ARIAN SILVER CORPORATION

Audited Consolidated Financial Statements

Year Ended 31 December 2012
(In thousands of U.S. dollars)

Directors' responsibilities statement

The directors are responsible for preparing the financial statements and 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 order to give a true and fair view of the state of affairs of the Group and of its profit and loss for that period. 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 taking 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 Company financial statements and other information included in the annual reports may differ from legislation in other jurisdictions.

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

We have audited the financial statements ('the financial statements') of Arian Silver Corporation for the year ended 31 December 2012 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 the 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 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 an 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 2012 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 2013

Consolidated statement of comprehensive income
(Expressed in United States dollars)

For the year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Continuing operations			
Revenue		4,588	7,467
Cost of sales		(5,352)	(6,655)
Gross (loss)/profit		(764)	812
Administrative expenses		(3,194)	(11,322)
Operating loss	5	(3,958)	(10,510)
Net investment loss	7	(73)	(460)
Income tax	8	-	-
Loss for the year attributable to equity shareholders of the parent		(4,031)	(10,970)
Other comprehensive income			
Foreign exchange translation differences recognised directly in equity	16	981	(1,317)
Other comprehensive income for the year		981	(1,317)
Total comprehensive income for the year attributable to equity shareholders of the parent		(3,050)	(12,287)
Basic and diluted loss per share ($)	9	(0.01)	(0.04)

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

Consolidated statement of financial position
(Expressed in United States dollars)

As at 31 December 2012

	Note	**2012 $'000**	**2011 $'000**
Assets			
Intangible assets	*10*	1,176	1,093
Property, plant and equipment	*11*	10,405	8,082
Total non-current assets		11,581	9,175
Trade and other receivables	*12*	1,206	1,890
Cash and cash equivalents	*13*	491	3,991
Inventories	*14*	644	922
Financial assets held at fair value through profit or loss	*15*	197	272
Total current assets		2,538	7,075
Total assets		14,119	16,250
Equity attributable to equity shareholders of the parent			
Share capital	*16*	48,223	47,326
Share-based payment reserve	*16*	7,885	9,359
Foreign exchange translation reserve	*16*	(1,570)	(2,551)
Accumulated losses	*16*	(41,535)	(39,225)
Total equity		13,003	14,909
Liabilities			
Trade and other payables	*19*	939	1,171
Total current liabilities		939	1,171
Provision for mine closure	*20*	177	170
Total non-current liabilities		177	170
Total liabilities		1,116	1,341
Total equity and liabilities		14,119	16,250

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 27 February 2013 and were signed on its behalf by:

"J T Williams"
J T Williams
Chief Executive Officer

"J Mayfield"
J Mayfield
Chief Financial Officer

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

For the year ended 31 December 2012

	Note	**2012** **$'000**	**2011** **$'000**
Cash flows from operating activities			
Loss before tax		(4,031)	(10,970)
Adjustments for:			
Depreciation and amortisation		158	218
Loss on disposal of fixture & fittings		-	1
Exchange difference		146	(961)
Net investment loss		73	442
Equity-settled share-based payment transactions		247	8,546
		(3,407)	(2,724)
Decrease/(increase) in trade and other receivables		732	(992)
(Decrease)/increase in trade and other payables		(264)	700
Decrease/(increase) in inventories		303	(786)
Net cash used in operating activities		(2,636)	(3,802)
Cash flows from investing activities			
Interest received		12	44
Proceeds from disposal of Tepal project		-	775
Acquisition of property, plant and equipment		(1,879)	(3,482)
Net cash used in investing activities		(1,867)	(2,663)
Cash flows from financing activities			
Proceeds from issue of share capital		897	1,906
Net cash from financing activities		897	1,906
Net decrease in cash and cash equivalents		(3,606)	(4,559)
Cash and cash equivalents at 1 January		3,991	8,255
Effect of exchange rate fluctuations on cash held		106	295
Cash and cash equivalents at 31 December	*13*	491	3,991

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

Consolidated statement of changes in equity

(Expressed in United States dollars)

For the year ended 31 December 2012

	Share Capital $'000	Share based payment Reserve $'000	Foreign exchange translation reserve $'000	Accumulated Losses $'000	Total $'000
Balance – 1 January 2011	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 for the year	**-**	**-**	**(1,317)**	**(10,970)**	**(12,287)**
Exercise of warrants	143	-	-	-	143
Exercise of share options	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**
Loss for the year	-	-	-	(4,031)	(4,031)
Foreign exchange	-	-	981	-	981
Total comprehensive income for the year	**-**	**-**	**981**	**(4,031)**	**(3,050)**
Exercise of share options	94	**-**	**-**	**-**	**94**
Fair value of share options	-	247	-	-	**247**
Shares issued for cash	823	-	-	-	**823**
Share issue costs	(20)	-	-	-	**(20)**
Lapse of share options	-	(1,721)	-	1,721	**-**
Balance – 31 December 2012	**48,223**	**7,885**	**(1,570)**	**(41,535)**	**13,003**

The accompanying notes are an integral part of these 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 2012 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 2012 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 2012. 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 27 February 2013.

(b) Going concern and adequacy of project finance

The Financial Statements have been prepared on a going concern basis.

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. Exchange rates and the price of silver have a significant impact on the Group's cash flow.

Toll milling fully resumed on 16 February 2013 at a mill operated by Beneficiadora de Jales y Minerales Juan Reyes SA de CV, and under present market conditions and prices for the sale of silver concentrate, the directors believe that the sale of concentrate from the continued mining and processing of 500 tpd should provide sufficient cash flow to cover operational cash flow expenditure.

In September 2012, the Group entered into a £5 million Standby Equity Distribution Agreement ("SEDA") with YA Global Master SPV Ltd ("Yorkville"). This facility was to provide working capital funding to initiate the P5 drilling programme, milling and mining studies. The SEDA entitles the Group to drawdown funds in exchange for the issue of shares at a price based on the Company's market price over the previous 5 to 20 days period. At the year end, the Group had drawn down an amount of £514,000 against this facility.

This facility has been used to cover some operational costs since November 2012 owing to the delay in re-commencement of processing.

The Group is also considering a number of funding options including the issue of new equity, project and debt finance to provide additional funding for future growth and expansion.

2. Basis of preparation (continued)

(b) Going concern and adequacy of project finance (continued)
In the past the Group 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 Company'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 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.

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 amounts 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, 18
- 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.

3. Significant accounting policies *(continued)*

(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.

The functional currency of the parent company is Pounds Sterling. The reason for presenting the financial statements in United States dollars is because this is the trading currency of silver and it is therefore considered to be the most useful currency to the users of the accounts.

(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.

(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 the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is 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.

3. Significant accounting policies *(continued)*

(f) Income tax expense (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 reclassified on commencing 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.

3. Significant accounting policies *(continued)*

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.

(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.

3. Significant accounting policies *(continued)*

(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) 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.

3. Significant accounting policies *(continued)*

(n) Provisions (continued)

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 on-going 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.

(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	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Revenue	4,588	7,467	-	-	4,588	7,467
(Loss)/profit before tax	(764)	812	(3,267)	(11,782)	(4,031)	(10,970)
Capital Expenditure	1,828	3,463	51	19	1,879	3,482
Depreciation and amortisation	142	201	16	17	158	218
Total assets	10,866	8,927	3,253	7,323	14,119	16,250
Total liabilities	177	170	939	1,171	1,116	1,341

San Jose revenue relates to transactions from two customers during the year, each customer accounting for 67% and 33% respectively, (2011 100% and 0%)

(ii) Geographical information

	Mexico		UK		Total	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Non current assets excluding investments	11,525	9,167	56	8	11,581	9,175
Revenue	4,588	7,467	-	-	4,588	7,467

5. Operating loss is stated after charging:

	2012 $'000	2011 $'000
Auditor's remuneration		
Audit – Remuneration for audit of Arian Silver Corporation	47	48
Audit – Remuneration for audit of Arian Silver de Mexico S.A. de C.V.	18	15
Taxation	9	24
Depreciation and amortisation	158	218
Gain on disposal of non-current assets held for sale	-	112
Exchange loss	106	295

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 2012	Number of Employees 2011
Finance and administration	16	15
Technical	42	36
	58	**51**

The aggregate staff costs of these persons were as follows:

	2012 $'000	2011 $'000
Wages and salaries	1,101	1,008
Social security costs	108	137
Share based payments	232	7,960
	1,441	**9,105**

Remuneration of key management personnel

Key management personnel remuneration is detailed below:

	2012			2011
	Salary	Fees	Total	Total
Executive Directors	$'000	$'000	$'000	$'000
A J Williams	114	-	114	115
J T Williams	254	-	254	257
Non-executive Directors				
T A Bailey	24	-	24	24
J S Cable	24	-	24	24
J A Crombie	24	-	24	24
Other key management				
Country Manager – Mexico	-	60	60	60
Former Chief Financial Officer (appointed 9 May 2011, resigned 15th January 2013)	158	-	158	107
Company Secretary (appointed 13 October 2011)	111	-	111	28
Former Company Secretary (retired 13 October 2011)	-	-	-	104
	709	**60**	**769**	**743**

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 $839,000 (2011 - $1,003,000).

Key management personnel also participate in the Group's share option programme as disclosed in note 18.

7. Net investment loss

	2012 $'000	2011 $'000
Revaluation of financial assets held at fair value through profit or loss	(78)	(495)
Unwinding of provision for mine closure	(7)	(9)
Interest income	12	44
	(73)	**(460)**

8. Income tax recognised in the income statement

	2012 $'000	2011 $'000
Current tax		
Current year	-	-

Reconciliation of effective tax rate	2012 $'000	2011 $'000
Loss before tax	(4,031)	(10,970)
Income tax using the domestic corporation tax rate of 24.49% (2011 – 26.49%)	(987)	(2,906)
Non-deductible expenses	313	584
Share options disallowed	61	2,264
Share options relief	(8)	-
Losses utilised	-	(88)
Exchange rate differences	345	(566)
Depreciation in excess of capital allowances	9	12
Short term timing differences not recognised in a deferred tax asset	(580)	(482)
Tax losses carried forward	847	1,182
Total tax expense/(credit)	-	-

Unrecognised deferred tax asset

	2012 $'000	2011 $'000
Mexican short term timing differences (at 29%)	(3,647)	(2,960)
Mexican tax losses (at 29%)	3,643	2,883
UK tax losses (at 23%)	3,465	3,256
Total	3,461	3,179

A net deferred tax asset has not been recognised in respect of the above items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from. This substantially comprises losses of $15,047,670.

9. Loss per share

Basic loss per share

The calculation of basic loss per share at 31 December 2012 was based on the loss attributable to common shareholders of $4,031,000 (2011 – $10,970,000) and a weighted average number of common shares outstanding during the year ended 31 December 2012 of 302,059,015 (2011 – 300,252,683). 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
Cost	**$'000**	**$'000**	**$'000**
Balance – 1 January 2011	13,446	1,426	**14,872**
Foreign exchange	-	(148)	**(148)**
Balance – 31 December 2011	13,446	1,278	**14,724**
Balance – 1 January 2012	13,446	1,278	**14,724**
Foreign exchange	-	83	**83**
Balance – 31 December 2012	13,446	1,361	**14,807**
Impairment losses and amortisation			
Balance – 1 January 2011	(13,446)	(185)	**(13,631)**
Balance – 31 December 2011	(13,446)	(185)	**(13,631)**
Balance – 1 January 2012	(13,446)	(185)	**(13,631)**
Balance – 31 December 2012	(13,446)	(185)	**(13,631)**
Carrying amounts			
At 31 December 2012	-	1,176	**1,176**
At 31 December 2011	-	1,093	**1,093**
At 1 January 2011	-	1,241	1,241

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.

Deferred exploration costs as at 31 December 2012 consisted mainly of costs relating to Calicanto $803,000 (2011 - $746,000), San Celso $94,000 (2011 - $88,000) and Los Compos $85,000 (2011 - $79,000).

11. Property, plant and equipment

	Mine development costs	Plant and equipment	Fixtures & fittings	Vehicles	Total
	$'000	$'000	$'000	$'000	$'000
Cost					
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**
Balance – 1 January 2012	8,206	132	28	93	**8,459**
Additions	1,760	119	-	-	**1,879**
Foreign exchange movement	610	9	2	7	**628**
Balance – 31 December 2012	10,576	260	30	100	**10,966**
Depreciation and impairment losses					
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)**
Balance – 1 January 2012	(201)	(75)	(13)	(88)	**(377)**
Depreciation and amortisation charge for the year	(141)	(12)	(3)	(2)	**(158)**
Foreign exchange movement	(13)	(5)	(1)	(7)	**(26)**
Balance – 31 December 2012	(355)	(92)	(17)	(97)	**(561)**
Carrying amounts					
At 31 December 2012	10,221	168	13	3	**10,405**
At 31 December 2011	8,005	57	15	5	**8,082**
At 1 January 2011	5,327	58	22	16	**5,423**

The mine development costs at 31 December 2012, relate to the 100% owned San José property in Zacatecas State, Mexico.

12. Trade and other receivables

	2012	2011
	$'000	$'000
Other receivables	1,077	1,789
Prepayments	129	101
	1,206	**1,890**

Included within other receivables is $998,000 (2011 - $544,000) of Mexican IVA (sales goods tax) which is recoverable from the Mexican authorities. The Group have previously been successful recovering IVA and management are confident that this amount will be recovered.

13. Cash and cash equivalents

	2012	2011
	$'000	$'000
Bank balances	491	3,991
Cash and cash equivalents in the statement of cash flows	**491**	**3,991**

14. Inventories

	2012 $'000	2011 $'000
Consumables	13	28
Stockpiled ore	631	576
Silver concentrate produced	-	318
	644	**922**

15. Financial assets held for sale at fair value through profit or loss

Following the completion in 2011 of the disposal of the Group's Tepal Gold-Copper Project to Geologix Explorations Inc ("Geologix"), the Group holds 1,089,318 Geologix shares. The Group did not dispose of any Geologix shares during the year ended 31 December 2012. However, the shares held were acquired with the principal intent to be disposed of in the near future and as such, have been classified as financial assets held at fair value through profit and loss. At 31 December 2012, these shares have a fair value of $197,000 (2011- $272,000), with a corresponding loss of $78,000 (2011- $495,000).

16. 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 2012 and 2011 are detailed in the following table:

	2012		2011	
	Number of Shares 000's	Amount $000's	Number of Shares 000's	Amount $000's
Balance – 1 January	301,190	47,326	282,448	45,420
Shares issued for cash	3,184	823	-	-
Issue costs of share issuance	-	(20)	-	-
Exercise of warrants	-	-	17,342	1,763
Exercise of share options	525	94	1,400	143
Balance – 31 December	304,899	48,223	**301,190**	**47,326**

During the years ended 31 December 2012 and 2011, the Company made the following share issues:

2012

- 975,067 common shares issued at £0.157938 per share to provide additional working capital of £154,000 drawdown of the SEDA.
- 2,209,390 common shares issued at £0.162941 per share to provide additional working capital of £360,000 drawdown of the SEDA.
- 500,000 common shares issued at £0.12 per share to provide additional working capital of £60,000 in connection with share options exercised.
- 25,000 common shares issued at £0.055 per share to provide additional working capital of £1,375 in connection with share options exercised.

16. Share capital and reserves (*continued*)

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.

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.

Accumulated losses

Accumulated losses contain losses in the current and prior years.

17. Warrants

A summary of the changes in the Company's share purchase warrants for the years ended 31 December 2012 and 2011 is set out below:

	2012		2011	
	Warrants outstanding (000's)	Weighted average exercise price ($)	Warrants outstanding (000's)	Weighted average exercise price ($)
Balance – 1 January	-	-	17,342	0.10
Exercised	-	-	(17,342)	(0.10)
Balance – 31 December	**-**	**-**	**-**	**-**

18. Share-based payment transactions

On 31 May 2012, the board approved the rolling share option plan to be converted to a fixed plan under which 30,000,000 common shares of the Company with no part value would be reserved for issuance representing approximately 9.94% of the currently issued and outstanding common shares. All subsisting options granted under the previous option plan would form part of the 30,000,000 share limit.

The number and weighted average exercise prices of share options for the years ended 31 December 2012 and 2011 is set out below:

	2012		2011	
	Outstanding (000's)	Weighted average exercise price ($)	Outstanding (000's)	Weighted average exercise price ($)
Balance – 1 January	18,485	0.67	4,725	0.13
Issued	1,000	0.31	14,860	0.79
Issued	-	-	300	0.48
Exercised	(500)	(0.19)	(1,200)	(0.09)
Exercised	(25)	(0.09)	(200)	(0.25)
Lapsed	(3,000)	(0.79)	-	-
Balance – 31 December	**15,960**	**0.62**	**18,485**	**0.67**

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

Share options in issue at 31 December 2012:

Outstanding shares	Exercise price	Expiry
1,500,000	£0.12/Cdn$0.25	4 June 2013
1,300,000	£0.055/Cdn$0.10	16 July 2014
11,860,000	£0.4925/Cdn$0.79	18 January 2016
300,000	£0.30/Cdn$0.48	6 June 2016
1,000,000	£0.20/Cdn$0.32	29 May 2017

The weighted average remaining contractual life of share options as at 31 December 2012 was 1,012 days.

Share options held by directors and senior management at 31 December 2012:

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	800	£0.20/Cdn$0.32	30 May 2012	30 May 2012	29 May 2017
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
	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

[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 2012:

Holder	At 1 January 2012 '000s	Granted '000s	Lapsed '000s	Exercised '000s	At 31 December 2012 '000s
A Williams	4,250	-	-	-	4,250
J Williams	4,250	-	-	-	4,250
J Cable	850	-	-	-	850
T Bailey	850	-	-	-	850
J Crombie	1,200	-	-	-	1,200
Senior Management	5,250	800	(3,000)	(500)	2,550
Total	**16,650**	**800**	**(3,000)**	**(500)**	**13,950**

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

During the year 800,000 share options were issued to senior management at an exercise price of £0.20/Cdn$0.32. In addition 500,000 share options were exercised by senior management at an exercise price of £0.12/Cdn$0.25 and 3,000,000 lapsed in January 2012 at an exercise price of £0.492/Cdn$0.79. The aggregate gains made by directors and senior management on these share sales for the year ended 31 December 2012 was $23,000 (2011 - $481,000).

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.

	2012	2011
Fair value	$167,000	$8,626,000
Share price 31 December 2011		$0.24
Share price 31 December 2012	$0.24	
Exercise price (expressed as weighted average)	$0.32	$0.76
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes model)	90%	90%
Option life (expressed as weighted average life used in the modelling under Black-Scholes model)	5yrs	5yrs
Expected dividends	-	-
Risk-free interest rate (based on national government bonds)	0.72%	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 $247,000 (2011 - $8,546,000) during the year ended 31 December 2012; of these expenses $183,000 (2011 - $7,373,000) relate to share options issued to key management personnel.

19. Trade and other payables

	2012	2011
	$'000	$'000
Payables due to related parties	21	10
Trade payables	785	1,039
Other payables	133	122
	939	**1,171**

20. Provision for mine closure

	2012	2011
	$'000	$'000
Opening balance	170	161
Unwinding of discount	7	**9**
Closing balance	**177**	**170**

The provision has been made to cover projected closure costs at the San José mine for the initial mining period of approximately 4 years, should the Company fail to extend the operations beyond the initial period. Closure costs are estimated to be $206,000 (2011 - $206,000) at the end of the 4 years and has been discounted to its present value using a discount rate of 5%. Closure activities include decommissioning, reclamation and rehabilitation.

21. Group entities

Significant Subsidiaries	Country of incorporation and operation	Principal activity	Arian Silver Corporation effective interest	
			2012	2011
Arian Silver de Mexico S.A. de C.V.	Mexico	Exploration and Production of Silver	100%	100%

22. 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	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Cash and cash equivalents	491	3,991	-	-	-	-
Shares	-	-	-	-	197	272
Trade and other receivables	79	1,245	-	-	-	-
Trade and other payables	-	-	939	1,171	-	-
	570	5,236	939	1,171	197	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.

Valuation hierarchy

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

Market risk

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

Price risk

The price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments in the market. As at at 31 December 2012, the Group held other financial assets at fair value of $197,000 (2011 – $272,000) 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 $102,000.

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

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

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

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 2012 $'000	Cash Held 2011 $'000
Pounds Sterling	383	663
United States Dollars	60	345
Canadian Dollars	44	2,375
Mexican Pesos	4	608
	491	**3,991**

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

Liquidity risk
The Group's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at 31 December 2012, the Group had cash of $491,000 to settle accounts payable of $939,000. 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 and funds raised from investors and the SEDA facility 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. 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 $570,000 (2011- $5,236,000)

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

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

Capital Management

The Group’s objective when managing capital is to safeguard the Group’s ability to continue as a going concern and have access to adequate funding for its exploration and development projects, so that it can provide returns for shareholders and benefits for other stakeholders. The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Group may issue new shares, acquire debt, or sell assets. Management regularly review cash flow 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 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	
	2012	2011	2012	2011
	$’000	$’000	$’000	$’000
If there was a 10% weakening of Pounds sterling against US Dollar with all other variables held constant – increase/(decrease)	(38)	(66)	(38)	(66)
If there was a 10% strengthening of Pounds sterling against US Dollar with all other variables held constant – increase/(decrease)	38	66	38	66

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

23. Future commitments

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

	Milling contract		Buildings		Total	
	2012	2011	2012	2011	2012	2011
	$’000	$’000	$’000	$’000	$’000	$’000
Payable in less than one year	3,420	5,153	15	167	3,435	5,320
Payable in one to two years	-	2,147	-	14	-	2,161
	3,420	7,300	15	181	3,435	7,481

24. Related parties

Control of the Company
In the opinion of the Board, at 31 December 2012 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.

Transactions with key management personnel
At 31 December 2012 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 2012 the Company entered into the following transactions involving key management personnel:

Companies in the Dragon Group charged the Company a total of $123,083 (2011 – $124,574). This relates to the reimbursement of Tony Williams' remuneration paid on behalf of the Company. Tony Williams, Chairman and a director of the Company, beneficially owns the Dragon Group. At 31 December 2012 $20,910 (2011 - $10,002) was outstanding.

Key management personnel also participate in the Group's share option programme as disclosed in note 18.

Key management personnel compensation is disclosed in note 6.

Directors' interests in the common shares of the Company as at 31 December 2012 and 2011 were:

	2012	2011
A J Williams	2,200,000	2,200,000
J T Williams	4,800,000	4,800,000
J A Crombie	1,500,000	1,500,000
T A Bailey	2,000	2,000

25. Contracuña

The dispute with the owners of Contracuña SA de CV ("Contracuña") caused toll milling operations to be suspended in July 2012. Although all amounts owed to Arian by Contracuña have now been repaid, Arian has submitted a claim for damages, which has been met by a counter-claim by Contracuña, which Arian believes, has been submitted solely to frustrate the legal process and is without merit.

26. Post balance sheet events

Issue of shares
Since 31 December 2012, the Company has issued 1,019,894 common shares at £0.142172 and a further 1,657,795 common shares at £0.136326 in relation to the drawdown of the SEDA, generating funding of £145,000 and £226,000 respectively.

An application has been made to the London Stock Exchange for 2,198,279 common shares to be admitted to trading on AIM and it is expected that admission will occur at 8.00 a.m. on 6 March 2013. The new common shares will rank pari passu in all respects with the existing common shares.

Following this share issue the Company has in issue 309,774,537 common shares with voting rights.

26. Post balance sheet events *(continued)*

Operation of toll mill commenced

On 16 February 2013, Arian Silver Mexico recommenced operations at the newly refurbished Juan Reyes toll mill. The mill has a maximum capacity of 500 tonnes per day and benefits from two separate flotation streams to extract zinc in addition to lead and silver concentrate. The contract with Juan Reyes gives exclusive use of the mill to Arian, is renewable by mutual consent and is initially for the processing of 90,000 tonnes of run-of-mine material from the San Jose mine at $38 per tonne; this should take approximately six months once the daily throughput is achieved and maintained.