January 2010 the Company and Geologix Explorations Inc (“Geologix”) executed a definitive agreement granting Geologix the exclusive option to purchase a 100% interest in the Tepal Gold-Copper Project, Mexico (the “Option Agreement”). Under the terms of the Option Agreement, Geologix paid to the Company a first instalment of \$1.45 million in the form of a cash payment of \$725,000 (before foreign exchange differences) and the balance of \$725,000 through the issue of 3,434,193 Geologix shares (the “Geologix Shares”) at a price of Cdn\$0.22 per share. These shares were subsequently disposed of by the Company realising a profit of \$369,000, which was recognised as a component of net investment income for the period.

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

In February 2011, as provided in the agreement, Geologix completed the purchase of 100% of the Tepal property by exercising the option and making a further payment of \$1.55 million to the Company. Geologix elected to satisfy \$775,000 of this payment in the form of 1,089,318 Geologix shares and the balance in cash. The Option Agreement provided that Geologix shall be responsible for satisfying all of the Company’s obligations relating to the Tepal property, including the remaining underlying property option agreement payments. Following the completion of the sale of the Tepal property, the group realised a profit on disposal of \$112,000.

Arian Silver Corporation – Audited Consolidated Financial Statements
Notes to the Consolidated Financial Statements

15. Disposal of Tepal Copper-Gold Project (continued)

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

16. Investments and significant non-cash transactions

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

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

17. Share capital and reserves

Authorised

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

Issued and outstanding common shares

Changes for the years ended 31 December 2011 and 2010 are detailed in the following table:

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

Arian Silver Corporation – Audited Consolidated Financial Statements

Notes to the Consolidated Financial Statements

17. Share capital and reserves (continued)

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

2011

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

2010

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

Share-based payment reserve

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

Foreign exchange translation reserve

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

Available for sale reserve

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

Accumulated losses

Accumulated losses contain losses in the current and prior years.

18. Warrants

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

Arian Silver Corporation – Audited Consolidated Financial Statements
Notes to the Consolidated Financial Statements

18. Warrants (continued)

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

19. Share-based payment transactions

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

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

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

Share options in issue at 31 December 2011:

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

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

Arian Silver Corporation – Audited Consolidated Financial Statements
Notes to the Consolidated Financial Statements

19. Share-based payment transactions (continued)

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

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

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

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

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

Arian Silver Corporation – Audited Consolidated Financial Statements
Notes to the Consolidated Financial Statements

19. Share-based payment transactions (continued)

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

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

Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The following inputs were used in the calculation of the fair value of the share options granted. There were no share options granted during the year ended 31 December 2010.

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

The expected volatility is based on the historical share price of the Company. There are no market conditions associated with the share option grants.

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

20. Trade and other payables

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

21. Provision for mine closure

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

Arian Silver Corporation – Audited Consolidated Financial Statements
Notes to the Consolidated Financial Statements

21. Provision for mine closure (continued)

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

22. Group entities

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

23. Financial instruments and financial risk management

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

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

The Group's policy is to retain its surplus funds on short term deposits, usually between one week and four weeks duration, at prevailing market rates. Credit risk is managed by ensuring that surplus funds are only deposited with well established financial institutions of high quality credit standing.

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

Valuation hierarchy

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

Market risk

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

Arian Silver Corporation – Audited Consolidated Financial Statements
Notes to the Consolidated Financial Statements

23. Financial instruments and financial risk management (continued)

Price risk

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

Foreign currency risk

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

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

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

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

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

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that the Group uses. Treasury activities take place under procedures and policies approved and monitored by the Board to minimise the financial risk faced by the Group. Interest bearing assets comprise cash and cash equivalents which are considered to be short-term liquid assets. The Group is not exposed to any significant interest rate risk as the amount of interest receivable is insignificant.

Arian Silver Corporation – Audited Consolidated Financial Statements
Notes to the Consolidated Financial Statements

23. Financial instruments and financial risk management (continued)

Liquidity risk

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

Credit risk

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

Fair values

It is the Board's opinion that the carrying values of the cash and cash equivalents, the other receivables, all trade and other payables, current borrowings and investments in the consolidated statement of financial position represent their fair values. The basis of assessing the fair value of the financial assets held at fair value through profit or loss is set out in the valuation hierarchy section of this note.

Capital Management

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

Sensitivity Analysis

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

Exposure to foreign currency risk sensitivity analysis:

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

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

Arian Silver Corporation – Audited Consolidated Financial Statements
Notes to the Consolidated Financial Statements

24. Future commitments

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

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

25. Related parties

Control of the Company

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

Identity of related parties

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

Transactions with key management personnel

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

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

Companies in the Dragon Group charged the Company a total of \$124,574 (2010 – \$132,950). This includes reimbursement of \$124,574 (2010 – \$130,102) in respect of Tony Williams' remuneration paid on behalf of the Company with the balance relating to reimbursable expenses incurred on behalf of the Company. Tony Williams, Chairman and a director of the Company, beneficially owns the Dragon Group. At 31 December 2010 \$10,002 (2010 - \$20,027) was outstanding.

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

Key management personnel compensation is disclosed in note 6.

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

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

26. Post balance sheet events

Issue of shares

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