



**ARIAN SILVER CORPORATION**

**Interim Consolidated  
Financial Statements  
(Unaudited)**

**Three and Nine Months ended 30 September, 2011**

**ARIAN SILVER CORPORATION**  
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***NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS***

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

**Arian Silver Corporation**  
**Consolidated Statement of Financial Position (Unaudited)**  
**At 30 September, 2011 and 31 December, 2010**  
(In U.S. dollars)

|  | 2011<br>\$'000 | 2010<br>\$'000 |
|--|----------------|----------------|
| <b>Assets</b>  |                |                |
| Intangible assets  | 2,117          | 1,241          |
| Property, plant and equipment                                | 6,408          | 5,423          |
| <b>Total non-current assets</b>                              | <b>8,525</b>   | 6,664          |
| Trade and other receivables                                  | 1,850          | 934            |
| Cash and cash equivalents                                    | 5,545          | 8,255          |
| Inventories  | 724            | 139            |
| Assets held for sale   | -              | 2,884          |
| Other financial assets at fair value through profit and loss | 250            | -              |
| <b>Total current assets</b>                                  | <b>8,369</b>   | 12,212         |
| <b>Total assets</b>  | <b>16,894</b>  | 18,876         |
| <b>Equity</b>  |                |                |
| Share capital  | 47,328         | 45,420         |
| Share-based payment reserve                                  | 9,107          | 813            |
| Foreign exchange translation reserve                         | (1,847)        | (1,234)        |
| Retained loss  | (38,782)       | (28,255)       |
| <b>Total equity</b>  | <b>15,806</b>  | 16,744         |
| Trade and other payables                                     | 920            | 476            |
| Deferred income  | -              | 1,495          |
| <b>Total current liabilities</b>                             | <b>920</b>     | 1,971          |
| Provision for mine closure                                   | 168            | 161            |
| <b>Total non-current liabilities</b>                         | <b>168</b>     | 161            |
| <b>Total liabilities</b>                                     | <b>1,088</b>   | 2,132          |
| <b>Total equity and liabilities</b>                          | <b>16,894</b>  | 18,876         |

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

**Arian Silver Corporation**  
**Consolidated Statement of Comprehensive Income (Unaudited)**  
**For the three and nine months ended 30 September, 2011 and 2010**  
(In U.S. dollars)

|  | 3 Months<br>ended<br>30<br>September<br>2011<br>\$'000 | 3 Months<br>ended<br>30<br>September<br>2010<br>\$'000 | 9 Months<br>ended<br>30<br>September<br>2011<br>\$'000 | 9 Months<br>ended<br>30<br>September<br>2010<br>\$'000 |
|--|--|--|--|--|
| <b>Continuing operations</b>   |  |  |  |  |
| Revenue  | 2,434  | -  | 5,100  | -  |
| Cost of sales  | (1,914)  | -  | (4,734)  | -  |
| <b>Gross profit/(loss)</b>   | <b>520</b>   | <b>-</b>   | <b>366</b>   | <b>-</b>   |
| Administrative expenses  | (1,004)  | (411)  | (10,483)   | (1,150)  |
| <b>Operating loss</b>  | <b>(484)</b>   | <b>(411)</b>   | <b>(10,117)</b>  | <b>(1,150)</b>   |
| Finance income/(loss)  | (116)  | 144  | (410)  | 239  |
| <b>Loss before tax</b>   | <b>(600)</b>   | <b>(267)</b>   | <b>(10,527)</b>  | <b>(911)</b>   |
| <b>Loss for the period attributable to equity shareholders of the parent</b>                     | <b>(600)</b>   | <b>(267)</b>   | <b>(10,527)</b>  | <b>(911)</b>   |
| <b>Other comprehensive income/(loss)</b>   |  |  |  |  |
| Foreign exchange translation differences recognised directly in equity                           | (1,674)  | 265  | (613)  | 70   |
| <b>Other comprehensive income/(loss) for the period</b>  | <b>(1,674)</b>   | <b>265</b>   | <b>(613)</b>   | <b>70</b>  |
| <b>Total comprehensive loss for the period attributable to equity shareholders of the parent</b> | <b>(2,274)</b>   | <b>(2)</b>   | <b>(11,140)</b>  | <b>(841)</b>   |
| Basic and diluted loss per share (\$)  | (0.00)   | (0.01)   | (0.04)   | (0.01)   |

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

**Arian Silver Corporation**  
**Consolidated Statement of Cash Flows (Unaudited)**  
**For the three and nine months ended 30 September, 2011 and 2010**  
(In U.S. dollars)

|   | 3 Months<br>ended<br>30<br>September<br>2011<br>\$'000 | 3 Months<br>ended<br>30<br>September<br>2010<br>\$'000 | 9 Months<br>ended<br>30<br>September<br>2011<br>\$'000 | 9 Months<br>ended<br>30<br>September<br>2010<br>\$'000 |
|---|--|--|--|--|
| <b>Cash flows from operating activities</b>                 |  |  |  |  |
| Operating loss before financing costs                       | (484)  | (411)  | (10,117)   | (1,150)  |
| Adjustments for:  |  |  |  |  |
| Depreciation and amortisation                               | 58   | 10   | 183  | 21   |
| Disposal of fixed assets                                    | 8  | -  | 8  | -  |
| Exchange difference   | (835)  | (117)  | (360)  | (65)   |
| Equity-settled share-based payment transactions             | 317  | 1  | 8,294  | 15   |
|   | <b>(936)</b>   | <b>(517)</b>   | <b>(1,992)</b>   | <b>(1,179)</b>   |
| Increase in trade and other receivables                     | (134)  | (82)   | (934)  | (235)  |
| Increase in trade and other payables                        | 20   | 295  | 441  | 272  |
| Decrease in inventories                                     | (142)  | -  | (585)  | -  |
| <b>Net cash used in operating activities</b>                | <b>(1,192)</b>   | <b>(304)</b>   | <b>(3,070)</b>   | <b>(1,142)</b>   |
| <b>Cash flows from investing activities</b>                 |  |  |  |  |
| Interest received   | 11   | -  | 35   | 4  |
| Proceeds from disposal of Tepal Project                     | -  | -  | 775  | 750  |
| Proceeds from disposal of investments                       | -  | 653  | -  | 653  |
| Acquisition of intangibles                                  | (368)  | (86)   | (1,398)  | (810)  |
| Acquisition of property, plant and equipment                | (234)  | -  | (1,130)  | (1)  |
| <b>Generated from / (used in) investing activities</b>      | <b>(591)</b>   | <b>(567)</b>   | <b>(1,718)</b>   | <b>596</b>   |
| <b>Cash flows from financing activities</b>                 |  |  |  |  |
| Proceeds from issue of share capital                        | -  | 610  | 1,907  | 3,866  |
| Repayment of borrowings                                     | -  | -  | -  | (854)  |
| <b>Net cash from financing activities</b>                   | <b>-</b>   | <b>610</b>   | <b>1,907</b>   | <b>3,012</b>   |
| <b>Net increase/(decrease) in cash and cash equivalents</b> | <b>(1,783)</b>   | <b>873</b>   | <b>(2,885)</b>   | <b>2,466</b>   |
| Cash and cash equivalents at 1 January                      | 7,241  | 1,513  | 8,255  | 101  |
| Effect of exchange rate fluctuations on cash held           | 87   | 33   | 175  | (148)  |
| <b>Cash and cash equivalents at 30 September</b>            | <b>5,545</b>   | <b>2,419</b>   | <b>5,545</b>   | <b>2,419</b>   |

**Arian Silver Corporation**  
**Consolidated Statement of Changes in Equity (Unaudited)**  
**For the nine months ended 30 September, 2011 and 2010**  
(In U.S. dollars)

|  | Share<br>Capital<br>\$'000 | Share<br>based<br>payment<br>reserve<br>\$'000 | Foreign<br>exchange<br>translation<br>reserve<br>\$'000 | Available<br>for sale<br>reserve<br>\$'000 | Retained<br>Earnings<br>\$'000 | Total<br>\$'000 |
|--|----------------------------|--|---|--|--------------------------------|-----------------|
| <b>Period to 30 September, 2010</b>                        |                            |  |   |  |                                |                 |
| <b>Opening Balance</b>                                     | 38,238                     | 1,648  | (1,444)   | 504  | (27,203)                       | 11,743          |
| Loss for the period  | -                          | -  | -   | -  | (911)                          | (911)           |
| Foreign exchange   | -                          | -  | 70  | -  | -                              | 70              |
| Reversal of unrealised gain                                | -                          | -  | -   | (504)                                      | -                              | (504)           |
| <b>Total comprehensive income and expense for the year</b> | -                          | -  | 70  | (504)                                      | (911)                          | (1,345)         |
| Shares redeemed and cancelled re:                          |                            |  |   |  |                                |                 |
| Grafton  | (4,935)                    | -  | -   | -  | -                              | (4,935)         |
| Shares issued for debt                                     | 755                        | -  | -   | -  | -                              | 755             |
| Shares issued for cash                                     | 3,358                      | -  | -   | -  | -                              | 3,358           |
| Share issue costs  | (186)                      | -  | -   | -  | -                              | (186)           |
| Exercise of warrants                                       | 630                        | -  | -   | -  | -                              | 630             |
| Exercise of share options                                  | 64                         | -  | -   | -  | -                              | 64              |
| Fair value of share options                                | -                          | 15   | -   | -  | -                              | 15              |
| Lapsed share options                                       | -                          | (850)  | -   | -  | 850                            | -               |
| <b>Balance 30 September, 2010</b>                          | <b>37,924</b>              | <b>813</b>                                     | <b>(1,374)</b>  | <b>-</b>                                   | <b>(27,264)</b>                | <b>10,099</b>   |

|  |               |              |                |          |                 |               |
|--|---------------|--------------|----------------|----------|-----------------|---------------|
| <b>Period to 30 September, 2011</b>                          |               |              |                |          |                 |               |
| <b>Opening Balance</b>                                       | 45,420        | 813          | (1,234)        | -        | (28,255)        | 16,744        |
| Loss for the period  | -             | -            | -              | -        | (10,527)        | (10,527)      |
| Foreign exchange   | -             | -            | (613)          | -        | -               | (613)         |
| <b>Total comprehensive income and expense for the period</b> | -             | -            | (613)          | -        | (10,527)        | (11,140)      |
| Exercise of share options                                    | 144           | -            | -              | -        | -               | 144           |
| Exercise of warrants   | 1,764         | -            | -              | -        | -               | 1,764         |
| Fair value of share options                                  | -             | 8,294        | -              | -        | -               | 8,294         |
| <b>Balance 30 September, 2011</b>                            | <b>47,328</b> | <b>9,107</b> | <b>(1,847)</b> | <b>-</b> | <b>(38,782)</b> | <b>15,806</b> |

**Arian Silver Corporation**  
**Consolidated Statement of Changes in Equity (Unaudited)**  
**For the nine months ended 30 September, 2011 and 2010**  
(In U.S. dollars)

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

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

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

The accounting policies and methods of computation used in the preparation of the interim unaudited consolidated financial statements are the same as those described in the Company's audited consolidated financial statements and notes thereto for the year ended 31 December 2010. In the opinion of the management, the interim unaudited consolidated financial statements include all adjustments considered necessary for fair and consistent presentation of financial statements. These interim unaudited consolidated financial statements should be read in conjunction with the Company's audited financial statements and notes for the year ended 31 December 2010.

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

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

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

**2. Intangible assets - Deferred Exploration and Evaluation Costs**

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

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

**Arian Silver Corporation**  
**Consolidated Statement of Changes in Equity (Unaudited)**  
**For the nine months ended 30 September, 2011 and 2010**  
(In U.S. dollars)

**2. Intangible assets - Deferred Exploration and Evaluation Costs (continued)**

Changes in intangible assets for the nine months ended 30 September, 2011 and the year ended 31 December, 2010 are detailed in the following table:

|   | <b>2011</b>   | 2010    |
|---|---------------|---------|
|   | <b>\$'000</b> | \$'000  |
| Opening balance                           | <b>1,241</b>  | 7,703   |
| Additions for the period                  | <b>1,399</b>  | 916     |
| Transfer to asset held for sale           | -             | (2,884) |
| Transfer to property, plant and equipment | -             | (4,695) |
| Write down                                | -             | (185)   |
| Foreign exchange                          | <b>(523)</b>  | 386     |
| <b>Closing balance</b>                    | <b>2,117</b>  | 1,241   |

The balances at 30 September 2011 and at 31 December 2010 relate entirely to deferred exploration and development costs.

The transfer to asset held for sale relates to the Tepal project transaction as described in Note 10. The transfer to property, plant and equipment, has been categorised as mine development costs (see Note 3). This has taken place as a result of the commencement of the mining operation at the San José property. These costs relate to the property payments, drilling and assay costs that were incurred during the exploration stage of the project.

**3. Property, plant and equipment – Mine Development Costs**

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

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

Changes in property, plant and equipment for the nine months ended 30 September, 2011 and the year ended 31 December, 2010 are detailed in the following table:

|                                 | <b>2011</b>   | 2010   |
|---------------------------------|---------------|--------|
|                                 | <b>\$'000</b> | \$'000 |
| Opening balance                 | <b>5,423</b>  | 86     |
| Additions for the period        | <b>1,130</b>  | 510    |
| Transfer from intangible assets | -             | 4,695  |
| Other movements                 | -             | 161    |
| Disposals                       | <b>(8)</b>    | -      |
| Amortisation                    | <b>(183)</b>  | (44)   |
| Foreign exchange                | <b>46</b>     | 15     |
| <b>Closing balance</b>          | <b>6,408</b>  | 5,423  |

The balances at 30 September 2011 and at 31 December 2010 relate to mine development costs and other property plant and equipment. The mine development costs (including environmental asset) at 30 September 2011 of \$6,282,000 (31 December 2010 - \$5,327,000), relate to the 100% owned San José property in Zacatecas State, Mexico. Other property plant and equipment at 30 September 2011 of \$105,000 (31 December 2010 - \$96,000) includes plant and equipment, fixtures and fittings and vehicles.



**Arian Silver Corporation**  
**Consolidated Statement of Changes in Equity (Unaudited)**  
**For the nine months ended 30 September, 2011 and 2010**  
(In U.S. dollars)

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Other movements consist of the mine closure provision (see Note 6)

**4. Inventories**

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

The inventory valued at 30 September 2011, and 31 December 2010 is detailed in the following table:

|                    | <b>2011</b>   | 2010   |
|--------------------|---------------|--------|
|                    | <b>\$'000</b> | \$'000 |
| Consumables        | <b>14</b>     | 25     |
| Ore stockpiles     | <b>446</b>    | -      |
| Silver concentrate | <b>264</b>    | 114    |
| <b>Inventories</b> | <b>724</b>    | 139    |

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

Other financial assets at fair value through profit and loss are classified as current assets and relate to common shares held in Geologix Explorations Inc ("Geologix") arising from the Tepal project transaction (see Note 10).

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

**6. Provision for mine closure**

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.

**Arian Silver Corporation**  
**Consolidated Statement of Changes in Equity (Unaudited)**  
**For the nine months ended 30 September, 2011 and 2010**  
(In U.S. dollars)

**6. Provision for mine closure (continued)**

Changes in mine closure provision for the nine months ended 30 September, 2011 and the year ended 31 December, 2010 are detailed in the following table:

|                        | <b>2011</b>   | 2010   |
|------------------------|---------------|--------|
|                        | <b>\$'000</b> | \$'000 |
| Opening balance        | <b>161</b>    | -      |
| Unwinding of discount  | <b>7</b>      | 161    |
| <b>Closing balance</b> | <b>168</b>    | 161    |

The provision has been made to cover projected closure costs in the event that the operations at the San José mine are not prolonged beyond the initial mining period of approximately 4 years. Closure costs are calculated to be \$206,000 at the end of the 4 years at 31 December 2014 using a discount rate of 5%. Closure activities include decommissioning, reclamation and rehabilitation.

**7. Share capital and reserves**

**Authorised**

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

**Issued and outstanding common shares**

Changes in share capital for the nine months ended 30 September, 2011 and the year ended 31 December, 2010 are as follows:

|                                    | <b>2011</b>                 |                  | 2010                        |                  |
|------------------------------------|-----------------------------|------------------|-----------------------------|------------------|
|                                    | Number of<br>Shares<br>'000 | Amount<br>\$'000 | Number of<br>Shares<br>'000 | Amount<br>\$'000 |
| Opening balance                    | <b>282,448</b>              | <b>45,420</b>    | 258,143                     | 38,238           |
| 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 share options          | <b>1,400</b>                | <b>144</b>       | 17,957                      | 1,752            |
| Exercise of share warrants         | <b>17,342</b>               | <b>1,764</b>     | 7,475                       | 657              |
| <b>Closing balance</b>             | <b>301,190</b>              | <b>47,328</b>    | 282,448                     | 45,420           |

**Arian Silver Corporation**  
**Consolidated Statement of Changes in Equity (Unaudited)**  
**For the nine months ended 30 September, 2011 and 2010**  
(In U.S. dollars)

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

***Nine months ended 30 September 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.

***Year ended 31 December, 2010***

- Redemption and cancellation of 109,090,909 common shares (see Note 12).
- 15,762,000 common shares issued in respect of the loan settlement (see Note 12).
- 70,597,139 common shares; 69,997,139 common shares issued at Cdn\$0.05 per share 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 finder's fees.
- 21,604,435 common shares issued at 18p per share to provide additional working capital of £3,888,800.
- 17,957,199 common shares issued at Cdn\$0.10 per share to provide additional working capital of Cdn\$1,795,720 in connection with warrants exercised.
- 7,325,000 common shares issued at £0.055 per share to provide additional working capital of £402,875 in connection with share options exercised.
- 150,000 common shares issued at £0.12 per share 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.

A summary of the changes in the Company's contributed surplus for the nine months ended 30 September, 2011 and the year ended 31 December, 2010, is set out below:

|                                | <b>2011</b>   | 2010   |
|--------------------------------|---------------|--------|
|                                | <b>\$'000</b> | \$'000 |
| Opening balance                | <b>813</b>    | 1,648  |
| Incentive share options vested | <b>8,294</b>  | 15     |
| Incentive share options lapsed | -             | (850)  |
| <b>Closing balance</b>         | <b>9,107</b>  | 813    |

**Foreign exchange translation reserve**

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

A summary of the changes in the Company's foreign exchange translation reserve for the nine months ended 30 September, 2010 and the year ended 31 December, 2010, is set out below:

|                        | <b>2011</b>    | 2010    |
|------------------------|----------------|---------|
|                        | <b>\$'000</b>  | \$'000  |
| Opening balance        | <b>(1,234)</b> | (1,444) |
| Movement in the period | <b>(613)</b>   | 210     |
| <b>Closing balance</b> | <b>(1,847)</b> | (1,234) |

**Arian Silver Corporation**  
**Consolidated Statement of Changes in Equity (Unaudited)**  
**For the nine months ended 30 September, 2011 and 2010**  
(In U.S. dollars)

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

**Retained loss**

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

**Share purchase warrants**

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

A summary of the changes in the Company's share purchase warrants for the nine months ended 30 September, 2011 and the year ended 31 December, 2010 is set out below:

|                        | 2011                    |  | 2010                    |  |
|------------------------|-------------------------|--|-------------------------|--|
|                        | Warrants<br>outstanding | Weighted<br>average<br>exercise<br>price | Warrants<br>outstanding | Weighted<br>average<br>exercise<br>price |
|                        | '000                    | \$                                       | '000                    | \$                                       |
| Opening balance        | 17,342                  | 0.10                                     | -                       | -  |
| Issued                 | -                       | -  | 35,299                  | 0.10                                     |
| Exercised              | (17,342)                | (0.10)                                   | (17,957)                | (0.10)                                   |
| <b>Closing balance</b> | <b>-</b>                | <b>-</b>                                 | <b>17,342</b>           | <b>0.10</b>                              |

**Incentive share options**

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.

A summary of the Company's outstanding share options as at 30 September, 2011 is set out below:

| 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     |

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

The number and weighted average exercise prices of share options for the nine months ended 30 September, 2011 and the year ended 31 December, 2010 are as follows:

|                                | 2011          |                                 | 2010         |                                 |
|--------------------------------|---------------|---------------------------------|--------------|---------------------------------|
|                                | Outstanding   | Weighted average exercise price | Outstanding  | Weighted average exercise price |
|                                | 000's         | price                           | 000's        | price                           |
|                                |               | \$                              |              | \$                              |
| Opening balance                | 4,725         | 0.13                            | 16,300       | 0.41                            |
| Lapsed                         | -             | -                               | (75)         | (0.36)                          |
| 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                      | (1,200)       | (0.09)                          | (7,325)      | (0.09)                          |
| Exercised                      | (200)         | (0.25)                          | (150)        | (0.19)                          |
| Issued                         | 14,860        | 0.79                            | -            | -                               |
| Issued                         | 300           | 0.48                            | -            | -                               |
| <b>Balance – end of period</b> | <b>18,485</b> | <b>0.67</b>                     | <b>4,725</b> | <b>0.13</b>                     |

**8. Share-based compensation**

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

The fair value of share options granted for the nine months ended 30 September, 2011 was \$8.3 million (2010 - \$15,000) which was expensed in the Consolidated Income Statement. The fair value of share options used to calculate compensation expense is estimated using the Black-Scholes option pricing model with the following assumptions:

|                                 | 2011    | 2010    |
|---------------------------------|---------|---------|
| Risk free interest rate         | 2.18%   | 2.31%   |
| Expected dividend yield         | 0%      | 0%      |
| Expected share price volatility | 90%     | 88%     |
| Expected option life in years   | 5 years | 5 years |

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

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**9. Related party transactions**

These unaudited interim consolidated financial statements include balances and transactions with directors and officers of the Company and/or corporations related to them. All transactions have been recorded at the exchange amount which is the consideration established and agreed to between the related parties. During the nine months ended 30 September, 2011 and 2010 the Company entered into the following transactions involving related parties:

***Transactions with key management personnel***

The Dragon Group charged the Company a total of \$94,048 (2010 – \$102,679). This comprises \$94,048 (2010 - \$89,738) which relates to the reimbursement of Tony Williams' remuneration paid on behalf of the Company, with the balance relating to the provision of support services, office accommodation and other reimbursable expenses incurred on behalf of the Company. Tony Williams, Chairman and a director of the Company, beneficially owns the Dragon Group. At 30 September, 2011 \$10,114 (2010 - \$20,465) was outstanding.

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

***Transactions with subsidiaries***

The Company made loans to Arian Silver de Mexico S.A. de C.V. of \$2,612,249 (2010: \$131,736). Total amounts owed at 30 September 2011 by Arian Silver de Mexico S.A. de C.V. and the parent company is \$15,639,273. (2010: \$11,150,631).

**10. Tepal Project Option Agreement**

In January 2010 the Company and Geologix executed a definitive agreement granting Geologix the exclusive option to purchase a 100% interest in the Tepal Gold-Copper Project, Mexico (the "Option Agreement"). Under the terms of the Option Agreement, Geologix paid to the Company a first instalment of \$1.45 million. Settlement was effected by way of a cash payment of \$725,000 (before foreign exchange differences) and the balance of \$725,000 through the issue of 3,434,193 Geologix shares at a price of Cdn\$0.22 per share.

In February 2011 Geologix exercised the option pursuant to the Option Agreement and completed the purchase of a 100% interest in the Tepal project. On completion of the transaction the final instalment of \$1,550,000 was satisfied by payment of \$775,000 and the balance of \$775,000 through the issue of 1,089,318 Geologix shares at a price of approximately Cdn\$0.70 per share and all of the Company's obligations relating to the Tepal project ceased.

**11. Segment reporting**

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

As at 30 September 2011, 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.

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**11. Segment reporting (continued)**

**(i) Segment information**

|                               | San José |        | Tepal  |        | Calicanto |        | All other segments |         | Total    |        |
|-------------------------------|----------|--------|--------|--------|-----------|--------|--------------------|---------|----------|--------|
|                               | 30 Sep   | 30 Sep | 30 Sep | 30 Sep | 30 Sep    | 30 Sep | 30 Sep             | 30 Sep  | 30 Sep   | 30 Sep |
|                               | 2011     | 2010   | 2011   | 2010   | 2011      | 2010   | 2011               | 2010    | 2011     | 2010   |
|                               | \$'000   | \$'000 | \$'000 | \$'000 | \$'000    | \$'000 | \$'000             | \$'000  | \$'000   | \$'000 |
| Revenue                       | 5,100    | -      | -      | -      | -         | -      | -                  | -       | 5,100    | -      |
| Profit/(Loss) before tax      | (367)    | -      | 69     | 235    | -         | -      | (10,229)           | (1,146) | (10,527) | (911)  |
| Capital Expenditure           | 2,510    | 810    | -      | -      | -         | -      | 19                 | 2       | 2,529    | 812    |
| Depreciation and amortisation | 171      | -      | -      | -      | -         | -      | 12                 | 21      | 183      | 21     |
|                               | 30 Sep   | 31 Dec | 30 Sep | 31 Dec | 30 Sep    | 31 Dec | 30 Sep             | 31 Dec  | 30 Sep   | 31 Dec |
|                               | 2011     | 2010   | 2011   | 2010   | 2011      | 2010   | 2011               | 2010    | 2011     | 2010   |
|                               | \$'000   | \$'000 | \$'000 | \$'000 | \$'000    | \$'000 | \$'000             | \$'000  | \$'000   | \$'000 |
| Total assets                  | 8,041    | 5,827  | 250    | 2,884  | 776       | 843    | 7,827              | 9,322   | 16,894   | 18,876 |
| Total liabilities             | 168      | 161    | -      | 1,495  | -         | -      | 920                | 476     | 1,088    | 2,132  |

All other segments include assets common to all projects. San José revenue relates to transactions with a single external customer during the year.

**(ii) Geographical information**

|  | Mexico |        | UK     |        | Total  |        |
|--|--------|--------|--------|--------|--------|--------|
|  | 30 Sep | 31 Dec | 30 Sep | 31 Dec | 30 Sep | 31 Dec |
|  | 2011   | 2010   | 2011   | 2010   | 2011   | 2010   |
|  | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Non current assets excluding investments | 8,514  | 6,660  | 11     | 4      | 8,525  | 6,664  |
|  | 30 Sep | 30 Sep | 30 Sep | 30 Sep | 30 Sep | 30 Sep |
|  | 2011   | 2010   | 2011   | 2010   | 2011   | 2010   |
|  | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Revenue                                  | 5,100  | -      | -      | -      | 5,100  | -      |

**12. Transactions with Grafton Resource Investments Ltd (“Grafton”)**

In January 2010 the Company and Grafton completed the reversal of the share exchange transactions that took place in 2009, by way of 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.