



**ARIAN SILVER CORPORATION**

**ANNUAL REPORT AND ACCOUNTS 2009**

## COMPANY INFORMATION

### DIRECTORS

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

### COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER

Graham A. Potts

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### REGISTERED OFFICE

Palm Grove House  
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### NOMINATED ADVISER

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

### BROKER

Haywood Securities (UK) Ltd  
Ryder Court  
14 Ryder Street  
London, SW1Y 6QB

### AUDITORS

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

### REGISTRAR

Computershare Investor Services  
100 University Avenue  
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Canada

### STOCK EXCHANGES

AIM Market of the London Stock Exchange  
TSX Venture Exchange  
Frankfurt Stock Exchange

### TRADING SYMBOLS

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

## **Arian Silver Corporation – Management’s Discussion and Analysis**

*This Management’s Discussion and Analysis (“MD&A”) has been prepared based on information available to Arian Silver Corporation (“Arian” or the “Company”) as at 29 April 2010 and compares its 2009 financial results with the previous year. This MD&A should be read in conjunction with the Company’s audited Consolidated Financial Statements and the related notes. The audited Consolidated Financial Statements and the related notes have been prepared in accordance with International Financial Reporting Standards. All dollar amounts referred to in this discussion and analysis are expressed in United States dollars, unless specifically stated otherwise.*

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### **MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING AND CONTROLS**

The audited Consolidated Financial Statements of the Company for the financial year ended 31 December, 2009 and the comparative amounts for 2008 have been prepared by management of the Company (“Management”) in accordance with International Financial Reporting Standards (“IFRS”) and have been approved by the Company’s Board of Directors (the “Board”). The integrity and objectivity of these audited Consolidated Financial Statements are the responsibility of Management. In addition, Management is responsible for ensuring that the information contained in this MD&A is consistent, where appropriate, with the information contained in the audited Consolidated Financial Statements.

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

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

### **INTRODUCTION**

The following discussion is Management’s assessment and analysis of the results and financial condition of the Company and should be read in conjunction with the accompanying audited Consolidated Financial Statements for the financial year ended 31 December, 2009 which are also available on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company’s website at [www.ariansilver.com](http://www.ariansilver.com)

The Company is engaged in the acquisition and exploration of mineral resource properties in Mexico.

The Company’s common shares are listed for trading on the AIM Market of the London Stock Exchange, on the TSX Venture Exchange, and on the Frankfurt Stock Exchange.

## **Arian Silver Corporation – Management’s Discussion and Analysis**

### **OVERVIEW**

#### ***Financial***

During 2009 the Company continued to operate under tight cost controls in order to preserve cash resources whilst efforts continued to seek opportunities to raise new funding.

In March and April 2009 the Company completed two share exchange transactions with Grafton Resource Investments Ltd. (“Grafton”), pursuant to which the Company issued to Grafton a total of 109,090,909 common shares and Grafton issued to the Company a total of 128,591 participating shares (the “Grafton Shares”) (the “Share Exchange”). It was intended that the Grafton Shares would be sold to raise capital for the Company. However, the proposed sale of the Grafton Shares experienced significant delays and in December 2009 it was announced that Arian proposed to effect a reversal of the Share Exchange, which was completed in January 2010.

During 2009 the Company’s operations were largely funded by way of loans from Grafton totalling \$1,050,000. These loans were discharged in January 2010 by way of an issue of common shares of the Company and a cash repayment.

In March 2009 the Company renegotiated the terms of the option agreement in respect of the San José Project and, following an instalment payment of \$250,000, acquired a direct 66.67% ownership interest in the mineral concessions. In January 2010 the final instalment of \$500,000 was paid giving the Company 100% ownership of the mineral concessions.

In respect of the Tepal property the payment of an option instalment was renegotiated in June 2009 whereby \$450,000 of the \$500,000 instalment due that month was deferred to September 2009. In September 2009 the Company entered into an option transaction with Geologix Explorations Inc (“Geologix”) in respect of the Tepal property. As part of this transaction Geologix advanced to the Company \$517,500 to meet an option payment due on Tepal property. In Q1 of 2010 Geologix exercised its option right and made a first instalment payment to the Company of \$1.45 million which was settled in cash and Geologix shares. The Company subsequently repaid the \$517,500 advance to Geologix.

In January 2010 the Company completed a private placement of common shares and share purchase warrants which raised approximately Cdn\$3.5 million.

#### ***Operations***

In view of the limited available cash resources there was no material operational activity by the Company on its mineral properties during 2009.

In June 2009 a Preliminary Economic Assessment Report (“PEAR”) for the San José Project, undertaken by A.C.A. Howe International Limited (“ACA Howe”), was completed that confirmed the positive economics of a proposed initial contract mining and toll milling operation at the San José Project. Plans to bring the Project into production in Q4 of 2009 were necessarily deferred, due to lack of funding.

In April 2010 the Company released a further batch of drillhole assay results from the Phase-2 drill programme that was completed in 2008 at the San José Project (see the Company’s press release dated 21 April 2010 entitled “Arian Silver Reports on Progress at San José”).

The Company anticipates that the initial 500 tonnes per day (“tpd”) contract mining and toll milling operation at the San José Project will commence during Q2 of 2010 and that it will generate positive cash flows during the second half of 2010.

Arian’s past drill programmes along the San José Vein (“SJV”) have so far only delineated some 10% of the known strike length of the SJV and Arian’s management considers the upside for material additional resources along the SJV to be significant. A new drill programme will proceed

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in due course, largely financed by revenue generated from the planned contract mining operation at the San José Project. Its objective will be to further define areas of high-grade mineralization by infill drilling and to continue the exploration of the SJV along its extensive westerly strike direction.

### REVIEW OF FINANCIAL PERFORMANCE

In the financial year ended 31 December 2009, the Company incurred a pre-tax loss of \$2.1 million (2008 - \$3.7 million) which includes expensing the fair value of options vesting of \$0.4 million (2008 - \$0.5 million), and other administrative expenses, that were halved in 2009, of \$1.7 million (2008 - \$3.2 million). The Company does not yet generate any income from its operations. Interest income from cash resources was \$nil (2008 - \$31,000). During the year the Company continued to reduce costs in relation to its Mexican operations and corporate overheads where possible in order to preserve cash resources.

As at 31 December 2009 the Company had working capital of approximately \$4.0 million (31 December 2008 - \$1.1 million) which includes the Grafton Shares held as an available for sale asset valued at \$5.6 million (31 December, 2008 - \$nil). Cash balances amounted to approximately \$0.1 million (31 December 2008 - \$0.8 million) and short term loans totalled \$1.6 million (31 December 2008 - \$nil) consisting of the advances of \$1.1 million from Grafton and \$0.5 million from Geologix. Intangible assets amounted to \$7.7 million (31 December 2008 - \$6.0 million) which relate to deferred exploration and evaluation costs in respect of the Company’s Mexican projects.

Since year-end, the Grafton Shares were redeemed as part of the Share Exchange reversal executed in January 2010.

### SELECTED ANNUAL INFORMATION

	2009	2008	2007
	\$'000	\$'000	\$'000
Total Revenues	-	31	62
Net loss before exceptional items	2,068	3,720	4,955
Basic and diluted loss per share	\$(0.01)	\$(0.03)	\$(0.05)
Net loss for the period	1,872	3,689	4,893
Basic and diluted loss per share	\$(0.01)	\$(0.03)	\$(0.05)
Total assets	13,876	7,551	8,436
Shareholders’ equity	11,743	7,296	8,100
Cash dividend declared per share	-	-	-

Total revenues relate to bank deposit interest. Over the last three years this amount has varied in line with the cash balances held by the Company and deposit interest rates.

The net loss before exceptional items decreased from \$5.0 million to \$3.7 million from 2007 to 2008 mainly due to a significant reduction in most areas of administrative expenses, particularly in the second half of 2008. The net loss before exceptional items decreased from \$3.7 million in 2008 to \$2.1 million in 2009 mainly due to the full affect of overhead reductions implemented in the second half of 2008 as well as further reduction achieved in 2009 in most areas of administrative expenses.

The growth in total assets over the past three years, after adjusting for foreign exchange, is mainly due to investment in the exploration projects in Mexico funded by equity issues by the Company and loans and, for 2009, the holding of the Grafton Shares arising from the Share Exchange. Total assets reduced by \$0.8 million from \$8.4 million in 2007 to \$7.6 million in 2008.

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This was mainly due to a reduction in cash of \$2.4 million, offset by investment in exploration projects of \$2.5 million and a foreign exchange adjustment of \$1.0 million on total assets. Total assets increased by \$6.3 million, from \$7.6 million in 2008 to \$13.9 million in 2009, of which \$5.6million relates to the Grafton Shares, which are classified as an available for sale asset and \$1.7 million relates to further investment in exploration projects in Mexico. These increases were offset by a \$0.7 million reduction in cash and a \$0.3 million reduction in receivables relating to the reimbursement of IVA (sales tax) by the Mexican authorities.

Shareholders’ equity decreased by \$0.8 million, from \$8.1 million in 2007 to \$7.3 million in 2008. This decrease reflects a \$3.4 million increase in share capital and a \$0.5 million increase in the share based payment reserve, relating to the issue of stock options, offset by a charge of \$1.0 million to foreign exchange reserve and a \$3.7 million loss for year. Shareholder’s equity increased by \$4.4 million, from \$7.3 million in 2008 to \$11.7million in 2009. This increase comprises a \$4.9 million increase in share capital, relating to the Share Exchange, a \$0.4 million increase in the share based payment reserve, in respect of stock options, and increases of \$0.5 million to the foreign exchange reserve and of \$0.5 million to the available for sale reserve. These increases were offset by a \$1.9 million loss for the year.

### REVIEW OF OPERATIONS

The Company currently owns, or has rights or options to purchase, 33 mineral concessions in Mexico totalling 7,847.8 hectares (“Ha”) as set out in the Property Summary below. The Property Summary excludes the six mineral concessions, totalling 13,843.2 Ha, relating to the Tepal project as they are now under option to Geologix.

#### Property Summary

<b>Project Name</b>	<b>No. Concessions</b>	<b>Size (Ha)</b>
San José	11	6,279.5
Calicanto	7	75.5
Others	15	1,492.8

During the period under review exploration operations in respect of the Company’s projects in Mexico were largely deferred in order to preserve the Company’s cash resources pending receipt of new funding.

#### **Qualified Person**

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

#### **San José Project, Zacatecas State**

Following the renegotiation of the original option agreement in March 2009 with the vendor and a \$250,000 instalment payment, Arian acquired a direct 66.67% controlling interest in the San José Project mineral concessions. In January 2010 Arian paid the final instalment of \$500,000 to increase its ownership interest in the San José Project mineral concessions to 100%, subject only to completion of certain legal and registration formalities in Mexico. The concessions are subject to a 2% net smelter return (“NSR”) payable to the vendor.

The San José property lies 55 kilometres to the South-East of Zacatecas and covers 11 mining concessions totalling approximately 6,300Ha. The property has significant infrastructure, including a 4 x 4 metre ramp, which extends for nearly 3km along the footwall of the SJV system, and a 350m deep, 500 tonne per day, vertical shaft with hoist.

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In June 2009 the PEAR for the San José Project, undertaken by ACA Howe, was completed (see the Company’s press release dated 23 June 2009 entitled “Arian Silver Releases Independent Preliminary Economic Assessment Report”). The PEAR reviewed the economics of entering into contract mining and toll milling on three silver blocks with lead and zinc credits over a four-year life of mine and concluded that Arian’s proposed mining plan was achievable and realistic. The limiting of the PEAR to just three mining blocks over a four-year mine life was stipulated by the Company with the intention to develop the property concurrently and complete a full feasibility study to move into full scale independent commercial production.

A copy of the PEAR dated 22 June, 2009 and entitled “Preliminary Economic Assessment Report (PEAR) on the San José Silver-Lead-Zinc Deposit, Zacatecas, Mexico” is available on the Company’s website [www.ariansilver.com](http://www.ariansilver.com) or on SEDAR at [www.sedar.com](http://www.sedar.com)

Due to the delay in obtaining new funding, the original Q4 of 2009 target for bringing the San José Project into initial contract mining and milling production, was deferred. The private placement equity financing that was completed in January 2010 raised approximately Cdn\$3.5 million for funding San José as well as the Company’s overheads.

The Company anticipates the initial 500 tpd contract mining and toll milling operation to commence during Q2 of 2010 and will generate positive cash flows during the second half of 2010. Terms for the mining contract have been agreed to with the local Mexican contractor. Final bulk metallurgical testwork is in progress with the proposed custom mill operator. The preliminary stage of the metallurgical programme entailed the collection of 304 samples weighing a total of 69 kilograms (kg). The test results have been positive returning average head-grade assays of 276 g/t Ag, 1.13% Pb and 2% Zn. Completion of the remaining metallurgical testwork is expected during early May when it is anticipated that the milling contract negotiations will be finalised. In preparation for production at the San José mine site a new access road has been completed and mine buildings have been refurbished to accommodate additional offices and to house the mining personnel.

In April 2010 a further batch of Phase-2 drillhole assays were reported, including:

- 2.35m @ 834 g/t Ag, 0.36% Pb and 0.67% Zn
- 3.05m @ 602 g/t Ag, 0.17% Pb and 0.54% Zn
- 2.00m @ 822 g/t Ag, 0.76% Pb and 0.91% Zn
- 1.95m @ 379 g/t Ag, 0.08% Pb and 0.32% Zn

These latest results comprised 13 drillhole intercepts from the Phase-2 drill programme along the SJV, which complement the initial 19 Phase-2 drillhole intercepts reported previously (see the Company’s press release dated 21 April 2010 entitled “Arian Silver Reports on Progress at San José”).

The Phase-2 drill programme, which was completed during Q3 of 2008, drilled approximately 6,600 metres (m) in 38 holes. This programme was designed to explore for the continuation of known silver-bearing mineralization identified from Arian’s previous exploration programmes and to test for new areas of mineralization. Several holes were drilled within and beyond the previously reported Phase-1 and Phase-2 holes.

Arian’s past drill programmes along the SJV have, so far, only delineated some 10% of the known strike length of the SJV, outlining a current total estimated NI 43-101 resource set out below. Arian’s management considers the upside for material additional resources along the remaining 90% SJV strike length to be significant.

It is planned to commence a new drill programme in due course, largely financed by revenue generated from the proposed contract mining operation, with the objective to further define areas of high-grade mineralization by infill drilling and to continue the exploration of the SJV along its extensive westerly strike direction.

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The current NI 43-101 Resources at San José are as follows:

Resource Category	Tonnes	Grade			Contained Metal		
		Ag	Pb	Zn	Ag	Pb	Zn
		g/t	%	%	(Moz)	(t)	(t)
Indicated	2,196,000	127.7	0.51	0.88	9.02	11,200	19,200
Inferred	11,190,000	93.8	0.39	0.83	33.76	43,400	93,200

1. Geological characteristics and +30 ppm grade envelopes used to define resource volumes
2. The mineral resource estimates are in accordance with CIM and JORC standards
3. The effective date of the mineral resource estimates is 15 August, 2008
4. The estimates are based on geostatistical data assessment and computerised IDW<sup>3</sup>, Ag grade wireframe restricted, linear block modelling.

The “Qualified Person” as such term is defined in NI 43-101 who prepared the above mineral resource estimates is Mr. Galen R White. Mr White was at the time these estimates were prepared an employee of ACA Howe.

Additional information in respect of the San José Project is contained in a technical report (the “Technical Report”) prepared by ACA Howe dated 15 August, 2008 and entitled “Resource Estimation Update for the San José Silver-Lead-Zinc Deposit, Zacatecas, Mexico”. A copy of this report is available on the Company’s website [www.ariansilver.com](http://www.ariansilver.com) or on SEDAR at [www.sedar.com](http://www.sedar.com)

The following schedule shows project expenditure during the past two years:

	Year ended 31 December	
	2009 \$’000	2008 \$’000
<b>San José</b>		
Mining & option rights	275	470
Drilling & exploration	2	982
Geology – logging & sampling	21	156
Administration	80	252
<b>Total</b>	<b>378</b>	<b>1,860</b>

The above expenditure has been capitalised as an intangible asset.

### Calicanto Project, Zacatecas State

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

During 2009 there was no material operational activity in relation to this project.

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The following schedule shows project expenditure during the past two years:

	year ended	
	31 December	
<b>Calicanto Group: Zacatecas</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Mining & option rights	1	211
Drilling & exploration	1	17
Geology – logging & sampling	3	8
Administration	11	13
<b>Total</b>	<b>16</b>	<b>249</b>

The above expenditure has been capitalised as an intangible asset.

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

### **Tepal Project, Michoacán State**

The Tepal Project is a polymetallic porphyry project in Michoacán State, Mexico. The Tepal landholding is approximately 14,000Ha covering six exploitation concessions that contain Au-Cu porphyry style mineralisation that have been explored in the past by Inco, Teck and Hecla. Initial investigations by Arian indicated that the Tepal Project consists of four gossanous polymetallic mineral deposits containing copper, gold and silver with potential for additional areas of mineralisation.

Due to cash constraints, in June 2009 the Company renegotiated the terms of an option instalment payable under the property option agreement with the vendor, Minera Tepal, (the “Underlying Option Agreement”) in order to avoid a default and forfeiture of its interest in the Tepal property. Agreement was reached whereby \$450,000 of the \$500,000 option instalment due that month was deferred to September 2009. The balance of \$50,000 was paid in July 2009.

In September 2009, the Company entered into an agreement with Geologix whereby Geologix was granted an exclusive right to purchase Arian’s 100% option interest in the Tepal property. Pursuant to the terms of the agreement, Geologix advanced to Arian the sum of US\$517,500 (the “Geologix Loan”) which was used by Arian to complete the deferred outstanding property option payment due to the vendor (\$450,000 plus the applicable IVA of \$67,500) and thus preserve its interest in the Tepal property. The Geologix Loan was made as an unsecured, interest free loan that would become due for repayment on 23 April, 2010 unless Geologix elected to exercise its right to acquire the Tepal property.

In consideration for the Geologix Loan, Arian granted Geologix a five month exclusivity period to enable Geologix to undertake due diligence of the Tepal property. In the event that Geologix exercised its right, the property would be acquired from Arian on an option basis for a total consideration of \$3 million, payable in two instalments:

- an initial payment of \$1.0 million, plus forgiveness of the property option payment of \$450,000, for a total of \$1.45 million on or before 23 February, 2010 (the “Tepal Initial Instalment”); and
- a payment of \$1.55 million on or before 23 February, 2011(the “Tepal Final Instalment”).

At Geologix’s election, each such instalment may be made in cash, or up to 50% in Geologix’s shares valued at the 10-day average closing price immediately prior to the time of each payment.

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In the event that Geologix decided not to elect to acquire the property, the agreement contained provisions covering the repayment of the Geologix Loan or, in the event that it could not be repaid in cash by Arian, its conversion into a joint venture interest in the Tepal property or a share interest in Arian.

In January 2010 Geologix exercised its right to acquire the Tepal property and entered into a definitive option agreement (the “Option Agreement”) with Arian. Pursuant to the terms of the Option Agreement Geologix is responsible for the balance of Arian’s obligations under the terms of the Underlying Option Agreement and, amongst other things, will be responsible for completing the remaining option payments totalling \$3.2 million to the vendor of the property through to June 2011. Geologix may at any time terminate the option prior to the expiry date of 23 February 2011 by giving notice to Arian in which event it shall only be liable to pay the amounts due up to the date of termination. In the event of such termination, Geologix shall be responsible for returning the Tepal property to Arian in good standing.

In Q1 of 2010 Geologix settled the Tepal Initial Instalment by way of cash and Geologix shares and Arian repaid the Geologix Loan (see **Liquidity, Capital Resources and Going Concern**).

During 2009 there was no material operational activity by the Company in relation to this project.

The following schedule shows project expenditure during the past two years:

	Year ended 31 December	
	2009 \$’000	2008 \$’000
<b>Tepal</b>		
Mining & option rights	512	519
Drilling & exploration	-	467
Geology – logging & sampling	9	207
Administration	2	74
Total	523	1,267

The above expenditure has been capitalised as an intangible asset.

### Exploration and development commitments

The Company does not have any exploration and development expenditure commitments in respect of its projects.

### RESULTS OF OPERATIONS

The Company has not generated any operating revenues and losses have continued to be incurred throughout the period.

### **Financial year ended 31 December, 2009 compared to financial year ended 31 December, 2008**

The pre-tax loss for the year was \$2.1 million (2008 - \$3.7 million). This loss includes the expensing of the fair value of share options vesting of \$0.4 million (2008 - \$0.5 million) and other administrative expenses of \$1.7 million (2008 - \$3.2 million). Expenditure in the year has significantly reduced compared to last year. Reductions have been achieved in almost all areas of administrative expense, including salaries and associated overheads, travel and entertainment, investor relations, consultancy fees and advertising.

## Arian Silver Corporation – Management’s Discussion and Analysis

### SUMMARY OF QUARTERLY RESULTS

Unaudited	2009	2009	2009	2009
	4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter
	\$'000	\$'000	\$'000	\$'000
Total Revenues	-	-	-	-
Net loss before exceptional items	552	588	446	482
Basic and diluted loss per share	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.00)
Net loss for the period	356	588	439	481
Basic and diluted loss per share	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.00)
Total assets	13,876	14,042	12,993	8,198
Shareholders' equity	11,743	11,643	12,045	7,631
Cash dividend declared per share	-	-	-	-
Unaudited	2008	2008	2008	2008
	4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter
	\$'000	\$'000	\$'000	\$'000
Total Revenues	11	-	2	18
Net loss before exceptional items	399	1,757	643	921
Basic and diluted loss per share	\$(0.00)	\$(0.01)	\$(0.01)	\$(0.01)
Net loss for the period	388	1,757	641	903
Basic and diluted loss per share	\$(0.02)	\$(0.01)	\$(0.01)	\$(0.01)
Total assets	7,751	8,829	9,750	7,615
Shareholders' equity	7,296	8,192	9,567	7,249
Cash dividend declared per share	-	-	-	-

#### **Fourth quarter 2009 vs. third quarter 2009**

The net loss in the period was \$0.2 million lower than the previous quarter largely due to a tax adjustment relating to the available for sale asset. Cash decreased by \$0.7 million to \$0.1 million mainly due to the Tepal property payment of \$0.5 million. Intangible assets increased by \$0.4 million, of which \$0.3 million related to exchange rate fluctuations. The decrease in shareholders' equity is largely attributable to the loss incurred in the period.

#### **Third quarter 2009 vs. second quarter 2009**

The net loss in the period was \$0.2 million higher than the previous quarter largely due to \$0.3 million expensing of the fair value of options offset by \$0.1 million writeback of the fair value of lapsed options in the period. Cash increased by \$0.6 million to \$0.8 million mainly due to the Geologix Loan of \$0.5 million. Intangible assets increased by \$0.4 million mainly due to an accrual made for the Tepal property option payment of \$0.5 million. The decrease in shareholders' equity is largely attributable to the loss incurred in the period.

#### **Second quarter 2009 vs. first quarter 2009**

The net loss in the period was \$0.1 million lower than the previous quarter largely due to a reduction in legal fees which in the first quarter were higher due to the Grafton share exchange transaction. Cash remained at \$0.2 million. Intangible assets increased by \$0.7 million, with \$0.5 million of this increase a result of exchange rate fluctuations. The increase in shareholders' equity is largely attributable to the increased share capital as a result of completion of the second part of the share exchange transaction with Grafton that took place in the period.

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### ***First quarter 2009 vs. fourth quarter 2008***

Revenues were from bank deposit interest. The net loss in the period was \$0.1 million higher than for the previous quarter due to increased legal fees in respect of the Grafton transaction. Cash decreased by \$0.6 million to \$0.2 million and intangible assets increased by \$0.2 million mainly due to a property payment made on the San José property. The increase in shareholders’ equity is largely attributable to the increased share capital as a result of the share exchange transaction with Grafton that took place in the period.

### ***Fourth quarter 2008 vs. third quarter 2008***

Revenues were from bank deposit interest. The net loss in the period was \$1.4 million lower than for the previous quarter due to a reversal of a \$0.6 million foreign exchange charge and a \$0.2 million reduction in expenditure due to a reduction in corporate overheads. Cash increased by £0.6 million to £0.8 million and intangible assets decreased by \$1.4 million. This reduction is due to \$1.6 million foreign exchange adjustment and a change of \$0.1 million in respect of exploration expenses, offset by \$0.3 million incurred in respect of exploration work undertaken in Mexico. The decrease in shareholders’ equity is largely attributable to the loss incurred for the period.

### ***Third quarter 2008 vs. second quarter 2008***

Revenues were from bank deposit interest. The net loss in the period was \$1.1 million higher than for the previous quarter. This was largely due to a \$0.9 million foreign exchange difference (Q3 foreign exchange charge of \$0.6 million compared to a foreign exchange credit of \$0.3 million in Q2) and \$0.2 million for expensing the fair value of share options vesting (Q3 expense of \$0.3 million compared to an expense of \$0.1 million in Q2). Cash decreased by £0.7 million to £0.2 million and intangible assets increased by \$0.3 million in respect of exploration work undertaken in Mexico. The decrease in shareholders’ equity is largely attributable to the loss incurred for the period.

### ***Second quarter 2008 vs. first quarter 2008***

Revenues were from bank deposit interest. The net loss in the period was lower than for the previous quarter largely due to a reduction in the corporate overheads. Cash increased by \$50k to \$900k as a result of the Cdn\$3 million share placement that was completed in the second quarter. Intangible assets increased by \$1.8m due to continued expenditure on exploration work undertaken in Mexico which expenditure included approximately \$1.1m in property option payments. The increase in shareholders’ equity is largely attributable to the increased share capital as a result of the share placement referred to above.

## **LIQUIDITY, CAPITAL RESOURCES AND GOING CONCERN**

In management’s view, the most meaningful information concerning the Company relates to its current liquidity and solvency since it is not currently generating any income from its mineral projects.

During 2009, the Company made the following share and warrant issues:

- In relation to the Share Exchange (i) in February, 2009 the Company issued 26,097,230 common shares to Grafton at Cdn\$0.055 per share (equating to approximately Cdn\$1,435,347) in exchange for the issue to the Company of 26,322 participating shares of Grafton (equating to approximately Cdn\$1,435,347 determined by reference to the net asset value per Grafton participating share of \$43.98 as at the close of business on 30 January, 2009) and (ii) in April, 2009 the Company issued a further 82,993,679 common shares to Grafton at Cdn\$0.055 per share (equating to approximately Cdn\$4,564,653) in exchange for the issue to the Company of 102,269 participating shares of Grafton (equating to approximately Cdn\$4,564,653 determined by reference to the net asset value per Grafton participating share of \$36.93 as at the close of business on 31 March, 2009). As a result of the Share Exchange, Grafton held an aggregate of 109,090,909 common shares of Arian (the “Arian Shares”) and the Company held an aggregate of

## Arian Silver Corporation – Management’s Discussion and Analysis

128,591 participating shares of Grafton (the “Grafton Shares”). It was intended that Grafton and its associates would place the Grafton Shares for cash on behalf of the Company to provide new funding for the Company. However, the disposal of the Grafton Shares experienced delays and was reversed as discussed below.

- In April, 2009 warrant holders approved proposals to vary the exercise prices and expiry dates of the 2,727,250 common share purchase warrants that were exercisable up to 1 August, 2009 at Cdn\$0.65 per share (the “B Warrants”) and the 6,046,000 share purchase warrants exercisable up to 29 November, 2009 at Cdn\$0.35 (the “C Warrants”) (the “Warrants Variation”). As a result of the Warrants Variation the Company issued 4,386,625 share purchase warrants exercisable up to 23 July, 2009 at Cdn\$0.07 (the “D Warrants”) and 4,386,625 share purchase warrants exercisable up to 31 December, 2009 at Cdn\$0.10 (the “E Warrants”) in place of the B Warrants and the C Warrants which were cancelled. No D Warrants or E Warrants were exercised prior to the respective expiry dates.

In view of the delay in the disposal of the Grafton Shares, Grafton made several advances to the Company during 2009 totalling \$1,050,000 (the “Grafton Loans”), to fund a property payment of \$250,000 in March 2009 in respect of the San José Project and the Company’s operating overheads (see *Transactions with Related Parties – Transactions with Grafton* for the terms of these loans).

As at 31 December, 2009 the Company’s Mexican subsidiary had recoverable IVA (sales tax) on past exploration expenditure and property payments in Mexico which amounted to approximately \$317,000. IVA is generally repaid in instalments by the Mexican tax authorities but there is no precise timing as to future repayments of this IVA receivable. However, during Q1 of 2010 a receipt of \$116,000 of IVA from Geologix in respect of the Tepal Initial Instalment has been retained and offset to reduce the balance of the IVA receivable as permitted by Mexican IVA regulations.

In December 2009, the Company announced that it was proposed to reverse the Share Exchange by way of share redemptions (the “Share Redemptions”). Pursuant to the Share Redemptions, Arian would redeem the Arian Shares at the original issue price of Cdn\$0.055 per Arian share and Grafton would redeem the Grafton Shares at the approximate original average issue price of \$38 per Grafton share. In addition, Arian would issue to Grafton 15,762,000 common shares at Cdn\$0.05 per Arian share in settlement of \$750,000 of the Grafton Loans (the “Shares for Debt”).

In January 2010, Arian completed the Share Redemptions and Shares for Debt transactions as a result of which the number of issued and outstanding common shares of the Company was reduced by 93,328,909 common shares to 164,813,969 common shares.

Also, in January 2010, immediately following completion of the Share Redemptions and Shares for Debt transactions, Arian completed a private placement financing (the “Placement”). The Placement raised Cdn\$3,499,857 and comprised 69,997,139 units of the Company (each, a “Unit”) at Cdn\$0.05 per Unit. In addition 600,000 Units were issued in satisfaction of Cdn\$30,000 of finder’s fees payable in connection with the Placement. Each Unit consisted of one common share of the Company and one-half of a common share purchase warrant.

As a result of the Placement the number of issued and outstanding common shares of the Company was increased by 70,597,139 common shares to 235,411,108 common shares. In addition, 35,298,569 “F” share purchase warrants were issued.

Following completion of the Placement, Arian repaid \$300,000 to Grafton, representing the balance outstanding on the Grafton Loans.

## **Arian Silver Corporation – Management’s Discussion and Analysis**

In Q1 of 2010 Geologix paid the Tepal Initial Instalment of \$1.45 million, pursuant to the terms of the Option Agreement. Settlement was effected by way of a cash payment of \$725,000 and the balance of \$725,000 through the issue of 3,434,193 Geologix shares (the “Geologix Shares”) at a price of Cdn\$0.22 per share. Arian subsequently repaid the Geologix Loan. Geologix can complete the purchase of 100% of the Tepal property by delivering to Arian the Tepal Final Instalment before 23 February, 2011. At Geologix’s election, up to 50% of this payment may be satisfied by the issuance of Geologix shares, subject to Toronto Stock Exchange approval, valued at the 10-day average closing price immediately prior to the time of payment (see **Review of Operations – Tepal Project, Michoacán State**). Geologix is listed on the Toronto Stock Exchange. The Geologix Shares are subject to a four months hold period expiring in July 2010.

In relation to the San José Project, subject to satisfactory completion of contract negotiations and the metallurgical testwork programme, it is currently anticipated that the proposed contract mining and toll milling operation will commence in Q2 of 2010 with positive cash flow commencing during the second half of 2010 (see **Review of Operations – San José Project, Zacatecas State**).

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

- 35,298,569 “F” share purchase warrants at an exercise price of Cdn\$0.10 per common share expiring 22 January 2011.
- 15,175,000 share purchase options with exercise prices of between Cdn\$0.10 and Cdn\$0.60 (with Pounds Sterling equivalents) and expiry dates of between June 2010 and July 2014.

The Company will require additional funding in the future in order to progress exploration programmes on its mineral projects, for project development and for general working capital requirements. Potential sources of funds available to the Company are from cash flow from the proposed initial contract mining operation at the San José Project, proceeds from disposal of the Geologix Shares, through the issue of equity capital, the exercise of outstanding share purchase warrants and options, the sale of its interests in one or more of its projects, by way of project joint ventures or business combinations. In addition, the Tepal Final Instalment is payable on full exercise of the Tepal option.

Although there are a number of potential future sources of funds available to the Company there can be no assurance that funding required by the Company will be generated from its operations or otherwise made available to it when needed. See **Risks and Uncertainties – Requirement of Additional Financing** for details of additional risks associated with future funding of the Company.

Based on current assumptions the directors of the Company currently believe it appropriate to prepare the Company’s financial statements on a going concern basis. However, if current expectations are not fulfilled the Company may not be able to meet its currently projected working capital and project expenditure requirements without additional finance. If these circumstances arose and other sources of finance were not made available to the Company as needed then there would be significant doubt on the Company’s ability to continue as a going concern and the carrying value of the Group’s exploration projects would be impaired.

### **Working Capital – twelve months ended 31 December, 2009**

As at 31 December, 2009, the Company had working capital of approximately \$4.0 million (31 December, 2008 – \$1.1 million). The increase in working capital during the period is mainly due to the Grafton Shares which are held as an available for sale asset valued at \$5.6 million (31 December, 2008 - \$nil) and classified as a current asset.

## **Arian Silver Corporation – Management’s Discussion and Analysis**

Cash balances amounted to approximately \$0.1 million (31 December, 2008 - \$0.8 million) and receivables were \$0.3 million (31 December, 2008 – \$0.6 million). Receivables largely relates to recoverable IVA (sales tax) on past exploration expenditure in Mexico. Payables were \$0.5 million (31 December, 2008 – \$0.3 million) and short term loans totalled \$1.6 million (31 December, 2008 - \$nil) which comprised the Grafton Loans and Geologix Loan.

### ***Off-balance sheet arrangements***

The Company has no off-balance sheet arrangements.

### **TRANSACTIONS WITH RELATED PARTIES**

During the financial year ended 31 December, 2009 the Company entered into the following transactions involving related parties:

#### ***Transactions with key management personnel***

(a) Companies in the Dragon Group charged the Company a total of \$158,746 (2008 – \$449,147). This includes reimbursement of \$123,712 (2008 – \$105,873) in respect of Tony Williams’ remuneration paid on behalf of the Company with the balance relating to the provision of support services, office accommodation and other reimbursable expenses incurred on behalf of the Company. Tony Williams, Chairman and a director of the Company, beneficially owns the Dragon Group. At 31 December, 2009 \$44,736 (2007 - \$30,746) was outstanding.

(b) Kopane Diamond Developments PLC (“KDD”) charged the Company a total of \$91,214 (2008 – \$18,374). This includes reimbursement of \$33,688 (2008 – \$30,752) in respect of James Cable’s remuneration paid on behalf of the Company with the balance relating to the provision of office accommodation and reimbursable expenses incurred on behalf of the Company. The Company charged KDD \$34,640 (2008 – \$24,523) for the provision of accounting support services. James Cable and Tony Williams are Directors of the Company. James Cable is a Director of KDD and Tony Williams is a former Director of KDD. At 31 December, 2009 \$40,879 (2008 - \$nil) was outstanding due to KDD and \$nil (2008 - \$10,111) was outstanding due from KDD.

#### ***Transactions with subsidiaries***

The Company made loans to Arian Silver de Mexico S.A. de C.V. (“Arian Mexico”) of \$393,447 (2008 – \$2,813,992) and paid charges on behalf of Arian Mexico of \$nil (2008 – \$138,821). A management fee was also charged to Arian Mexico of \$8,233 (2008 – \$7,240).

#### ***Transactions with Grafton***

As at 31 December, 2009 Grafton was a 42.2% shareholder of the Company having acquired, during 2009, the Arian Shares pursuant to the Share Exchange.

During 2009 Grafton made several advances to the Company totalling \$1,050,000 (2008 - \$nil) to fund the Company’s operating overheads pending disposal of the Grafton Shares. These advances were unsecured and interest free. Whilst it was intended that the advances would be repaid from the proceeds from disposal of the Grafton Shares, \$500,000 had a repayment date of 31 December 2009 and \$250,000 had a repayment date of 31 March, 2010. Repayment of the balance of \$300,000 is related to the sale of the Grafton Shares.

All transactions have been recorded at the exchange amount which is the consideration established and agreed to between the related parties.

## **Arian Silver Corporation – Management’s Discussion and Analysis**

### **FOURTH QUARTER**

During the fourth quarter there was no material exploration activity on the Company's projects.

In October 2009 the Company received a further advance of \$150,000 from Grafton bringing the total advances to \$1,050,000 (see *Transactions with Related Parties – Transactions with Grafton*).

In December 2009 the Company announced the Share Redemptions, Shares for Debt and Placement transactions (see *Liquidity, Capital Resources and Going Concern*).

Also in the fourth quarter the Company negotiated the deferment of the final \$500,000 instalment due in respect of the San José property from December 2009 to January 2010.

### **PROPOSED TRANSACTIONS**

See *Liquidity, Capital Resources and Going Concern* for details of proposed transactions.

### **CRITICAL ACCOUNTING ESTIMATES**

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

#### ***Resource Properties, Deferred Exploration and Development Costs***

All costs related to the exploration of mineral properties are capitalised until either the properties are brought into production, at which time they are depleted on a unit of production basis, or until the properties are sold, or title rights allowed to lapse, or are abandoned or determined not to be commercially viable, at which time they are charged to the income statement.

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

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

#### ***Share based payments***

The share option programme allows 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 the 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.

## **Arian Silver Corporation – Management’s Discussion and Analysis**

### **RISKS AND UNCERTAINTIES**

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

#### ***Agreements in relation to certain mining concessions***

There is no certainty that Geologix will elect to continue to make the instalment payments due in respect of the agreement relating to the Tepal property. The sums paid and due to be paid under such agreement are not repayable and if any option payment due in respect of Tepal is not paid by Geologix or the Company when due then the Company will forfeit all rights to the property.

In addition, in relation to concessions over which the Company has an option, the current concession holder may not be able to, or may voluntarily decide not to, comply, or may not have complied in all respects, with the concession requirements for some or all of its concessions. If the current concession holder fails to fulfil the specific terms of any of its concessions or operates in the concession areas in a manner that violates Mexican law, regulators may impose fines, suspend or revoke the concessions, any of which could have a material adverse effect on the Company's operations and proposed operations.

#### ***Nature of Mineral Exploration and Mining***

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

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

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

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

## **Arian Silver Corporation – Management’s Discussion and Analysis**

### ***Requirement of Additional Financing***

The exploration and development of the Company's concessions, including continuing exploration projects, and the construction of mining facilities and commencement of mining operations, will require substantial additional financing. Additional financing will also be required for working capital, to pay instalments to acquire mineral property interests under agreements held by the Company at the date of this document and any such agreements which are subsequently entered into by the Company. The Company does not currently have sufficient funds to explore its concessions and to maintain its interest in all its projects. No assurance can be given that the Company will be able to raise the additional financing necessary to explore its concessions, or exercise its options (current or future). Failure to obtain sufficient financing for any projects will result in a delay or indefinite postponement of exploration, development or production on properties covered by the Company's concessions or even the loss of a concession. The only source of funds currently available to the Company is through the issue of equity capital, the sale of concessions or other assets, royalty interests or the entering into of joint ventures. In addition, the Company's ability to obtain further financing will depend in part on the price of silver and the industry's perception of its future price and other factors outside the Company's control. Additional financing may not be available when needed, or if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to shareholders. In the absence of adequate funding the Company may not be able to continue as a going concern in which event the carrying value of the Company's exploration projects would be impaired.

### ***Limited Operating History***

The Company has no concessions producing revenue and its ultimate success will depend on its ability to generate cash flow from concessions in the future. The Company has not earned profits to date and there is no assurance that it will do so in the future. A major portion of the Company's activities will be directed to the search for and the development of new silver deposits. Significant capital investment will be required for exploration at the concessions and to achieve commercial production from the Company's existing projects and from successful exploration efforts. There is no assurance that the Company will be able to raise the required funds to continue these activities.

### ***No Reserves***

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

### ***Reliance on Sub-Contractors in Mexico***

The Company will rely on sub-contractors to implement the Company's exploration and development programs. The failure of a sub-contractor to perform properly its services to the Company could delay or inconvenience the Company's operations, and have a materially adverse effect on the Company.

### ***Key Personnel***

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

### ***Environmental Factors***

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

## **Arian Silver Corporation – Management’s Discussion and Analysis**

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

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

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

### ***Political Risk***

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

### ***Payment Obligations***

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

### ***Regulatory Approvals***

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

### ***Competition***

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

### ***Conflicts of Interest***

Certain directors and officers of the Company also serve as directors and/or officers of other companies involved in mineral exploration and development and consequently there is the potential

## **Arian Silver Corporation – Management’s Discussion and Analysis**

for conflicts of interest. The Company expects that any such director or officer shall disclose such interest in accordance with its articles of association or his contractual obligations to the Company and any decision made by any of such directors and officers involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company and its shareholders.

### ***Forward Looking Statements***

This MD&A contains certain "forward-looking statements". All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, funding from the disposal of assets or from other sources, the mineral resource estimates contained in this MD&A, statements regarding exploration results, potential mineralisation, potential mineral resources, future production and the Company's exploration and development plans and objectives) are forward-looking statements. These forward-looking statements reflect the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking statements are subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements, and even if such actual results are realised or substantially realised, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, failure to establish estimated mineral reserves, the possibility that future exploration results will not be consistent with the Company's expectations, uncertainties relating to the availability and costs of financing needed in the future, changes in commodity prices, changes in equity markets, political developments in Mexico, changes to regulations affecting the Company's activities, delays in obtaining or failures to obtain required regulatory approvals, the uncertainties involved in interpreting exploration results and other geological data, and the other risks involved in the mineral exploration and development industry. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements due to the inherent uncertainty therein.

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

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

## **OTHER INFORMATION**

### ***Additional Information***

Additional information relating to the Company may be accessed through SEDAR on the internet at [www.sedar.com](http://www.sedar.com) or the Company's website on [www.ariansilver.com](http://www.ariansilver.com).

## Arian Silver Corporation – Management’s Discussion and Analysis

### *Disclosure of Outstanding Share Data*

The following table sets forth information concerning the outstanding securities of the Company as at 27 April, 2010:

	<b>Number in issue</b>
Common shares of no par value	235,961,108
Share options	15,175,000
Share purchase warrants	35,298,569

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

**Audited Consolidated Financial Statements  
Year ended 31 December, 2009**

**Statement of directors' responsibilities**

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

## **Arian Silver Corporation – Audited Consolidated Financial Statements**

### **Independent Auditors' Report to the Members of Arian Silver Corporation**

We have audited the group financial statements ('the financial statements') of Arian Silver Corporation for the year ended 31 December, 2009 which comprise the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes. The financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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 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 also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

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 in the United Kingdom. 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 and Company'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, 2009 and of its loss for the year then ended.

#### **Emphasis of matter — going concern and adequacy of project finance**

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 and progress its exploration projects. Further funding will be required in the next 12 months for project development and working capital purposes and the directors believe that this will be forthcoming from cash flows from the initial San Jose mining operations and other possible sources of funds described in note 2(a). However, the funds raised from these sources may not be sufficient to meet projected working capital and project

## **Arian Silver Corporation – Audited Consolidated Financial Statements**

expenditure requirements. 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 and in particular the amounts shown as intangible assets may not be fully recoverable.

### **PKF (UK) LLP**

London, UK  
29 April, 2010

## **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, 2009 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, 2009 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  
29 April, 2010

## Arian Silver Corporation – Audited Consolidated Financial Statements

### Consolidated statement of financial position

(Expressed in United States dollars)

As at 31 December, 2009

	<i>Note</i>	<b>2009</b> \$'000	<b>2008</b> \$'000
<b>Assets</b>			
Property, plant and equipment	9	86	135
Intangible assets	10	7,703	6,038
<b>Total non-current assets</b>		7,789	6,173
Trade and other receivables	13	349	625
Cash and cash equivalents	14, 21	101	753
Investments - available for sale assets	12	5,637	-
<b>Total current assets</b>		6,087	1,378
<b>Total assets</b>		13,876	7,551
<b>Equity</b>			
Share capital	15	38,238	33,303
Share-based payment reserve	15, 18	1,648	2,184
Foreign exchange translation reserve	15	(1,444)	(1,973)
Available for sale reserve	15	504	-
Retained loss	15	(27,203)	(26,218)
<b>Total equity</b>		11,743	7,296
Current borrowings	19	1,612	-
Trade and other payables	20	521	255
<b>Total current liabilities</b>		2,133	255
<b>Total liabilities</b>		2,133	255
<b>Total equity and liabilities</b>		13,876	7,551

*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 29 April 2010 and were signed on its behalf by:*

“J T Williams”  
J T Williams  
Chief Executive Officer

“G A Potts”  
G A Potts  
Chief Financial Officer

## Arian Silver Corporation – Audited Consolidated Financial Statements

### Consolidated income statement

(Expressed in United States dollars)

For the year ended 31 December, 2009

	2009	2008
<i>Note</i>	\$'000	\$'000
Administrative expenses	(2,068)	(3,720)
<b>Operating loss before financing costs</b>	<u>(2,068)</u>	<u>(3,720)</u>
Finance income	7	31
<b>Net financing income</b>	<u>-</u>	<u>31</u>
<b>Loss before tax</b>	<u>5</u>	<u>(3,689)</u>
Income tax	196	-
<b>Loss for the year attributable to equity shareholders of the parent</b>	<u>(1,872)</u>	<u>(3,689)</u>
Basic and diluted loss per share	<u>16</u>	<u>(0.03)</u>

### Consolidated statement of comprehensive income

(Expressed in United States dollars)

For the year ended 31 December, 2009

	2009	2008
<i>Note</i>	\$'000	\$'000
<b>Loss for the year attributable to equity shareholders of the parent</b>	(1,872)	(3,689)
<b>Other comprehensive income and expense</b>		
Foreign exchange translation differences recognised directly in equity	15	529
Available for sale reserve	12, 15	700
Income tax relating to available for sale reserve	(196)	-
<b>Total comprehensive income and expense for the year attributable to equity shareholders of the parent</b>	<u>(839)</u>	<u>(4,797)</u>

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

## Arian Silver Corporation – Audited Consolidated Financial Statements

### Consolidated statement of cash flows

(Expressed in United States dollars)

For the year ended 31 December, 2009

	<i>Note</i>	2009 \$'000	2008 \$'000
<b>Cash flows from operating activities</b>			
Operating loss before financing costs		(2,068)	(3,720)
Adjustments for:			
Depreciation		41	55
Impairment of fixture & fittings		17	-
Exchange difference		(166)	34
Equity-settled share-based payment transactions		351	542
		<u>(1,825)</u>	<u>(3,089)</u>
Increase/(decrease) in trade and other receivables	13	315	(68)
Increase in trade and other payables	20	238	10
<b>Net cash used in operating activities</b>		<u>(1,272)</u>	<u>(3,147)</u>
<b>Cash flows from investing activities</b>			
Interest received	7	-	31
Acquisition of intangibles	10	(1,048)	(2,651)
Acquisition of property, plant and equipment	9	-	(48)
<b>Net cash used in investing activities</b>		<u>(1,048)</u>	<u>(2,668)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital	15	-	3,451
Proceeds from borrowings	19	1,612	-
<b>Net cash from financing activities</b>		<u>1,612</u>	<u>3,451</u>
<b>Net decrease in cash and cash equivalents</b>		(708)	(2,364)
Cash and cash equivalents at 1 January		753	3,134
Effect of exchange rate fluctuations on cash held		56	(17)
<b>Cash and cash equivalents at 31 December</b>	14	<u>101</u>	<u>753</u>

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

## Arian Silver Corporation – Audited Consolidated Financial Statements

### Consolidated statement of changes in equity

(Expressed in United States dollars)

For the year ended 31 December, 2009

	Share Capital \$000's	Share based payment Reserve \$000's	Foreign exchange translation reserve \$000's	Available for sale reserve \$000's	Retained Earnings \$000's	Total \$000's
Balance – 1 January, 2008	29,852	2,068	(865)	-	(22,955)	8,100
Loss for the year	-	-	-	-	(3,689)	(3,689)
Foreign exchange	-	-	(1,108)	-	-	(1,108)
Total comprehensive income and expense for the year	-	-	(1,108)	-	(3,689)	(4,797)
Shares issued for cash	3,612	-	-	-	-	3,612
Share issue costs	(161)	-	-	-	-	(161)
Fair value of share options	-	542	-	-	-	542
Lapsed Options	-	(426)	-	-	426	-
Balance – 31 December, 2008	33,303	2,184	(1,973)	-	(26,218)	7,296
Loss for the year	-	-	-	-	(1,872)	(1,872)
Foreign exchange	-	-	529	-	-	529
Unrealised gain	-	-	-	504	-	504
Total comprehensive income and expense for the year	-	-	529	504	(1,872)	(839)
Shares issued in exchange for shares	4,935	-	-	-	-	4,935
Fair value of share options	-	351	-	-	-	351
Lapsed share options	-	(887)	-	-	887	-
<b>Balance – 31 December, 2009</b>	<b>38,238</b>	<b>1,648</b>	<b>(1,444)</b>	<b>504</b>	<b>(27,203)</b>	<b>11,743</b>

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

# Arian Silver Corporation – Audited Consolidated Financial Statements

## Notes to the consolidated financial statements

### 1. Reporting entity

Arian Silver Corporation (the “Company”) is a company domiciled in the British Virgin Islands. The consolidated financial statements for the year ended 31 December, 2009 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) Going concern and adequacy of project finance

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

During 2009 the Group’s operations were largely funded by way of loans from Grafton Resource Investments Ltd (“Grafton”), a significant shareholder in the Company, pending the proposed disposal of the Grafton Shares to raise funding for the Company. See Note 12 – “Investments and significant non-cash transactions”, Note 19 – “Borrowings” and Note 24 – “Post-year end events – Reorganisation of Grafton relationship” for further information.

Since the year end the Group has received new funding from the following sources:

- (a) a private placement of common shares by the Company which raised approximately Cdn\$3.5 million. See Note 24 “Post-year end events – Private Placement”; and;
- (b) the first instalment of \$1.45 million under an option granted to Geologix Explorations Inc (“Geologix”) in relation to the Tepal Project. This instalment was settled as to \$725,000 in cash and the balance by the issue to the Company of the Geologix Shares with a market value of \$725,000. See Note 24 “Post-year end events – Tepal Project”.

In addition, the Group has accumulated recoverable IVA (sales tax) on past expenditure in Mexico which amounted to approximately \$317,000 at 31 December, 2009. IVA is generally repaid in instalments by the Mexican tax authorities, however there is no precise timing as to future repayments of this IVA receivable.

During 2009 a Preliminary Economic Assessment Report was completed by A.C.A. Howe International Limited, independent consultants, which confirmed the economic potential of an initial contract mining and toll milling operation at the Group’s San Jose Project. The Group is currently negotiating contracts to establish such an operation at its San Jose Project. Subject to satisfactory completion of contract negotiations and a metallurgical testwork programme, it is currently anticipated that the proposed contract mining and toll milling operation will commence in Q2 of 2010 and that it will generate positive cash flows in the second half of 2010.

The Group will require additional funding in the next 12 months in order to progress exploration programmes on its mineral projects, for project development and for general working capital requirements. Potential sources of funds available to the Group are from cash flow from the proposed initial contract mining operation at the San José Project described above, proceeds from disposal of the Geologix Shares, through the issue of equity capital, the exercise of outstanding share purchase warrants and options, the sale of its interests in one or more of its projects, by way of project joint ventures or business combinations. In addition, on full exercise of the option relating to the Tepal Project, a second instalment amounting to \$1.55 million is due from Geologix in February 2011.

Based on current expectations the directors believe that the Group will have adequate resources to continue in operational existence for the foreseeable future. They therefore believe it appropriate to prepare the Group’s financial statements on a going concern basis. However, if these expectations are not fulfilled the Group may not be able to meet its currently projected working capital and project expenditure requirements without additional finance. If these circumstances arose and other sources of finance were not made available to the Group as needed, then there would be significant concerns regarding 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 and in particular the amounts shown as intangible assets may not be fully recoverable.

# Arian Silver Corporation – Audited Consolidated Financial Statements

## Notes to the consolidated financial statements

### **(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.

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

- Going concern and adequacy of project finance – Note 2a
- Capitalisation and impairment of exploration and evaluation costs – Notes 3e, 3g, 10
- Estimation of share based payment costs – Notes 3h, 18

### **(c) Statement of compliance**

The consolidated financial statements for the year ended 31 December, 2009 have been prepared in accordance with IFRSs and Interpretations adopted by the International Accounting Standards Board (“IASB”) in force at the reporting date.

During 2009 the following accounting standards and guidance were adopted by the Group:

- IAS 1 (Revised) Presentation of Financial Statements.  
The revised standard has changed the way the Group’s primary financial statements have been presented. The revision required information to be aggregated on the basis of shared characteristics and introduced a “statement of comprehensive income” to enable readers to analyse changes in an entity’s equity resulting from transactions with owners separately from “non-owner” changes. Comparative information has been re-presented so that it also is in conformity with the revised standard.
- IFRS 7 (Amendment) Financial Instruments: Disclosures  
The amendment introduced a three-level hierarchy for fair value measurement disclosures and required entities to provide additional disclosures about the relative reliability of those fair valued instruments. In addition the amendment clarified and enhanced liquidity risk disclosure requirements to enable users to better evaluate the nature and extent of liquidity risk arising from financial instruments and how the entity managed risk. The group has provided these additional disclosures in the notes to the financial statements.
- IFRS 8 Operating Segments  
IFRS 8 replaced IAS 14 and requires operating segments to be identified on the basis of internal reports about components that are regularly reviewed by the Board of Directors (the “Board”). The new standard has not significantly impacted the way management reports segmental information as this is the basis on which the Group is organised and managed.

During 2009 the following standards and interpretations were adopted by the Group and were mandatory for the accounting period, but either had no material impact on the Group’s financial statements or were not relevant to the operations of the Group:

- IFRS 1 (Amendment) First time adoption of IFRS
- IFRS 2 (Amendment) Share-based payment
- IAS 23 (Amendment) Borrowing Costs.
- IAS 27 (Amendment) Consolidated and Separate Financial Statements
- IAS 32 (Amendment) Financial Instruments Presentation
- IAS 39 and IFRS 7 (Amendment) Financial Instruments Recognition and Measurement
- IAS 40 (Amendment) Investment Property
- IFRIC 9 (amendment) Financial instruments: Recognition and measurement, and Reassessment of embedded derivatives

# Arian Silver Corporation – Audited Consolidated Financial Statements

## Notes to the consolidated financial statements

- IFRIC 13 Customer loyalty programmes
- IFRIC 15 Agreements for the construction of real estate
- IFRIC 16 Hedges of a net investment in a foreign operation

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

Of these standards:

- IAS 27 (Amendment) “Consolidated and Separate Financial Statements” would impact only on the presentation of these financial statements.
- IFRS 3 (Revised) “Business combinations” would only have an impact on future business combinations

The accounts were approved by the board and authorised for issue on 29 April, 2010.

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

#### (ii) Financial statements of operations

The assets and liabilities of operations, including goodwill and fair value adjustments arising on consolidation, are translated to United States dollars at exchange rates ruling at the date of the Consolidated statement of financial position. The revenues and expenses of operations and net investments in subsidiaries are translated to United States dollars at rates approximating to the exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly as a separate component of equity. They are released into the income statement upon disposal.

Further foreign exchange differences arise from the translation required for the presentation of the financial statements in United States dollars. This is recognised directly as a separate component of equity.

# Arian Silver Corporation – Audited Consolidated Financial Statements

## Notes to the consolidated financial statements

### **(c) Financial instruments**

#### **(i) Non-derivative financial instruments**

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

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

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

#### **(ii) Trade and other receivables**

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

#### **(iii) Financial liabilities**

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

#### **(iv) Cash and cash equivalents**

Cash and cash equivalents represent bank balances.

#### **(v) Investments - available for sale assets**

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

#### **(vi) Share capital – Common shares**

Incremental costs directly attributable to the 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.

# Arian Silver Corporation – Audited Consolidated Financial Statements

## Notes to the consolidated financial statements

### **(iii) Depreciation**

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

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

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

### **(e) Intangible assets**

#### **(i) Goodwill**

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

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

#### **(ii) Deferred exploration and evaluation costs**

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

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

### **(f) Leased assets**

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

### **(g) Impairment**

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

### **(h) 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.

### **(i) 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

## **Arian Silver Corporation – Audited Consolidated Financial Statements**

### Notes to the consolidated financial statements

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.

### **4. Segment reporting**

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. 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. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to report two sets of segments (business and geographical).

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

As at 31 December 2009, the Group had one operational segment being the exploration for and development of silver and associated metal deposits in Mexico.

## Arian Silver Corporation – Audited Consolidated Financial Statements

### Notes to the consolidated financial statements

#### (i) Segment information

	Mexico		Central Costs		Group	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Loss before tax	1,291	3,038	777	651	2,068	3,689
Total assets	8,055	6,772	5,821	779	13,876	7,551
Total liabilities	539	12	1,594	243	2,133	255

#### (ii) Geographical information

	Mexico		UK		Total	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Non current assets excluding investments	7,784	6,149	5	24	7,789	6,173

#### 5. Loss on operating activities is stated after charging:

	2009 \$'000	2008 \$'000
Auditors remuneration		
Audit – Remuneration for audit of the Arian Silver Corporation	45	53
Audit – Remuneration for audit of the Arian Silver Mexico	6	6
Taxation	6	8
Depreciation	41	55
Exchange (loss)	56	(17)

#### 6. Staff numbers and costs

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

	Number of Employees	Number of Employees
	2009	2008
Finance and administration	12	16
Technical	16	32
	<b>28</b>	<b>48</b>

The aggregate staff costs of these persons were as follows:

	2009 \$'000	2008 \$'000
Wages and salaries	703	1,128
Social security costs	67	72
Share based payments	339	508
	<b>1,109</b>	<b>1,708</b>

## Arian Silver Corporation – Audited Consolidated Financial Statements

### Notes to the consolidated financial statements

#### Remuneration of key management personnel

Key management personnel remuneration is detailed below:

	2009			2008
	Salary \$'000	Fees \$'000	Total \$'000	Total \$'000
<b>Executive Directors</b>				
A J Williams	113	-	113	134
J T Williams	251	-	251	260
<b>Non-executive Directors</b>				
T A Bailey	23	-	23	28
J S Cable	23	-	23	28
D W Cohen (retired 12 June, 2008)	-	-	-	14
J A Crombie	23	-	23	35
D Cather (appointed 23 June, 2009)	12	-	12	-
<b>Other key management</b>				
Country Manager – Mexico	-	36	36	81
CFO & Company Secretary	126	-	126	117
	<b>571</b>	<b>36</b>	<b>607</b>	<b>697</b>

#### 7. Finance income and expense

	2009 \$'000	2008 \$'000
Interest income	-	31
Net financing income	-	<b>31</b>

#### 8. Income tax recognised in the income statement

	2009 \$'000	2008 \$'000
<b>Current tax</b>		
Current year	196	-
Adjustments for prior years	-	-
<b>Reconciliation of effective tax rate</b>		
Loss before tax	(2,068)	(3,689)
Income tax using the domestic corporation tax rate of 28.5% (2007 – 30%)	(579)	(1,051)
Non-deductible expenses	168	282
Share options disallowed	99	154
Depreciation in excess of capital allowances	5	5
Short term timing differences	(156)	(1,314)
Tax losses carried forward	267	1,924
Total tax expense	(196)	-

At the year end the Group had tax losses to carry forward of approximately \$15,054,000 (2008 – \$12,473,000). This includes losses and exploration costs expensed under Mexican GAAP but capitalised under IFRS. It should be noted that recent changes in Mexican tax legislation may limit the extent and timing of the use of the Mexican allowable tax losses.

Under IFRS a net deferred tax asset of approximately \$2,940,000 (2008 – \$2,457,000) has not been recognised due to the uncertainty as to the amount that can be utilised.

## Arian Silver Corporation – Audited Consolidated Financial Statements

Notes to the consolidated financial statements

### 9. Property, plant and equipment

	Plant and equipment \$'000	Fixtures & fittings \$'000	Vehicles \$'000	Total \$'000
<b>Cost</b>				
Balance – 1 January, 2008	93	49	111	253
Additions	19	29	-	48
Foreign Exchange	(20)	(11)	(23)	(54)
Balance – 31 December, 2008	92	67	88	247
Balance – 1 January, 2009	92	67	88	247
Disposals	-	(27)	-	(27)
Foreign Exchange	6	5	5	16
<b>Balance – 31 December, 2009</b>	<b>98</b>	<b>45</b>	<b>93</b>	<b>236</b>
<b>Depreciation and impairment losses</b>				
Balance – 1 January, 2008	18	13	41	72
Depreciation charge for the year	17	16	22	55
Foreign Exchange	(4)	(3)	(8)	(15)
Balance – 31 December, 2008	31	26	55	112
Balance – 1 January, 2009	31	26	55	112
Disposals	-	(10)	-	(10)
Depreciation charge for the year	20	2	19	41
Foreign Exchange	2	2	3	7
<b>Balance – 31 December, 2009</b>	<b>53</b>	<b>20</b>	<b>77</b>	<b>150</b>
<b>Carrying amounts</b>				
<b>At 31 December, 2009</b>	<b>45</b>	<b>25</b>	<b>16</b>	<b>86</b>
At 31 December, 2008	61	41	33	135
At 1 January, 2008	75	36	70	181

### 10. Intangible assets

	Goodwill \$'000	Deferred Exploration costs \$'000	Total \$'000
<b>Cost</b>			
Balance – 1 January, 2008	13,446	4,407	17,853
Additions	-	2,651	2,651
Writedown	-	(103)	(103)
Foreign Exchange	-	(917)	(917)
Balance – 31 December, 2008	13,446	6,038	19,484
Balance – 1 January, 2009	13,446	6,038	19,484
Additions	-	1,326	1,326
Foreign Exchange	-	339	339
<b>Balance – 31 December, 2009</b>	<b>13,446</b>	<b>7,703</b>	<b>21,149</b>

## Arian Silver Corporation – Audited Consolidated Financial Statements

### Notes to the consolidated financial statements

	Goodwill \$'000	Deferred Exploration costs \$'000	Total \$'000
<b>Impairment losses and amortisation</b>			
Balance – 1 January, 2008	(13,446)	-	(13,446)
Balance – 31 December, 2008	(13,446)	-	(13,446)
Balance – 1 January, 2009	(13,446)	-	(13,446)
<b>Balance – 31 December, 2009</b>	(13,446)	-	(13,446)
<b>Carrying amounts</b>			
<b>At 31 December, 2009</b>	-	7,703	7,703
At 31 December, 2008	-	6,038	6,038
At 1 January, 2008	-	4,407	4,407

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

The deferred exploration cost at 31 December, 2009 consisted mainly of costs relating to the three major projects as stated below:

Project	Carrying value	
	2009 \$'000	2008 \$'000
Calicanto	885	869
Tepal	2,629	2,105
San Jose	3,644	2,766

The Tepal Project is subject to an option as described in Note 24 “Post-year end events – Tepal Project”.

### 11. Group entities

Significant Subsidiaries	Country of incorporation and operation	Principal activity	Arian Silver Corporation effective interest	
			2009	2008
Arian Silver de Mexico S.A. de C.V.	Mexico	Exploration	100%	100%

### 12. Investments and significant non-cash transactions

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

As a result of the Share Exchange, Grafton held an aggregate of 109,090,909 common shares of the Company (the “Arian Shares”) and the Company held an aggregate of 128,591 participating shares of Grafton (the “Grafton Shares”). It was intended that Grafton and its associates would place the Grafton Shares for cash on behalf of the Company to provide new funding for the Company. However, the disposal of the Grafton Shares experienced delays and the Share Exchange was subsequently reversed. See Note 24 “Post-year end events – Reorganisation of Grafton relationship”.

## Arian Silver Corporation – Audited Consolidated Financial Statements

### Notes to the consolidated financial statements

The Grafton Shares are held in current assets as Investments - Available for sale assets valued at \$5.6 million as at 31 December, 2009 (2008 - \$nil). They are defined by IFRS 7 as level 2 financial instruments and are valued by reference to the underlying net asset value. Any gain or loss is recognised through the Available for sale reserve in the Consolidate statement of comprehensive income.

#### 13. Trade and other receivables

	2009	2008
	\$'000	\$'000
Other receivables	323	598
Prepayments	26	27
	<b>349</b>	<b>625</b>

#### 14. Cash and cash equivalents

	2009	2008
	\$'000	\$'000
Bank balances	101	140
Call deposits	-	613
Cash and cash equivalents in the statement of cash flows	<b>101</b>	<b>753</b>

#### 15. 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, 2009 and 2008 are detailed in the following table:

	2009		2008	
	Number of Shares 000's	Amount \$000's	Number of Shares 000's	Amount \$000's
Balance – 1 January	149,052	33,303	119,460	29,852
Shares issued for cash	-	-	29,592	3,612
Shares issued in exchange for shares	109,091	4,935	-	-
Issue costs of share issuance	-	-	-	(161)
<b>Balance – 31 December</b>	<b>258,143</b>	<b>38,238</b>	<b>149,052</b>	<b>33,303</b>

During the years ended 31 December, 2009 and 2008, the Company made the following share and warrant issues:

##### 2008

- 12,092,000 common shares at Cdn\$0.25 to provide additional working capital of Cdn\$3,023,000;
- 17,500,000 common shares at Cdn\$0.10 to provide additional working capital of Cdn\$1,747,000; and
- 6,046,000 share purchase warrants exercisable for a period of 18 months at Cdn\$0.35 and subject to accelerated exercise conditions at the Company's option.

##### 2009

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

##### Share-based payment reserve

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

##### Foreign exchange translation reserve

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

## Arian Silver Corporation – Audited Consolidated Financial Statements

### Notes to the consolidated financial statements

#### Available for sale reserve

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

#### Retained loss

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

#### Warrants

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

### 16. Loss per share

#### Basic loss per share

The calculation of basic loss per share at 31 December, 2009 was based on the loss attributable to common shareholders of \$2,068,000 (2008 – \$3,689,000) and a weighted average number of common shares outstanding during the year ended 31 December, 2009 of 229,110,068 (2008 – 130,045,827).

See Note 24 “Post-year end events” for a description of subsequent transactions giving rise to significant changes in the number of issued and outstanding common shares.

#### Diluted Loss per share

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

### 17. Warrants

A summary of the changes in the Company’s share purchase warrants for the years ended 31 December, 2009 and 2008 is set out below:

	2009		2008	
	Warrants outstanding (000's)	Weighted average exercise price (\$)	Warrants outstanding (000's)	Weighted average exercise price (\$)
Balance – 1 January	8,773	0.43	2,727	0.61
Repriced	-	(0.36)	-	-
Lapsed	(4,386)	(0.06)	-	-
Lapsed	(4,387)	(0.09)	-	-
Issued	-	-	6,046	0.35
<b>Balance – 31 December</b>	<b>-</b>	<b>-</b>	<b>8,773</b>	<b>0.43</b>

In April, 2009 warrant holders approved proposals to vary the exercise prices and expiry dates of the 2,727,250 common share purchase warrants that were exercisable up to 1 August, 2009 at Cdn\$0.65 per share (the “B Warrants”) and the 6,046,000 share purchase warrants exercisable up to 29 November, 2009 at Cdn\$0.35 (the “C Warrants”) (the “Warrants Variation”). As a result of the Warrants Variation the Company issued 4,386,625 share purchase warrants exercisable up to 23 July, 2009 at Cdn\$0.07 (the “D Warrants”) and 4,386,625 share purchase warrants exercisable up to 31 December, 2009 at Cdn\$0.10 (the “E Warrants”) in place of the B Warrants and the C Warrants which were cancelled. No D Warrants or E Warrants were exercised prior to their respective expiry dates.

### 18. Share-based payment transactions

The Company currently has in place an incentive share option plan (the “Plan”) covering Directors, officers, employees and consultants of the Company and its subsidiary companies. The exercise price of a future option grant will be determined by the Board on the basis of the closing market price of the Company’s shares on the trading day prior to the date of issue of the option. Options may be granted for a period of up to ten years and the Board determines the vesting provisions of each option granted, which may vary. The aggregate number of shares which may be issued and sold under the Plan may not

## Arian Silver Corporation – Audited Consolidated Financial Statements

### Notes to the consolidated financial statements

exceed 7.5% of issued share capital. As at 31 December, 2009 a total of 3,060,715 options remained available for grant under the Plan.

The number and weighted average exercise prices of share options for the years ended 31 December, 2009 and 2008 is set out below:

	2009		2008	
	Out-standing (000's)	Weighted average exercise price (\$)	Out-standing (000's)	Weighted average exercise price (\$)
Balance – 1 January	12,040	0.36	10,535	0.41
Issued	9,850	0.09	3,380	0.22
Issued	-	-	113	0.28
Issued	-	-	112	0.38
Issued	-	-	113	0.47
Issued	-	-	112	0.57
Lapsed	(4,130)	(0.24)	(150)	(0.22)
Lapsed	(580)	(0.43)	(870)	(0.28)
Lapsed	(880)	(0.19)	(200)	(0.37)
Lapsed	-	-	(180)	(0.42)
Lapsed	-	-	(375)	(0.50)
Lapsed	-	-	(350)	(0.50)
Lapsed	-	-	(200)	(0.63)
<b>Balance – 31 December</b>	<b>16,300</b>	<b>0.41</b>	<b>12,040</b>	<b>0.36</b>

Share options in issue at 31 December 2009:

Outstanding shares	Exercise price	Expiry
500,000	£0.245/Cdn\$0.56	22 February, 2010
75,000	£0.225/Cdn\$0.56	27 February, 2010
3,075,000	£0.27/Cdn\$0.57	13 June, 2010
2,350,000	£0.12/Cdn\$0.25	4 June, 2013
112,500	Cdn\$0.30	19 June, 2010
112,500	Cdn\$0.40	19 June, 2010
112,500	Cdn\$0.50	19 June, 2010
112,500	Cdn\$0.60	19 June, 2010
9,850,000	£0.055/Cdn\$0.10	16 July, 2014

The weighted average remaining contractual life of share options as at 31 December, 2009 was 1,220 days.

Share options held by directors and senior management at 31 December 2009:

Holder	Shares	Exercise price	Grant Date	Vesting Date	Expiry
A Williams	2,250,000	£0.055/Cdn\$0.10	17 July, 2009	17 July, 2009	16 July, 2014
	750,000	£0.12/Cdn\$0.25	5 June, 2008	5 October, 2008	4 June, 2013
	1,000,000	£0.27/Cdn\$0.57	14 June, 2007	14 June, 2007	13 June, 2010
J Williams	2,250,000	£0.055/Cdn\$0.10	17 July, 2009	17 July, 2009	16 July, 2014
	750,000	£0.12/Cdn\$0.25	5 June, 2008	5 October, 2008	4 June, 2013
	1,000,000	£0.27/Cdn\$0.57	14 June, 2007	14 June, 2007	13 June, 2010
J Cable	550,000	£0.055/Cdn\$0.10	17 July, 2009	17 July, 2009	16 July, 2014
	400,000	£0.27/Cdn\$0.57	14 June, 2007	14 June, 2007	13 June, 2010
T Bailey	550,000	£0.055/Cdn\$0.10	17 July, 2009	17 July, 2009	16 July, 2014

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### Notes to the consolidated financial statements

Holder	Shares	Exercise price	Grant Date	Vesting Date	Expiry
J Crombie	550,000	£0.055/Cdn\$0.10	17 July, 2009	17 July, 2009	16 July, 2014
	500,000	£0.245/Cdn\$0.56	23 February, 2007	23 February, 2007	22 February, 2010
D Cather	550,000	£0.055/Cdn\$0.10	17 July, 2009	17 July, 2009	16 July, 2014
Senior management	2,275,000	£0.055/Cdn\$0.10	17 July, 2009	17 July, 2009	16 July, 2014
	475,000	£0.055/Cdn\$0.10	17 July, 2009	17 January, 2010	16 July, 2014
	500,000	£0.12/Cdn\$0.25	5 June, 2008	5 October, 2008	4 June, 2013
	500,000	£0.27/Cdn\$0.57	14 June, 2007	14 June, 2007	13 June, 2010

#### 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 during the period.

	2009	2008
Fair value	\$1,648,000	\$2,184,000
Share price 31 December, 2008	-	\$0.06
Share price 31 December, 2009	\$0.06	-
Exercise price (expressed as weighted average)	\$0.10	\$0.25
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes model)	74%	62%
Option life (expressed as weighted average life used in the modelling under Black-Scholes model)	2-5 yrs	2-5 yrs
Expected dividends	0%	0%
Risk-free interest rate (based on national government bonds)	2.98%	4.75%

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 fair value of stock options granted for the year ended 31 December, 2009 was \$351,000 (2008 – \$542,000) which was expensed in the income statement.

	2009	2008
<b>Share option expenses</b>		
	\$'000	\$'000
Share options granted in 2008	-	542
Share options granted in 2009	351	-
Total expense recognised in administrative expenses	<b>351</b>	<b>542</b>

#### 19. Borrowings

As At 31 December 2009 the Company had current borrowings amounting to \$1.6 million (2008 -\$nil) which were advanced during the year as follows:

(a) Grafton made advances to the Company totalling \$1,050,000 (2008 - \$nil) (the “Grafton Loans”) to fund the Company’s operating overheads. These advances were unsecured and interest free. Whilst it was intended that the Grafton Loans would be repaid from the proceeds from disposal of the Grafton Shares, \$500,000 had a repayment date of 31 December 2009, and \$250,000 had a repayment date of 31 March, 2010. Repayment of the balance of \$300,000 was related to the sale of the Grafton Shares. See Note 12 “Investments and significant non-cash transactions” and Note 24 “Post-year end events – Reorganisation of Grafton relationship”.

## Arian Silver Corporation – Audited Consolidated Financial Statements

### Notes to the consolidated financial statements

(b) Pursuant to the terms of an agreement with Geologix, whereby Geologix was granted an exclusive option right to purchase the Company's 100% interest in the Tepal property, it advanced to the Company \$517,500 (the "Geologix Loan"). The Geologix Loan was used by the Company to complete a deferred outstanding property option payment due to the vendor of the Tepal property of equal amount. The Geologix Loan was an unsecured, interest free loan that would become due for repayment on 23 April, 2010 unless Geologix elected to exercise its option right to acquire the Tepal property. See Note 24 "Post-year end events – Tepal Project".

#### 20. Trade and other payables

	2009	2008
	\$'000	\$'000
Payables due to related parties	41	31
Trade payables	209	72
Other payables	271	152
	<b>521</b>	<b>255</b>

#### 21. Financial instruments and financial risk management

Categories of financial instruments	Loans and receivables		Financial liabilities measured at amortised cost		Available-for-sale	
	2009	2008	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	101	753	-	-	-	-
Available-for-sale investments	-	-	-	-	5,637	-
Trade receivables	349	625	-	-	-	-
Current borrowings	-	-	1,612	-	-	-
	<b>450</b>	<b>1,378</b>	<b>1,612</b>	<b>-</b>	<b>5,637</b>	<b>-</b>

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.

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

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

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

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### Notes to the consolidated financial statements

	Cash Held 2009 \$'000	Cash Held 2008 \$'000
Pounds Sterling	1	(8)
United States Dollars	74	2
Canadian Dollars	2	654
Mexican Pesos	24	105
	<b>101</b>	<b>753</b>

#### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or cashflows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that the group uses. Treasury activities take place under procedures and policies approved and monitored by the Board to minimise the financial risk faced by the Group. Interest bearing assets comprise cash and cash equivalents which are considered to be short-term liquid assets. There were no interest bearing deposits in 2009.

#### Liquidity risk

The Group's approach to the management of liquidity risk is set out in Note 2 to the financial statements.

#### Credit risk

The Group is exposed to credit risk on its financial assets as per the Consolidated statement of financial position. At the date of the Consolidated statement of financial position there was no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Consolidated statement of financial position which at the year end amounted to \$6,087,000 (2008: \$1,378,000).

#### Market risk

The Group is exposed to market price risk through interest rate and currency fluctuations.

#### Fair values

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

#### Capital Management

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

The Group's capital structure comprises all components of equity (i.e. common share capital, retained earnings and other reserves.) At 31 December, 2009 the Group had current borrowings of approximately \$1.6 million. When considering the future capital requirements of the Group and the potential to fund specific project development via debt the Board considers the risk characteristics of all of the underlying assets in assessing the optimal capital structure.

#### Sensitivity Analysis

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

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### Notes to the consolidated financial statements

Foreign currency risk sensitivity analysis:

	Profit/Loss		Equity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
If there was a 10% weakening of Mexican Peso against US\$ with all other variables held constant – increase/(decrease)	(26)	(38)	(706)	(789)
If there was a 10% strengthening of Mexican Peso against US\$ with all other variables held constant – increase/(decrease)	32	47	840	965
If there was a 10% weakening of Canadian Dollar against US\$ with all other variables held constant – increase/(decrease)	-	(7)	-	(65)
If there was a 10% strengthening of Canadian Dollar against US\$ with all other variables held constant – increase/(decrease)	-	7	-	65

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

### 22. Future project expenditure

The Company does not have any capital commitments at 31 December, 2009 (2008 – nil). However, the following refer to material payments that will become due under the agreements relating to the San José and Tepal properties:

- (a) In relation to the San José Project the final instalment of \$500,000 that was due in December, 2009 was deferred to January 2010 following negotiations with the vendor. See Note 24 “Post-year end events – San Jose Project”.
- (b) In relation to the Tepal Project the Company is required to pay the vendor \$5 million in instalments through to June 2011. At 31 December, 2009, \$1,800,000 had been paid and the next instalment of \$900,000 is due in June 2010. See Note 24 “Post-year end events – Tepal Project”.

### 23. Related parties

#### Control of the Group

In the opinion of the Board, at 31 December, 2009 there was no ultimate controlling entity of the Group.

#### Identity of related parties

The Group has a related party relationship with its subsidiaries, with its Directors and executive officers and with Grafton, a significant shareholder.

#### Transactions with key management personnel

At 31 December, 2009 the Directors of the Company and their immediate relatives controlled approximately 4% per cent of the voting shares of the Company.

During the year ended 31 December, 2009 the Company entered into the following transactions involving key management personnel:

- (a) Companies in the Dragon Group charged the Company a total of \$158,746 (2008 – \$449,147). This includes reimbursement of \$123,712 (2008 – \$105,873) in respect of Tony Williams’ remuneration paid on behalf of the Company with the balance relating to the provision of support services, office accommodation and other reimbursable expenses incurred on behalf of the Company. Tony Williams, Chairman and a director of the Company, beneficially owns the Dragon Group. At 31 December, 2009 \$44,736 (2007 - \$30,746) was outstanding.
- (b) Kopane Diamond Developments PLC (“KDD”) charged the Company a total of \$91,214 (2008 – \$18,374). This includes reimbursement of \$33,688 (2008 – \$30,752) in respect of James Cable’s remuneration paid on behalf of the Company with the balance relating to the provision of office accommodation and reimbursable expenses incurred on behalf of the Company. The Company charged KDD \$34,640 (2008 – \$24,523) for the provision of accounting support services.

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James Cable and Tony Williams are Directors of the Company. James Cable is a Director of KDD and Tony Williams is a former Director of KDD. At 31 December, 2009 \$40,879 (2008 - \$nil) was outstanding due to KDD and \$nil (2008 - \$10,111) was outstanding due from KDD.

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, 2009 and 2008 were:

	2009	2008
A J Williams	2,000,000	2,000,000
J T Williams	6,800,000	6,800,000
J A Crombie	1,500,000	1,500,000

During the year, the only change in the Directors' share interests was the grant of share options as disclosed in note 18.

### Transactions with subsidiaries

The Company made loans to Arian Silver de Mexico S.A. de C.V. ("Arian Mexico") of \$393,447 (2008 – \$2,813,992) and paid charges on behalf of Arian Mexico of \$nil (2008 – \$138,821). A management fee was also charged to Arian Mexico of \$8,233 (2008 – \$7,240).

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.

### Transactions with Grafton

Pursuant to the Share Exchange the Company issued to Grafton an aggregate of 109,090,909 common shares of the Company, which amounted to approximately 42.2% of the Company's issued and outstanding common shares. See Note 12 – "Investments and significant non-cash transactions".

Note 19 – "Borrowings" sets out details of advances made by Grafton to the Company.

## 24. Post-year end events

### Reorganisation of Grafton relationship

In December 2009, it was announced that the Company and Grafton proposed to reverse the Share Exchange by way of share redemptions (the "Share Redemptions"). Pursuant to the Share Redemptions, the Company would redeem the Arian Shares at the original issue price of Cdn\$0.055 per Arian share and Grafton would redeem the Grafton Shares at the approximate original average issue price of \$38 per Grafton share. In addition, the Company would issue to Grafton 15,762,000 common shares at Cdn\$0.05 per common share in settlement of \$750,000 of the Grafton Loans (the "Shares for Debt").

In January 2010, the Share Redemptions and Shares for Debt transactions were completed, as a result of which the number of issued and outstanding common shares of the Company was reduced by 93,328,909 common shares to 164,813,969 common shares.

Also in January 2010, following completion of the private placement financing referred to below, the Company repaid \$300,000 to Grafton, representing the balance of the Grafton Loans.

### Private Placement

In January 2010, subsequent to the completion of the Share Redemptions and Shares for Debt transactions referred to above, the Company completed a private placement financing (the "Placement"). The Placement raised Cdn\$3,499,857 and comprised 69,997,139 units of the Company (each, a "Unit") at Cdn\$0.05 per Unit. In addition 600,000 Units were issued in satisfaction of Cdn\$30,000 of finder's fees payable in connection with the Placement. Each Unit consisted of one common share of the Company and one-half of a common share purchase warrant.

## **Arian Silver Corporation – Audited Consolidated Financial Statements**

### Notes to the consolidated financial statements

As a result of the Placement the number of issued and outstanding common shares of the Company was increased by 70,597,139 common shares to 235,411,108 common shares. In addition, 35,298,569 “F” warrants were issued entitling the holders thereof to acquire one common share of the Company at an exercise price of Cdn\$0.10 per common share up to 22 January 2011.

#### **San Jose Project**

In relation to the San José Project the final instalment of \$500,000 was paid in January 2010 to increase the Company’s interest to 100% of the Project.

#### **Tepal Project**

In January 2010 the Company and Geologix executed a definitive agreement granting Geologix the exclusive option to purchase a 100% interest in the Tepal Gold-Copper Project, Mexico (the “Option Agreement”).

Under the terms of the Option Agreement, Geologix paid to the Company a first instalment of \$1.45 million. Settlement was effected by way of a cash payment of \$725,000 and the balance of \$725,000 through the issue of 3,434,193 Geologix shares (the “Geologix Shares”) at a price of Cdn\$0.22 per share. The Geologix Shares are listed on the Toronto Stock Exchange and were issued subject to a regulatory four months hold period.

Geologix can complete the purchase of 100% of the Tepal property by delivering to the Company a further payment of \$1.55 million before 23 February, 2011. At Geologix’s election, up to 50% of this payment may be satisfied by the issuance of Geologix shares, subject to Toronto Stock Exchange approval. The Option Agreement provides that Geologix shall be responsible for satisfying all of the Company’s obligations relating to the Tepal property, including the remaining underlying property option agreement payments of \$900,000 payable by June, 2010, and a further \$2.3 million payable by June, 2011.

Following receipt of the first instalment under the Option Agreement, the Company repaid the Geologix Loan.