ARIAN SILVER CORPORATION

Financial Statements
For the financial years ended December 31, 2006 and 2005
(in thousands of U.S. dollars)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

The financial statements are required to give a true and fair view of the state of affairs of the group and of the profit or loss of the group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group. They are also responsible for safeguarding the assets of 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.

REPORT OF THE INDEPENDENT AUDITORS' TO THE MEMBERS OF ARIAN SILVER CORPORATION

We have audited the group financial statements ('the financial statements') of Arian Silver Corporation for the year ended 31 December 2006 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of cash flows statement and statements of change in shareholders' equity and the related notes. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body. Our audit work has been undertaken so that we might state to the company's members our opinion as to whether the financial statements give a true and fair view 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 auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the International Accounting Standards Board are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Management's Discussion and Analysis. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with IFRSs as adopted by the International Accounting Standards Board, of the state of the group's affairs as at 31 December 2006 and of its loss for the year then ended;

Emphasis of matter – going concern

In forming our opinion, which is not qualified, we have considered the adequacy of disclosures made in note 2(a) to the financial statements concerning the group's ability to continue as a going concern. The group's operations are at an early stage and current cash resources will not be sufficient to develop its exploration projects and bring them into production. The directors have reviewed the group's cash flow forecast and believe that further equity fund raising will be required in the next 12 months and that these funds will be forthcoming. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

PKF (UK) LLP
Registered Auditors
London, UK
30 April 2007

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

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

We conducted our audit for the year ended 31 December 2006 in accordance with International Standards of Auditing (UK and Ireland). There are no material differences in the form or content of our audit report, except as noted below, as compared to an auditors' report prepared in accordance with Canadian GAAS and if this report were prepared in accordance with Canadian GAAS it would not contain a reservation.

An audit report issued in accordance with Canadian GAAS does not require the Emphasis of Matter paragraph that is included in the United Kingdom Independent Auditors' Report for the year ended 31 December 2006 given above. In all other respects, there are no material differences in the form and content of the above noted auditors' report.

PKF (UK) LLP
London, UK
30 April 2007

Consolidated balance sheet

As at December 31, 2006

	Note	**2006 $'000**	**2005 $'000**
Assets			
Property, plant and equipment	*3 d, 10*	131	52
Intangible assets	*3 e, 11*	1,235	253
Total non-current assets		1,366	305
Trade and other receivables	*13*	243	101
Cash and cash equivalents	*14,20*	3,193	1,380
Total current assets		3,436	1,481
Total assets		4,802	1,786
Equity			
Share capital	*15,16*	22,448	2,604
Share-based payment reserve	*18*	947	-
Foreign exchange translation reserve	*16*	(910)	-
Retained loss		(18,062)	(1,027)
Total equity		4,423	1,577
Bank overdraft		6	-
Trade and other payables	*19*	373	209
Total current liabilities		379	209
Total liabilities		379	209
Total equity and liabilities		4,802	1,786

The financial statements were approved and authorised for issue by the Board of Directors on 27 April 2007 and were signed on its behalf by:

J T Williams
Chief Executive Officer

J S Cable
Chief Financial Officer

Consolidated income statement

For the year ended December 31, 2006

	Note	2006 $'000	2005 $'000
Administrative expenses		(3,653)	(1,044)
Goodwill written off	*5,11*	(13,446)	-
Operating loss before financing costs		(17,099)	(1,044)
Finance income	*8*	71	15
Finance expenses	*8*	(5)	-
Net financing costs		66	15
Loss before tax	*6*	(17,033)	(1,029)
Loss for the period		(17,033)	(1,029)
Basic and diluted loss per share ($)	*17*	(0.24)	(0.07)

Consolidated Statement of recognised income and expense

		2006	2005
Foreign exchange translation differences recognised directly in equity			
- in respect of re-translation of net investment in subsidiaries		80	2
- in respect of presentation of financial statements in United States dollars		(992)	-
Loss for the period		(17,033)	(1,029)
Total recognised income and expense for the period		(17,945)	(1,027)

Consolidated statement of cash flows

For the year ended December 31, 2006

	Note	2006 $'000	2005 $'000
Cash flows from operating activities			
Loss for the period		(17,099)	(1,044)
Adjustments for:			
Depreciation		23	4
Goodwill written off		13,446	-
Exchange Difference		8	2
Equity-settled share-based payment transactions		947	-
Shares issued in lieu of payment of services		-	160
		(2,675)	(878)
Change in trade and other receivables	*13*	(142)	(101)
Change in trade and other payables	*19*	164	209
		(2,653)	(770)
Interest paid	*8*	(5)	-
Net cash used in operating activities		(2,658)	(770)
Cash flows from investing activities			
Interest received	*8*	71	15
Acquisition of intangibles	*11*	(982)	(253)
Acquisition of property, plant and equipment	*10*	(102)	(56)
Net cash used in investing activities		(1,013)	(294)
Cash flows from financing activities			
Proceeds from issue of share capital	*15,16*	5,478	2,772
Payment of transaction costs	*15,16*	-	(328)
Bank overdraft		6	-
Net cash from financing activities		5,484	2,444
Net increase in cash and cash equivalents			
Cash and cash equivalents at 1 January		1,380	-
Cash and cash equivalents at 31 December	*20*	3,193	1,380

The notes set out on the following pages form part of the annual financial statements.

Notes to the consolidated financial statements

1. Reporting entity

Arian Silver Corporation (the "Company") is a company domiciled in the British Virgin Islands. The consolidated financial statements of the Company for the year ended December 31, 2006 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 Company was previously named Hard Assets Inc. until its merger with Arian Silver Corporation Limited ("ASCL") on May 24, 2006 whereupon it was renamed Arian Silver Corporation ("ASC") and re-admitted to the AIM market of the London Stock Exchange on May 25, 2006. ASCL ceased to be a legal entity at the date of the merger.

The merger of the Company with ASCL in May 2006 was accounted for in accordance with the reverse take over method of accounting. Under this method, ASCL has been identified as the acquirer and accordingly the consolidated entity is considered to be a continuation of ASCL and the historical financial information prior to the acquisition is that of ASCL only. For accounting purposes, Hard Assets Inc. is thus deemed to have been acquired by ASCL.

The comparative figures used are for the period from December 8, 2004 to December 31, 2005.

2. Basis of preparation

(a) Going concern and adequacy of project finance

The Group is at an early stage of development and in common with many mineral exploration companies, it raises funds in discrete tranches. The current cash resources of the Group will not be sufficient to develop its exploration projects and bring them into production and further funding will be required. In the event that the Group is unable to secure further finance it will not be able to fully develop these projects.

The directors have reviewed the Group's cash flow forecast and believe that further equity fund raising will be required in the next 12 months and that these funds will be forthcoming. They therefore consider it appropriate to prepare the financial statements on a going concern basis.

(b) Use of estimates and judgement

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

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

(c) Statement of compliance

The consolidated financial statements of the Company for the year ended December 31, 2006 have been prepared in accordance with IFRSs and its interpretations adopted by the International Accounting Standards Board ("IASB"). These are the Group's first full year consolidated financial statements. Previous interim statements have been prepared under UK Generally Accepted Accounting Principles ("UK GAAP"). An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 25. The accounts were approved by the board and authorised for issue on April 27, 2007.

Notes to the consolidated financial statements

2. Basis of preparation (continued)

(d) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

(e) Functional and presentation currency

These consolidated financial statements are presented in United States dollars as the Company believes it to be the most meaningful currency given the nature of its operations. The functional currencies of the Company and its subsidiary are Sterling and Mexican Peso respectively. All financial information presented in United States dollars has been rounded to the nearest thousand.

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 presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to US dollars 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 to US dollars at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to US dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to US dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly as a separate component of equity. They are released into the income statement upon disposal.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition, non-derivative financial instruments are measured as described below. At December 31, 2006 the fair value equated to the historical cost for all non-derivative financial instruments.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

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.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand are included as a component of cash flows from financing activities, for the purposes of the statement of cash flows.

(ii) Share capital

Common shares

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

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

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

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

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(e) Intangible assets

(i) Goodwill

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

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

(ii) Deferred Exploration and Evaluation Costs

These comprise costs directly incurred in exploration and evaluation as well as the cost of mineral licences. They are capitalised as intangible assets pending the determination of the feasibility of the project. When the existence of economically recoverable reserves is established 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 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.

(f) Leased assets

Leases in terms of 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.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(g) Impairment

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

(h) Employee benefits

Share-based payment transactions

The share option programme allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee 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 to the employee. 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.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(i) Provisions

A provision is recognised in the balance sheet 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.

(j) Finance income and expenses

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

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

(k) Income tax expense

Income tax expense comprises current and deferred tax.

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

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

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

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

(l) 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.

(m) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group’s primary format for segment reporting is based on business segments.

Notes to the consolidated financial statements

4. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

(i) Business segments

The Group's only business segment is the exploration for, and development of, silver and associated metal deposits.

(ii) Geographical segments

The Group also reports by geographical segment. The exploration segment is managed in one principal geographical area, Mexico, with support provided by the UK office.

Geographical segments

	Mexico		UK		Total	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Total assets	1,497	344	3,305	1,442	4,802	1,786
Capital expenditure on property, plant & equipment	103	52	28	-	131	52
Capital expenditure on intangibles	1,235	253	-	-	1,235	253

5. Merger with Arian Silver Corporation Ltd and Acquisition of subsidiary

On February 1, 2006 the Company purchased the ordinary share capital of Arian Silver Corporation (UK) Limited (formerly Arian Silver Corporation Plc) for cash consideration of £1. This resulted in negative goodwill of $38,000 representing the accumulated profit at that date. This was credited to the income statement immediately.

On May 24, 2006 the Company acquired all the shares of Hard Assets Inc. by issue of 37,000,003 common shares at a deemed consideration £0.195 per share and issued 48,898,000 common shares in a two for one issue to acquire all the share capital of ASCL . Goodwill arising on the merger was written off to the income statement immediately. The merger of the Company with ASCL was accounted for in accordance with the reverse take over method of accounting. Under this method, ASCL has been identified as the acquirer and accordingly the consolidated entity is considered to be a continuation of ASCL and the historical financial information prior to the acquisition is that of ASCL only. For accounting purposes, Hard Assets Inc. is thus deemed to have been acquired by ASCL.

Effect of acquisitions

The acquisitions had the following effect on the Group's assets and liabilities.

Notes to the consolidated financial statements

5. Merger with Arian Silver Corporation Ltd and Acquisitions of subsidiary (continued)

Acquiree's net assets at the acquisition date

	Carrying Amount $'000
Deferred acquisition costs	110
Trade and other receivables	6
Cash and cash equivalents	654
Trade and other payables	(4)
Net identifiable assets and liabilities	766
Goodwill on acquisition	13,665
Consideration paid, satisfied in shares	(14,431)
Net cash acquired	-

The goodwill has been reduced to a nil carrying value on the basis that it arose on the acquisition of Hard Assets Inc., a non-trading company.

The goodwill of $13,665,000 was translated to sterling at the date of the merger as ASCL adopted Sterling as its functional currency. Retranslation of the profit and loss account at the year end using the average method results in the figure being re-translated as $13,484,000.

Consideration paid includes cost of acquisition amounting to $849,000 (legal $465,000, financing fee $233,000, accounting $92,000 and administration $59,000), of which $195,000 has been settled by the issue of common shares.

6. Loss on ordinary activities is stated after charging:

	2006 $'000	2005 $'000
Auditors remuneration		
Audit	59	20
Corporate Finance	73	-
Taxation	6	-
Depreciation	23	4
Exchange gain/loss	137	(4)
	298	20

Remuneration for Group audit includes $5,800 charged by an associated firm to the auditors in respect of the audit of the Group's Mexican subsidiary. Other services provided by the auditors and their associates primarily relate to support and consultancy for the Canadian and AIM listings.

In addition to the amounts shown in the table above, transaction support fees of $92,000 paid to the auditors have been included directly in the cost of the acquisition.

Notes to the consolidated financial statements

7. 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 2006	Number of Employees 2005
Finance and administration	22	4
Technical	15	6
	37	10

The aggregate payroll costs of these persons were as follows:

	2006 $'000	2005 $'000
Wages and salaries	1,059	370
Social security costs	88	20
Share based payments	947	-
	2,094	390

Remuneration of key management personnel

Key management personnel remuneration is detailed below:

	2006			2005
	Salary	Fees	Total	Total
Executive Directors (includes remuneration prior to appointment)	$'000	$'000	$'000	$'000
A J Williams	131	-	131	21
J T Williams	218	-	218	164
J S Cable	73	-	73	12
Non-executive Directors (includes remuneration prior to appointment)				
T A Bailey	27	-	27	4
D W Cohen	-	20	20	-
J A Crombie	-	-	-	-
J Merfyn Roberts	-	20	20	-
Dr Braxator	-	-	-	-
Other key management				
Country manager – Mexico	82	-	82	40
Company secretary	73	-	73	12
Total	604	40	644	253

An amount of $947,051 has been charged to administration expenses in the income statement for the year (2005: nil) in respect of share-based payments to key management personnel.

Notes to the consolidated financial statements

8. Finance income and expense

	2006 $'000	2005 $'000
Interest income	71	15
Finance income	71	15
Interest expense	(5)	-
Finance expenses	(5)	-
Net financing income	66	15

9. Income tax expense

Recognised in the income statement

	2006 $'000	2005 $'000
Current tax expense		
Current year	-	-
Adjustments for prior years	-	-

Reconciliation of effective tax rate

	2006 $'000	2005 $'000
Loss before tax	(17,033)	(1,029)
Income tax using the domestic corporation tax rate (30%)	(5,106)	(309)
Non-deductible expenses	38	21
Share-based payment	284	-
Goodwill written off	4,034	-
Depreciation in excess of capital allowances	2	-
Short term timing differences	(125)	-
Tax losses carried forward	433	-
Tax exempt expenses	440	288
Current tax expense	-	-

Tax exempt expenses relate to pre-merger expenditure which is not considered allowable for tax purposes.

At December 31, 2006 the Group had tax losses to carry forward of $1,490,000 (2005: nil). No deferred tax asset has been recognised in respect of these losses due to the uncertainty to the extent and timing of the reversal of this asset.

Notes to the consolidated financial statements

10. Property, plant and equipment

	Plant and equipment	Fixtures and fittings	Vehicles	Total
	$'000	$'000	$'000	$'000
Cost				
Additions	16	-	40	**56**
Balance at December 31, 2005	16	-	40	**56**
Balance at January 1, 2006	16	-	40	**56**
Additions	38	27	37	**102**
Balance at December 31, 2006	54	27	77	**158**
Depreciation and impairment losses				
Depreciation charge for the year	1	-	3	**4**
Balance at December 31, 2005	1	-	3	**4**
Balance at January 1, 2006	1	-	3	**4**
Depreciation charge for the year	4	5	14	**23**
Balance at December 31, 2006	5	5	17	**27**
Carrying amounts				
At December 31, 2005	15	-	37	**52**
At December 31, 2006	49	22	60	**131**

Notes to the consolidated financial statements

11. Intangible assets

	Goodwill	Deferred Exploration costs	Total
	$'000	$'000	$'000
Cost			
Additions	-	253	**253**
Balance at December 31, 2005	-	253	**253**
Balance at January 1, 2006		253	**253**
Acquisition through business combinations	13,446	-	**13,446**
Additions	-	982	**982**
Balance at December 31, 2006	13,446	1,235	**14,681**
Impairment losses and amortisation			
Balance at December 31, 2005	-	-	**-**
Balance at January 1, 2006	-	-	-
Impairment charge	(13,446)	-	**(13,446)**
Balance at December 31, 2006	(13,446)	-	**(13,446)**
Carrying amounts			
At December 31, 2005	-	253	**253**
At December 31, 2006	-	1,235	**1,235**

The goodwill recognised in the table above is a combination of the positive goodwill of $13,484,000 arising on the merger with ASCL and the negative goodwill of $38,000 arising on the acquisition of Arian Silver (UK) Ltd (note 5).

12. Group entities

Significant Subsidiaries

Significant Subsidiaries	Country of incorporation and operation	Principal activity	Arian Silver Corporation effective interest	
			2006	2005
Arian Silver (UK) Ltd	UK	Administration	100%	-
Arian Silver de Mexico S.A. de C.V.	Mexico	Exploration	100%	100%

13. Trade and other receivables

	2006	2005
	$'000	$'000
Current receivables due from related parties	4	58
Trade receivables	3	2
Other receivables	201	16
Prepayments	35	25
	243	101

Notes to the consolidated financial statements

14. Cash and cash equivalents

	2006 $'000	2005 $'000
Bank balances	185	1,380
Call deposits	3,008	-
Cash and cash equivalents in the statement of cash flows	3,193	1,380

15. Share capital

Authorised

The Company is authorised to issue unlimited common shares of no par value. Under the reverse take over method of accounting for the acquisition of ASCL, share capital and movements of ASCL are shown, together with movements in share capital of the Company following acquisition. Changes for the years ended December 31, 2006 and 2005 are detailed in the following table:

Issued

	2006		2005	
	Number of Shares '000	Amount $'000	Number of Shares '000	Amount $'000
Opening balance	19,770	2,604	11,000	110
Shares issued for cash	4,400	2,306	5,652	1,722
Issue costs of share issuance	-	(147)	-	(276)
Shares issued for consulting services	280	147	-	-
ASCL shares at date of acquisition	**24,450**	**4,910**	**-**	**-**
Shares issued on reverse take over of ASCL	48,899	4910	-	-
Shares in issue upon reverse take over	37,000	14,121	-	-
Shares issued for consulting services	417	245	118	50
Exercise of warrants	7	1	3,000	1,050
Commission payable on early warrant exercise	-	-	-	(52)
Shares issued for cash	14,060	3,136	-	-
Exercise of share options	300	35	-	-
Closing balance	**100,683**	**22,448**	**19,770**	**2,604**

During the years ended December 2006 and 2005, the Company made the following share and warrant issues:

2005

During the year, ASCL issued 117,600 common shares of US$0.01 each as consideration in respect of services provided to the Company of US$49,350 and 8,652,000 common shares of US$0.01 each to provide additional working capital of US$2,773,000.

2006

During the year, ASCL issued 4,400,000 common shares of US$0.01 each to provide additional working capital of US$2,306,000 and 280,000 common shares of US$0.01 each as consideration in respect of agents commission.

In respect of the merger with ASCL, on May 24, 2006 the Company issued 48,899,200 common shares on the basis of two shares for every one share existing at that date. Under the reverse acquisition method of accounting, it was deemed that 37,000,003 shares were issued in consideration for Hard Assets Inc., being its issued share capital immediately prior to the merger.

Notes to the consolidated financial statements

15. Share capital (continued)

During the year, the Company issued 416,666 common shares at £0.30 per share in consideration of services provided to the Company of US$245,000.

During the year 300,000 share options and 7,000 share warrants were exercised at CAD $0.12 and US$0.175 respectively.

During the year the Company issued 14,060,000 common shares at CAD$0.25 to provide additional working capital of CAD$3,515,000. In addition, the Company issued 14,060,000 share purchase warrants exercisable for a period of one year at CAD$0.42 and subject to accelerated exercise conditions at the Company's option.

16. Capital and reserves

Reconciliation of movement in shareholders equity

	Share Capital $'000	Share based payment Reserve $'000	Foreign exchange translation reserve $'000	Retained Earnings $'000	Total $'000
Opening balance January 1, 2005	110	-	-	-	110
Shares issued for cash	1,722	-	-	-	1,722
Shares issued in lieu of services	50	-	-	-	50
Warrants exercised	1,050	-	-	-	1,050
Share issue costs	(328)	-	-	-	(328)
Net loss	-	-	-	(1,029)	(1,029)
Foreign exchange loss	-	-	2	-	2
December 31, 2005	**2,604**	**-**	**2**	**(1,029)**	**1,577**
Shares issued for cash	5,442	-	-	-	5,442
Share issue costs	(147)	-	-	-	(147)
Shares/options issued on reverse take over	14,121	-	-	-	14,121
Shares issued in lieu of services	392	-	-	-	392
Fair value of share options	-	947	-	-	947
Proceeds from options exercised	35	-	-	-	35
Proceeds from warrants exercised	1	-	-	-	1
Net loss	-	-	-	(17,033)	(17,033)
Foreign exchange loss	-	-	(912)	-	(912)
Balance end of period December 31, 2006	**22,448**	**947**	**(910)**	**(18,062)**	**4,423**

No apportionment of fair value has been made to the warrants issued in conjunction with common share issues in year to December 31, 2006 as this represents an allocation between non distributable reserves.

	Common shares	
	2006 '000	2005 '000
On issue at January 1	19,770	11,000
Issued for cash	18,767	8,770
Issued on reverse take-over	61,449	-
Issued in lieu of payment for services	697	-
On issue at December 31 – fully paid	100,683	19,770

Notes to the consolidated financial statements

16. Capital and reserves (continued)

At 31 December 2006, the authorised share capital comprised unlimited common shares of no par value (2005: 100,000,000).

Share options

Employee share options at December 31, 2006

Holder	Shares	Exercise price	Vesting Date	Expiry
A Williams	1,200,000	£0.15	June 15, 2006	January 31, 2009
J Williams	1,200,000	£0.15	June 15, 2006	January 31, 2009
J Cable	400,000	£0.15	June 15, 2006	January 31, 2009
D Cohen	500,000	£0.15	June 15, 2006	January 31, 2009
T Bailey	400,000	£0.15	June 15, 2006	January 31, 2009
M Roberts	500,000	£0.15	June 15, 2006	January 31, 2009
J Crombie	-	-	-	-
Senior management	1,500,000	£0.15	1,000,000 June 15, 2006	January 31, 2009
			500,000 February 1, 2007	January 31, 2009
Other employees	130,000	£0.15	65,000 June 15, 2006	January 31, 2009
			65,000 February 1, 2007	January 31, 2009
Other share options at December 31, 2006				
Share options issued to third parties	350,000	US $0.50	April 13, 2006	April 13, 2008

Translation reserve

This translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

The retranslation of goodwill written off from Sterling to US Dollars using the average exchange rate for the year has resulted in an exchange loss of $840,000 which is included in the foreign exchange translation reserve.

17. Loss per share

Basic loss per share

The calculation of basic loss per share at December 31, 2006 was based on the loss attributable to common shareholders of $17,033,000 (2005: $1,029,000) and a weighted average number of common shares outstanding during the year ended December 31, 2006 of 70,507,727 (2005: 14,968,792).

Diluted Loss per share

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

Notes to the consolidated financial statements

17. Loss per share (continued)

Warrants

A summary of the changes in the Company's share purchase warrants for the years ended December 31, 2006 and 2005 is set out below:

	2006		2005	
	Warrants outstanding '000	Weighted average exercise price ($)	Warrants outstanding '000	Weighted average exercise price ($)
Opening balance	2,900	0.17	-	-
Exercised	(7)	(0.17)	(6,000)	0.17
Issued	14,268	0.36	8,900	0.17
Closing balance	17,161	0.33	2,900	0.17

At December 31, 2006 the warrants in issue are analysed below:

Shares	Exercise price	Expiry
2,892,600	US$0.175	April 7, 2007
208,333	£0.30	May 25, 2007
14,060,000	Cdn$0.42	November 30, 2007

18. Employee benefits

Share-based payments

The Company currently has in place two incentive share option plans (the "Plans") covering Directors, officers, employees and consultants of the Company and its subsidiary companies. The exercise price of a future option grant will be determined by the Board of Directors on the basis of the closing market price of the Company's shares on the trading day prior to the date of issue of the option. Options may be granted for a period of up to ten years and the Board of Directors determines the vesting provisions of each option granted, which may vary. The aggregate number of shares which may be issued and sold under the Plans may not exceed 10% of issued share capital. As at December 31, 2006 a total of 3,888,287 options remained available for grant under the Plan.

A summary of the Company's share options (as adjusted to reflect the terms of the merger referred to in note 5) for the years ending December 31, 2006 and 2005 is set out below:

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Employees entitled	Grant date	Number	Vesting conditions	Remaining life of options (years)
Options granted to directors	February 1,2006	3,200,000	June 15, 2006	2
Options granted to directors	April 7, 2006	500,000	June 15, 2006	2
Options granted to directors	May 25, 2006	500,000	June 15, 2006	2
Options granted to senior management and other staff	February 1, 2006	1,065,000	June 15,2006	2
Options granted to senior management and other staff	February 1, 2006	565,000	February 01, 2007	2

Notes to the consolidated financial statements

18. Employee benefits (continued)

The number and weighted average exercise prices of share options are as follows:

	2006		2005	
	Out-standing '000	Weighted average exercise price ($)	Out-standing '000	Weighted average exercise price ($)
Opening balance	-	-	-	-
Options assumed on acquisition of Hard Assets Inc.	300	0.11	-	-
Issued on acquisition of ASCL*	5,830	0.28	-	-
Issued	350	0.5	-	-
Exercised	(300)	(0.11)	-	-
Balance – end of period	6,180	0.29	-	-

* Converted to $US. Actual exercise price was £0.15.

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 contractual lives of the options (2-3 years) are used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes model.

Fair value of share options and assumptions	2006	2005
Fair value at measurement date	$947,000	-
Share price December 31, 2006	$0.303	-
Exercise price	$0.28	-
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes model)	80%	-
Option life (expressed as weighted average life used in the modelling under Black-Scholes model)	2-3 yrs	-
Expected dividends	0%	-
Risk-free interest rate (based on national government bonds)	3.98% to 4.18%	-

The expected volatility is based on the historical volatility of comparative companies in the mining industry (calculation based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. There are no market conditions associated with the share option grants. The fair value of stock options granted for the year ended December 31, 2006 was $947,000 (2005: nil) which was expensed in the income statement.

Employee expenses

	2006 $'000	2005 $'000
Share options granted in 2005	-	-
Share options granted in 2006	947	-
Total expense recognised as employee costs	947	-

Notes to the consolidated financial statements

19. Trade and other payables

	2006 $'000	2005 $'000
Payables due to related parties	140	169
Trade payables	85	3
Other payables	148	37
	373	209

20. Financial instruments

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.

Effective interest rates and deposit terms

In respect of income-earning financial assets the following table indicates their effective interest rates at the balance sheet date and the deposit terms:

	2006			2005		
	Effective interest rate	Total $'000	Six months or less $'000	Effective interest rate	Total $'000	Six months or less $'000
Call Deposits	4.00%	3,008	3,008	-	-	-
		3,008	3,008		-	-

Foreign currency risk

The Group's exploration expenditure is made in Mexico in Mexican Peso and head office expenses are predominantly made in London in Pounds Sterling and US dollars. The Group is therefore exposed to the movement in exchange rates for these currencies. The Group does not currently hedge foreign exchange risk but seeks to minimise cash held in foreign currencies. This situation is monitored.

As a result of a recent Canadian dollar share placement, the majority of the Group's cash resources are currently held in Canadian dollars. The Group therefore also has downside exposure to any strengthening of the Pound Sterling, Mexican Peso or US dollar against the Canadian dollar as this would increase expenses in Canadian dollar terms and accelerate the depletion of the Group's cash resources. Any weakening of the Pound Sterling, Mexican Peso or US dollar against the Canadian dollar would, however, result in a reduction in expenses in Canadian dollar terms and preserve the Group's cash resources.

In addition, any movements in Pound Sterling, Mexican Peso or Canadian dollar would affect the presentation of the Consolidated Balance Sheet when the net assets of the Mexican subsidiary and parent company in the UK are translated from their functional currencies into US dollars.

In view of the potential significance of any strengthening of the Pound Sterling, Mexican Peso or US dollar against the Canadian dollar, the policy of holding the majority of the Group's cash resources in Canadian dollars is kept under review.

Notes to the consolidated financial statements

20. Financial instruments (continued)

There is not considered to be any material exposure in respect of liabilities incurred by the Group as these are of a short-term nature. The table below shows an analysis of cash and cash equivalents denominated by currency at December 31, 2006 and 2005.

	Cash Held 2006 $'000	Cash Held 2005 $'000
Pounds Sterling	67	-
United States Dollars	16	1,354
Canadian Dollars	3,096	-
Mexican Pesos	14	26
	3,193	1,380

Fair values

The fair values of the Groups financial instruments reflect the carrying amounts shown in the balance sheet.

21. Future project expenditure

The Company does not have any capital commitments at December 31, 2006 (2005: nil).

The Company does not have any exploration and development expenditure commitments in respect of its projects. However, the following are the material payments that will need to be made in order to maintain certain properties in good standing:

(a) In order to maintain the Company's interest in the Calicanto property, the Company is required to pay, over the period to June 30, 2011, $380,000 in option payments. At December 31, 2006, $124,000 had been paid.

(b) In order to maintain the recently acquired Tepal option agreement in good standing, the Company is required to pay the vendor $5 million in instalments over the five-year period through to June 2011 and will also grant the vendor a Net Smelter Return ("NSR") of 2.5%. The company has the right of first refusal to buy out the NSR for an unspecified amount. At December 31, 2006, $256,000 had been paid.

(c) In order to maintain the recently acquired San Jose option agreement in good standing the Company is required to pay the vendor $1.5 million in instalments over the three-year period through to 2009 and will also grant the vendor a NSR of 2%. The company has the right to buy out the NSR for $1.15m. At December 31, 2006, $50,000 had been paid.

The Company has the right to withdraw from the option agreements relating to Calicanto, Tepal and San Jose at any time during the term of each option without financial penalty.

Total planned expenditure is set out below:

Project Name	2007 $'000	2008-2009 $'000
Calicanto	1,028	2,387
San Celso	-	1,822
Tepal	1,124	6,578
San Jose	1,967	5,965
Total	4,119	16,752

Notes to the consolidated financial statements

21. Future project expenditure (continued)

The expenditure discussed above is discretionary and not yet committed as it is dependent on timing, availability of funds and the results of exploration. However, as explained above, certain payments in respect of Calicanto, Tepal and San Jose will be necessary in order to maintain the interests in good standing.

22. Related parties

Control of the Group

In the opinion of the Directors, there is no ultimate controlling entity of the Group.

Identity of related parties

The Group has a related party relationship with its subsidiaries and with its Directors and executive officers.

Transactions with key management personnel

Directors of the Company and their immediate relatives control 8.8% per cent of the voting shares of the Company. During the year ended December 31, 2006 the Company entered into the following transactions involving related parties:

Companies in the Dragon Group charged the Company a total of $671,155 (Period to December 31, 2005: $155,185) in respect of the provision of staff, office facilities, general office overheads and re-charged costs incurred on behalf of the Company. Tony Williams, Chairman and a director of the Company, beneficially owns the Dragon Group.

Endeavour Financial Limited (“EF”) charged the Company a total of $62,740 (Period to December 31, 2005: $51,424) in respect of the provision of office facilities incurred on behalf of the Company. Gordon Keep, a director of the Company up to the date of the Merger, is a director of EF.

Anfield Sujir Kennedy & Durno (“ASKD”) charged the Company a total of $86,895 (Period to December 31, 2005 nil) in respect of the provision of legal services incurred on behalf of the Company. Henry Jay Sujir, a director of the Company up to the date of the Merger, is a partner in ASKD.

European Diamonds PLC (“EPD”) charged the Company a total of $82,594 (Period to December 31, 2005: $23,324) in respect of a recharge of remuneration on behalf of the Company. James Cable and Tony Williams are Directors of the Company and EPD.

Transactions with subsidiaries were as follows:

The Company made loans to Arian Silver de Mexico S.A. de C.V. (“Arian Mexico”) of $986,790 (2005: $396,062) and paid charges on behalf of Arian Mexico of $32,647 (2005: nil)

Arian Silver Corporation (UK) Limited (“Arian UK”) charged the Company a total of $783,821 (2005: $55,000) in respect of staff payroll and other costs and was charged by the Company $101,334 (2005: nil) in respect of management fees. In addition the Company made loans to Arian UK of $136,443 (2005: $36,657).

These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Executive officers also participate in the Group’s share option programme (see note 18).

The key management personnel compensations are shown in Personnel expense (see note 7).

Notes to the consolidated financial statements

22. Related parties (continued)

The Directors who held office at the end of the financial year held the following common shares of the company:

	Shares held at December 31, 2006	Shares held at January 1, 2006 or date appointed
A J Williams	2,000,000	2,000,000
J T Williams	6,800,000	6,800,000
J S Cable	-	-
T A Bailey	-	-
D W Cohen	-	-
J A Crombie	-	-

There have been no changes in the Directors' shares held between January 1, 2007 and April 27, 2007.

23. Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

24. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on managements' best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements.

Information about such judgements and estimation is contained in the accounting policies and/or the Notes to the financial statements, and the key areas are summarised below. Areas of judgement that have the most significant effect on the amounts recognised in the financial statements:

Capitalisation and impairment of exploration and evaluation costs – Note 3e, 3g, 11

Estimation of share based compensation amounts – Note 3h, 16

25. Explanation of transition to IFRSs

The Group has adopted IFRSs with effect from January 1, 2006. The directors have elected a transition date of January 1, 2005 as this is the start date for which the Group has presented full comparative information under IFRSs in the 2006 financial statements.

Basis of transition

The accounting policies set out in note 3 have been applied in preparing the restatement of the financial statements for the year ended December 31, 2005 and in the preparation of an opening IFRS balance sheet at January 1, 2005 (the Group's date of transition).

There are no material differences between equity at the date of transition or profit and cash flows for 2005 presented under IFRSs and as previously presented under UK GAAP.

26. Subsequent events

The Company issued 3,792,800 common shares to provide additional working capital of US$652,326 and £75,000 in connection with the exercise of warrants and share options.