



ARIAN SILVER CORPORATION

**Interim Consolidated
Financial Statements
(Unaudited)**

Three Months ended 31 March, 2013

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

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

Arian Silver Corporation
Consolidated Statement of Comprehensive Income (Unaudited)
For the three months ended 31 March, 2013 and 2012
(In U.S. dollars)

	3 Months ended 31 March 2013 \$'000	3 Months ended 31 March 2012 \$'000
Continuing operations		
Revenue	-	2,314
Cost of sales	(206)	(2,379)
Gross loss	(206)	(65)
Administrative expenses	(729)	931
Operating profit/(loss)	(935)	866
Net investment income/(loss)	(21)	81
Profit/(loss) for the period attributable to equity shareholders of the parent	(956)	947
Other comprehensive income		
Foreign exchange translation differences recognised directly in equity	634	1,090
Other comprehensive income for the period	634	1,090
Total comprehensive income for the period attributable to equity shareholders of the parent	(322)	2,037
Basic and diluted loss per share (\$)	(0.00)	(0.00)

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

Arian Silver Corporation
Consolidated Statement of Financial Position (Unaudited)
At 31 March, 2013 and 31 December, 2012
(In U.S. dollars)

	2013 \$'000	2012 \$'000
Assets		
Intangible assets	1,236	1,176
Property, plant and equipment	11,226	10,405
Total non-current assets	12,462	11,581
Trade and other receivables	1,342	1,206
Cash and cash equivalents	497	491
Inventories	681	644
Financial assets held at fair value through profit or loss	172	197
Total current assets	2,692	2,538
Total assets	15,154	14,119
Equity attributable to equity shareholders of the parent		
Share capital	49,514	48,223
Share-based payment reserve	7,885	7,885
Foreign exchange translation reserve	(937)	(1,570)
Retained loss	(42,491)	(41,535)
Total equity	13,971	13,003
Trade and other payables	997	939
Total current liabilities	997	939
Provision for mine closure	186	177
Total non-current liabilities	186	177
Total liabilities	1,183	1,116
Total equity and liabilities	15,154	14,119

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Arian Silver Corporation
Consolidated Statement of Cash Flows (Unaudited)
For the three months ended 31 March, 2013 and 2012
(In U.S. dollars)

	3 Months ended 31 March 2013 \$'000	3 Months ended 31 March 2012 \$'000
Cash flows from operating activities		
Loss before tax	(956)	947
Adjustments for:		
Depreciation and amortisation	4	56
Exchange Difference	152	(40)
Net investment income	(21)	81
Equity-settled share-based payment transactions	-	(1,671)
	<u>(821)</u>	<u>(627)</u>
(Increase)/decrease in trade and other receivables	(186)	(334)
Increase/(decrease) in trade and other payables	94	(23)
Increase/(decrease) in inventories	(62)	82
Net cash used in operating activities	<u>(975)</u>	<u>(902)</u>
Cash flows from investing activities		
Interest received	-	6
Acquisition of property, plant and equipment	(303)	(539)
Used in investing activities	<u>(303)</u>	<u>(533)</u>
Cash flows from financing activities		
Proceeds from issue of share capital	1,291	95
Net cash from financing activities	<u>1,291</u>	<u>95</u>
Net increase/(decrease) in cash and cash equivalents	13	(1,340)
Cash and cash equivalents at 1 January	491	3,991
Effect of exchange rate fluctuations on cash held	(7)	102
Cash and cash equivalents at 31 March	<u>497</u>	<u>2,753</u>

Arian Silver Corporation
Consolidated Statement of Changes in Equity (Unaudited)
For the three months ended 31 March, 2013 and 2012
(In U.S. dollars)

	Share Capital	Share based payment reserve	Foreign exchange translation reserve	Retained Earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Period to 31 March, 2012					
Opening Balance	47,326	9,359	(2,551)	(39,225)	14,909
Loss for the period	-	-	-	947	947
Foreign exchange	-	-	1,090	-	1,090
Total comprehensive income and expense for the year	-	-	1,090	947	2,037
Exercise of share options	95	-	-	-	95
Lapse of share options	-	(1,721)	-	-	(1,721)
Fair value of share options	-	50	-	-	50
Balance 31 March, 2012	47,421	7,688	(1,461)	(38,278)	15,370
Period to 31 March, 2013					
Opening Balance	48,223	7,885	(1,570)	(41,535)	13,003
Loss for the period	-	-	-	956	956
Foreign exchange	-	-	633	-	633
Total comprehensive income and expense for the year	-	-	633	956	1,589
Shares issued for cash	1,323	-	-	-	1,323
Share issue costs	(32)	-	-	-	(32)
Balance 31 March, 2013	49,514	7,885	(937)	(40,579)	15,883

Arian Silver Corporation
Notes to Consolidated Financial Statements (Unaudited)
For the three months ended 31 March, 2013 and 2012
(In U.S. dollars)

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

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

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

The accounting policies and methods of computation used in the preparation of the interim unaudited consolidated financial statements are the same as those described in the Company’s audited consolidated financial statements and notes thereto for the year ended 31 December 2012. In the opinion of the management, the interim unaudited consolidated financial statements include all adjustments considered necessary for fair and consistent presentation of financial statements. These interim unaudited consolidated financial statements should be read in conjunction with the Company’s audited financial statements and notes for the year ended 31 December 2012.

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

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

Since the Company is still at a relatively early stage of development with trial mining and milling, it will probably require additional funding for projects which may comprise debt, equity or a combination of the two. Although the Company has been successful in the past in raising equity finance, there can be no assurance that the funding required by the Company 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 Company and might involve substantial dilution to existing shareholders.

The directors of the Company currently believe it appropriate to prepare the Company’s financial statements on a going concern basis. However, if the required funding is not forthcoming the Company may not be able to meet its ongoing working capital and project expenditure requirements. If these circumstances arose 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 and other assets would be required to be reviewed.

2. Intangible assets - Deferred Exploration and Evaluation Costs

These comprise costs directly incurred in exploration and evaluation as well as the cost of mineral licences. They are capitalised as intangible assets pending the determination of the feasibility of the project. When the decision is taken to develop a mine the related intangible assets are transferred to property, plant and equipment. 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 the Group can establish economically recoverable reserves on its properties, the ability of the Group to obtain necessary financing to complete the development of such reserves and future profitable production or proceeds from the disposition thereof.

Arian Silver Corporation
Notes to Consolidated Financial Statements (Unaudited)
For the three months ended 31 March, 2013 and 2012
(In U.S. dollars)

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

Changes in intangible assets for the three months ended 31 March, 2013 and the year ended 31 December, 2012 are detailed in the following table:

	2013	2012
	\$'000	\$'000
Opening balance	1,176	1,093
Additions for the period	-	-
Transfer to asset held for sale	-	-
Transfer to property, plant and equipment	-	-
Write down	-	-
Foreign Exchange	60	83
Closing balance	1,236	1,176

The balances at 31 March 2013 and at 31 December 2012 relate entirely to deferred exploration and development costs.

3. Property, plant and equipment – Mine Development Costs

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

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

Changes in property, plant and equipment for the three months ended 31 March, 2013 and the year ended 31 December, 2012 are detailed in the following table:

	2013	2012
	\$'000	\$'000
Opening balance	10,405	8,082
Additions for the period	303	1,879
Depreciation and amortisation	(4)	(158)
Foreign Exchange	522	602
Closing balance	11,226	10,405

The balances at 31 March 2013 and at 31 December 2012 relate to mine development costs and other property plant and equipment. The mine development costs at 31 March 2013 of \$10,948,000 (31 December 2012 - \$10,221,000), relate to the 100% owned San José property in Zacatecas State, Mexico. Other property plant and equipment at 31 March 2013 of \$278,000 (31 December 2012 - \$184,000) includes plant and equipment, fixtures and fittings and vehicles.

4. Inventories

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

Arian Silver Corporation
Notes to Consolidated Financial Statements (Unaudited)
For the three months ended 31 March, 2013 and 2012
(In U.S. dollars)

4. Inventories (continued)

	2013	2012
	\$'000	\$'000
Consumables	8	13
Stockpiled ore	655	631
Silver concentrate produced	18	-
	681	644

5. Financial assets held at fair value through profit or loss

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

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

6. Provision for mine closure

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

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

Changes in mine closure provision for the three months ended 31 March, 2013 and the year ended 31 December, 2012 are detailed in the following table:

	2013	2012
	\$'000	\$'000
Opening balance	177	170
Unwinding of discount	9	7
Closing balance	186	177

The provision has been made to cover projected closure costs in the event that the operations at the San José mine are not prolonged beyond the initial mining period of approximately 4 years. At 31 March, 2013, closure costs are calculated to be \$206,000 (31 December 2012 - \$206,000) at the end of the 4 years using a discount rate of 5% (31 December 2012 – 5%). Closure activities include decommissioning, reclamation and rehabilitation.

Arian Silver Corporation
Notes to Consolidated Financial Statements (Unaudited)
For the three months ended 31 March, 2013 and 2012
(In U.S. dollars)

7. Share capital and reserves

Authorised

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

Issued and outstanding common shares

Changes in share capital for the three months ended 31 March, 2013 and the year ended 31 December, 2012 are as follows:

	2013		2012	
	Number of Shares '000	Amount \$'000	Number of Shares '000	Amount \$'000
Opening balance	304,899	48,223	301,190	47,326
Shares issued for cash	6,697	1,323	3,184	823
Issue cost of share issuance	-	(32)	-	(20)
Exercise of share options	-	-	525	94
Closing balance	311,596	49,514	304,899	48,223

Three months ended 31 March 2013

- 1,019,894 common shares issued at £0.142172 per share to provide additional working capital of £145,000 in connection with the drawdown of the SEDA.
- 1,657,795 common shares issued at £0.136326 per share to provide additional working capital of £226,000 in connection with the drawdown of the SEDA.
- 2,198,279 common shares issued at £0.13647 per share to provide additional working capital of £300,000 in connection with the drawdown of the SEDA.
- 1,821,017 common shares issued at £0.10258 per share to provide additional working capital of £186,800 in connection with the drawdown of the SEDA.

Year ended 31 December, 2012

2012

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

Arian Silver Corporation
Notes to Consolidated Financial Statements (Unaudited)
For the three months ended 31 March, 2013 and 2012
(In U.S. dollars)

7. Share capital and reserves (continued)

Share based payment reserve

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

A summary of the changes in the Group's contributed surplus for the three months ended 31 March, 2013 and the year ended 31 December, 2012, is set out below:

	2013	2012
	\$'000	\$'000
Opening balance	7,885	9,359
Fair value of share options	-	247
Incentive stock options lapsed	-	(1,721)
Closing balance	7,885	7,885

Foreign exchange translation reserve

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

A summary of the changes in the Group's foreign exchange translation reserve for the three months ended 31 March, 2013 and the year ended 31 December, 2012, is set out below:

	2013	2012
	\$'000	\$'000
Opening balance	(1,570)	(2,551)
Movement in the period	633	981
Closing balance	(937)	(1,570)

Retained loss

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

Incentive stock options

The Company's incentive share option plan (the "Plan") covering Directors, officers, employees and consultants of the Company and its subsidiary companies lapsed on 7 June 2012 and no further options may be issued under this scheme. As a result of the lapse of the rolling share option plan the share option plan automatically became a fixed share option plan.

A summary of the Company's stock options as at 31 March, 2013 is set out below:

Outstanding shares	Exercise price	Expiry
1,500,000	£0.12/Cdn\$0.25	4 June, 2013
1,300,000	£0.055/Cdn\$0.10	16 July, 2014
11,860,000	£0.4925/Cdn\$0.79	18 January, 2016
300,000	£0.30/Cdn\$0.48	6 June, 2016
1,000,000	£0.20/Cdn\$0.32077	29 May, 2017

Arian Silver Corporation
Notes to Consolidated Financial Statements (Unaudited)
For the three months ended 31 March, 2013 and 2012
(In U.S. dollars)

7. Share capital and reserves (continued)

The number and weighted average exercise prices of share options for the three months ended 31 March, 2013 and the year ended 31 December, 2012 are as follows:

	2013		2012	
	Outstanding	Weighted average exercise price	Outstanding	Weighted average exercise price
	000's	\$	000's	\$
Opening balance	15,960	0.62	18,485	0.67
Lapsed	-	-	(3,000)	(0.79)
Exercised	-	-	(25)	(0.09)
Exercised	-	-	(500)	(0.19)
Issued	-	-	1,000	0.31
Balance – end of period	15,960	0.62	15,960	0.62

8. Stock-based compensation

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

The fair value of stock options used to calculate compensation expense is estimated using the Black-Scholes option pricing model with the following assumptions. There were no share options granted during the three months ended 31 March 2013:

	2013	2012
Risk free interest rate	-	0.72%
Expected dividend yield	-	0%
Expected stock price volatility	-	90%
Expected option life in years	-	5 years

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

The total expense relating to the fair value of the share options recognised in administrative expenses for the three months ended 31 March 2013 was \$nil (2012 - \$247,000).

Arian Silver Corporation
Notes to Consolidated Financial Statements (Unaudited)
For the three months ended 31 March, 2013 and 2012
(In U.S. dollars)

9. Related party transactions

These unaudited interim consolidated financial statements include balances and transactions with directors and officers of the Company and/or corporations related to them. All transactions have been recorded at the exchange amount which is the consideration established and agreed to between the related parties. During the three months ended 31 March, 2013 and 2012 the Company entered into the following transactions involving related parties:

Transactions with key management personnel

The Dragon Group charged the Company a total of \$30,161 (31 March, 2012 – \$30,495) which relates to the reimbursement of Tony Williams' remuneration paid on behalf of the Company. Tony Williams, Chairman and a director of the Company, beneficially owns the Dragon Group. At 31 March, 2013 \$9,831 (31 December, 2012 - \$20,910) was outstanding.

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

10. Segment reporting

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

As at 31 March 2013, the operating segments included in internal reports are determined on the basis of their significance to the Group.

(i) Segment information

	San José		All other segments		Total	
	31 Mar	31 Mar	31 Mar	31 Mar	31 Mar	31 Mar
	2013	2012	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	-	2,314	-	-	-	2,314
Loss before tax	(206)	(65)	(750)	1,012	(956)	947
Capital Expenditure	303	539	-	-	303	539
Depreciation and amortisation	3	45	1	11	4	56

	San José		All other segments		Total	
	31 Mar	31 Dec	31 Mar	31 Dec	31 Mar	31 Dec
	2013	2012	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total assets	11,723	10,866	3,431	3,253	15,154	14,119
Total liabilities	186	177	997	939	1,183	1,116

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

Arian Silver Corporation
Notes to Consolidated Financial Statements (Unaudited)
For the three months ended 31 March, 2013 and 2012
(In U.S. dollars)

10. Segment reporting (continued)

(ii) Geographical information

	Mexico		UK		Total	
	31 Mar 2013 \$'000	31 Mar 2012 \$'000	31 Mar 2013 \$'000	31 Mar 2012 \$'000	31 Mar 2013 \$'000	31 Mar 2012 \$'000
	Revenue	-	2,314	-	-	-

	Mexico		UK		Total	
	31 Mar 2013 \$'000	31 Dec 2012 \$'000	31 Mar 2013 \$'000	31 Dec 2012 \$'000	31 Mar 2013 \$'000	31 Dec 2012 \$'000
	Non current assets excluding investments	12,409	11,525	53	56	12,462

11. Post balance sheet events

Issue of shares

Since 31 March 2013, the Company has issued 2,493,212 common shares at £0.1050805 and a further 4,403,160 common shares at £0.068133 in relation to the drawdown of the SEDA, generating funding of £262,000 and £300,000 respectively.

Following this share issue the Company has in issue 318,491,926 common shares with voting rights.