ARIAN SILVER CORPORATION

Audited Consolidated
Financial Statements

Year Ended 31 December 2013
(In thousands of U.S. dollars)

Directors' responsibilities statement

The directors are responsible for preparing the financial statements and have elected to prepare the group financial statements in accordance with International Financial Reporting Standards in order to give a true and fair view of the state of affairs of the group and of its profit or loss for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping records that are sufficient to show and explain the company's transactions and will, at any time, enable the financial position of the company to be determined with reasonable accuracy. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the British Virgin Islands governing the preparation and dissemination of the company financial statements and other information included in the annual reports may differ from legislation in other jurisdictions.

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

We have audited the financial statements of Arian Silver Corporation for the year ended 31 December 2013 and the year ended 31 December 2012 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs).

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (as issued by the International Auditing and Assurance Standards Board). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Arian Silver Corporation as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter – going concern and adequacy of project finance

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's and the Company's ability to continue as a going concern. The group is currently developing refinancing opportunities to address the current working capital deficiencies to enable the repayment of the convertible loan that matures in August 2014 and to fund the expansion of the company's operations. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern and on the carrying value of the Group's exploration and other assets. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

BDO LLP
Chartered Accountants
London
United Kingdom

19 March 2014

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated statement of comprehensive income

(Expressed in United States dollars)

For the year ended 31 December 2013

	Note	**2013 $'000**	**2012 $'000**
Continuing operations			
Revenue		129	4,588
Cost of sales		(693)	(5,352)
Gross loss		(564)	(764)
Administrative expenses		(3,992)	(3,194)
Gain on derivative liability revaluation	*19*	3,457	-
Transaction costs on derivative liability	*19*	(468)	-
Operating loss	*5*	(1,567)	(3,958)
Net investment loss	*7*	(44)	(73)
Loss for the year attributable to equity shareholders of the parent		(1,611)	(4,031)
Other comprehensive income			
Foreign exchange translation differences recognised directly in equity	*16*	604	981
Other comprehensive income for the year		604	981
Total comprehensive income for the year attributable to equity shareholders of the parent		(1,007)	(3,050)
Basic and diluted loss per share ($)	*9*	(0.05)	(0.13)

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

Consolidated statement of financial position

(Expressed in United States dollars)

As at 31 December 2013

	Note	**2013 $'000**	**2012 $'000**
Assets			
Intangible assets	*10*	1,168	1,176
Property, plant and equipment	*11*	17,651	10,405
Total non-current assets		18,819	11,581
Trade and other receivables	*12*	1,326	1,206
Cash and cash equivalents	*13*	7,241	491
Inventories	*14*	980	644
Financial assets held at fair value through profit or loss	*15*	-	197
Total current assets		9,547	2,538
Total assets		28,366	14,119
Equity attributable to equity shareholders of the parent			
Share capital	*16*	51,514	48,223
Share-based payment reserve	*16*	8,001	7,885
Foreign exchange translation reserve	*16*	(966)	(1,570)
Accumulated losses	*16*	(42,765)	(41,535)
Total equity		15,784	13,003
Liabilities			
Trade and other payables	*18*	1,173	939
Convertible note	*19*	11,170	-
Derivative liability	*19*	52	-
Total current liabilities		12,395	939
Provision for mine closure	*20*	187	177
Total non-current liabilities		187	177
Total liabilities		12,582	1,116
Total equity and liabilities		28,366	14,119

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 19 March 2014 and were signed on its behalf by:

J T Williams
Chief Executive Officer

D Friday
Chief Financial Officer

Consolidated statement of cash flows

(Expressed in United States dollars)

For the year ended 31 December 2013

	Note	**2013 $'000**	**2012 $'000**
Cash flows from operating activities			
Loss before tax		(1,611)	(4,031)
Adjustments for:			
Depreciation and amortisation		59	158
Exchange difference		53	146
Net investment loss		44	73
Fair value of derivative liability		(3,456)	-
Equity-settled share-based payment transactions		497	247
		(4,414)	(3,407)
(Increase)/decrease in trade and other receivables		(71)	732
Increase/(decrease) in trade and other payables		196	(264)
(Increase)/decrease in inventories		(310)	303
Net cash used in operating activities		(4,599)	(2,636)
Cash flows from investing activities			
Interest received		17	12
Proceeds from disposal of investments		142	-
Acquisition of property, plant and equipment		(4,770)	(1,879)
Net cash used in investing activities		(4,611)	(1,867)
Cash flows from financing activities			
Proceeds from issue of share capital		3,291	897
Proceeds from issue of convertible note (net of transaction costs)		12,159	-
Net cash from financing activities		15,450	897
Net increase/(decrease) in cash and cash equivalents		6,240	(3,606)
Cash and cash equivalents at 1 January		491	3,991
Effect of exchange rate fluctuations on cash held		510	106
Cash and cash equivalents at 31 December	*13*	7,241	491

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

Consolidated statement of changes in equity

(Expressed in United States dollars)

For the year ended 31 December 2013

	Share Capital $'000	Share based payment Reserve $'000	Foreign exchange translation reserve $'000	Accumulated Losses $'000	Total $'000
Balance – 1 January 2012	47,326	9,359	(2,551)	(39,225)	14,909
Loss for the year	-	-	-	(4,031)	(4,031)
Foreign exchange	-	-	981	-	981
Total comprehensive income for the year	**-**	**-**	**981**	**(4,031)**	**(3,050)**
Exercise of share options	94	-	-	-	94
Fair value of share options	-	247	-	-	247
Shares issued for cash	823	-	-	-	823
Share issue costs	(20)	-	-	-	(20)
Lapse of share options	-	(1,721)	-	1,721	-
Balance – 31 December 2012	**48,223**	**7,885**	**(1,570)**	**(41,535)**	**13,003**
Loss for the year	-	-	-	(1,611)	(1,611)
Foreign exchange	-	-	604	-	604
Total comprehensive income the year	**-**	**-**	**604**	**(1,611)**	**(1,007)**
Fair value of share options	-	497	-	-	**497**
Shares issued for cash	3,495	-	-	-	**3,495**
Share issue costs	(204)	-	-	-	**(204)**
Lapse of share options	-	(381)	-	381	**-**
Balance – 31 December 2013	**51,514**	**8,001**	**(966)**	**(42,765)**	**15,784**

The accompanying notes are an integral part of these 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 2013 comprise the Company and its subsidiaries (together referred to as the "Group").

The Group is primarily involved in the acquisition and development of mineral resource assets.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements for the year ended 31 December 2013 have been prepared in accordance with both International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board and IFRSs and Interpretations adopted by the EU in force at the reporting date.

The Group has adopted all of the new and revised Standards and Interpretations that are relevant to its operations and effective for accounting periods beginning 1 January 2013. The adoption of these new and revised Standards and Interpretations had no material effect on the profit or loss or financial position of the Group.

In order to comply with International Financial Reporting Standards as issued by the International Accounting Standards Board, the Group has chosen early adoption of IFRS 10, 11 and 12, however these do not have a material impact on the financial statements.

The accounts were approved by the board and authorised for issue on 19 March 2014.

(b) Going concern and adequacy of project finance

The financial statements have been prepared on a going concern basis.

The directors regularly review cash flow forecasts to determine whether the Group has sufficient cash reserves to meet future working capital requirements and commitments, and to fund future expansion projects and business opportunities.

At 31 December 2013 the Company had a working capital deficiency of $2.8m.

On 29 August 2013 the Company raised US$15,585,000 through the issuance of a senior secured convertible note ("Convertible Note"). The Convertible Note is convertible at C$1.10 at the option of the note holder, and if not converted, will mature at a premium of 5% on 28 August 2014.

The Group is currently developing refinancing opportunities, including the issue of new equity, debt finance and alternative financing arrangements to source capital on more attractive terms and to more suitably fund the expansion of the Group's operations.

In September 2012, the Group entered into a £5m Standby Equity Distribution Agreement ("SEDA") with YA Global Master SPV Ltd ("Yorkville"). The SEDA entitles the Group to drawdown funds in exchange for the issue of shares at a price based on the Company's market price. At 31 December 2013, £2.2m remained available to draw down against the SEDA facility. The agreement expires in September 2015.

In the past the Group has been successful at raising funding, however there can be no assurance that the Group will be able to raise funds in the future.

The directors currently believe the Group has adequate financial resources or access to such resources in order to continue to prepare the Company's financial statements on a going concern basis. However, if the Company is unsuccessful in raising future funding it may not be able to meet its on-going 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.

Notes to the consolidated financial statements

(c) Use of estimates and judgement

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRSs") requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

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

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

- Going concern and adequacy of project finance – Note 2(b)
- Capitalisation and impairment of exploration and evaluation costs – Notes 3(h), 3(j), 10
- Estimation of share based payment costs – Notes 3(p), 17
- Depreciation on property, plant and equipment – Note 3(i), 11
- Revenue – Note 3(c)
- Inventories – Note 3(k)
- Valuation of convertible loan note and derivative – Note 3(l), 19

(d) Functional and presentation currency

These consolidated financial statements are presented in United States dollars, rounded to the nearest thousand 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

An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control is obtained.

(ii) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

The functional currency of the parent company is pounds sterling. The financial statements are presented in United States dollars because it is the trading currency of silver and is therefore considered to be the most useful currency to the users of the accounts.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(ii) Financial statements of operations

The assets and liabilities of operations, including goodwill and fair value adjustments arising on consolidation, are translated to United States dollars at exchange rates ruling at the date of the consolidated statement of financial position. The revenues and expenses of operations and net investments in subsidiaries are translated to United States dollars at rates approximating to the exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised in other comprehensive income. They are reclassified to profit or loss upon disposal.

(c) Revenue recognition

Revenue from sales of metal concentrate is recognised when title transfers and the rights and obligations of ownership pass to the customer. The Group's sales of concentrate are made under pricing arrangements where final sales prices are determined by quoted market prices in a period subsequent to the date of sale. In these circumstances, revenue from sales is recorded at the time of the sale based on forward prices for the expected date of final settlement. Subsequent variations in prices are recognised as revenue adjustments as they occur.

In a period of extreme and unusual price volatility, the effect of mark-to-market price adjustments related to the quantity of metal which remains to be settled with independent smelters, could be significant.

(d) Leased assets

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

All other leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

(e) Finance income and expenses

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

Finance expenses comprise interest expense on borrowings and related foreign currency losses. All borrowing costs are recognised in the income statement using the effective interest method. The non-derivative element of the Company's convertible note is measured at amortised cost and the liability is increased by accretion of the effective interest, which is capitalised, until the liability value reaches the nominal value of the note plus premium payable on maturity. Borrowing costs apportioned to the derivative element of the convertible loan note are recognised in the statement of comprehensive income.

(f) Income tax expense

Income tax expense comprises current and deferred tax.

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

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

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.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(g) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all potentially dilutive common shares, which comprise warrants, share options and conversion of the loan note into shares.

(h) Intangible assets

(i) Goodwill

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

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

(ii) Deferred exploration and evaluation costs

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

The recoverability of deferred exploration and evaluation costs is dependent upon a number of factors common to the natural resource sector. These include the extent to which the 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.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(i) Property, plant and equipment

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

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

Other property, plant and equipment
(i) Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the estimated costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs
The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

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

- office equipment 3 to 10 years
- fixtures and fittings 3 to 10 years
- plant and equipment 5 to 10 years
- motor vehicles 4 years

The residual value, if not insignificant, is reassessed annually. Assets under construction are not depreciated.

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

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(k) Inventories

Concentrate and stockpiled ore are valued at the lower of the average production costs and net realisable value. The assumptions used in the valuation of those inventories include estimates of metal contained in stockpiled ore, assumptions of the amount of metal that is expected to be recovered, assumptions of the smelting terms as well as assumptions of the metal prices and exchange rates expected to be realised when the metals are recovered. If these estimates or assumptions prove to be inaccurate, the Group could be required to write-down the recorded value of its inventories, which would reduce the Group's earnings and working capital. Net realisable value is determined with reference to market prices.

(l) Financial instruments

(i) Loans and receivables

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

(ii) Financial liabilities measured at amortised cost

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

(iii) Financial liabilities measured at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivative liabilities. Derivative liabilities are fair valued using an appropriate statistical model. The derivative liability is fair valued on initial recognition and is fair valued at each reporting date and changes are taken directly to the income statement.

Financial liabilties are derecocognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

(iv) Financial assets at fair value through profit or loss

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

(m) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than continuing use. This is the case when the asset is available for immediate sale in its present condition and the sale is highly probable.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell.

A sale is considered to be highly probable if the appropriate level of management is committed to a plan to sell the asset and the active plan to complete the sale has been initiated, the sale has been actively marketed at a price that is reasonable in relation to its fair value and the sale is expected to qualify for recognition as a completed sale within one year from the date it is classified as held for sale.

3. Significant accounting policies *(continued)*

(n) Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions for decommissioning and site restoration costs

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

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

(o) Share capital – Common shares

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

(p) Share-based payment transactions

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

Notes to the consolidated financial statements

4. Segment reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board in order to allocate resources to the segments and to assess their performance.

The operating segments included in internal reports are determined on the basis of their significance to the Group. In particular, operating mines are reported as separate segments together with exploration projects that have significant capitalised expenditure. An analysis of the Group's business segments is set out below.

(i) Segment information

	San José		All other segments		Total	
	2013	2012	2013	2012	2013	2012
	$'000	$'000	$'000	$'000	$'000	$'000
Revenue	129	4,588	-	-	129	4,588
(Loss)/profit before tax	(564)	(764)	(1,047)	(3,267)	(1,611)	(4,031)
Capital Expenditure	1,208	1,828	6,158	51	7,366	1,879
Depreciation and amortisation	41	142	18	16	59	158
Total assets	12,304	10,866	16,062	3,253	28,366	14,119
Total liabilities	187	177	12,395	939	12,582	1,116

San José revenue relates to transactions from one customer during the year. (2012: two customers: 67% and 33%)

(ii) Geographical information

	Mexico		UK		Total	
	2013	2012	2013	2012	2013	2012
	$'000	$'000	$'000	$'000	$'000	$'000
Non current assets excluding investments	15,448	11,525	3,371	56	18,819	11,581
Revenue	129	4,588	-	-	129	4,588

5. Operating loss is stated after charging:

	2013	2012
	$'000	$'000
Auditors' remuneration		
Audit – Remuneration for audit of Arian Silver Corporation	48	47
Audit – Remuneration for audit of Arian Silver de Mexico S.A. de C.V.	22	18
Taxation services	10	9
Depreciation and amortisation	59	158
Loss on disposal of non-current assets held for sale	51	-
Exchange loss	510	106

Notes to the consolidated financial statements

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 2013	Number of Employees 2012
Finance and administration	16	16
Technical	44	42
	60	**58**

The aggregate staff costs of these persons were as follows:

	2013 $'000	2012 $'000
Wages and salaries	1,224	1,101
Social security costs	110	108
Share based payments	497	232
	1,831	**1,441**

Remuneration of key management personnel

Key management personnel remuneration is detailed below:

	2013			2012
	Salary	Fees	Total	Total
Executive directors	$'000	$'000	$'000	$'000
A J Williams	113	-	113	114
J T Williams	289	-	289	254
Non-executive directors				
T A Bailey	23	-	23	24
J S Cable	23	-	23	24
J A Crombie	23	-	23	24
Other key management				
Country Manager – Mexico	-	79	79	60
Chief Financial Officer	151	-	151	158
Company Secretary	141	-	141	111
	763	**79**	**842**	**769**

The note is based on key management personnel in place during the year.

The above remuneration excludes social security costs incurred by the Group. Including these social security costs, the total short-term employee benefits for the year in respect of key management personnel amounted to $935,000 (2012: $839,000).

Key management personnel also participate in the Group's share option programme as disclosed in note 17.

7. Net investment loss

	2013 $'000	2012 $'000
Loss on disposal of financial assets held	(51)	(78)
Unwinding of provision for mine closure	(10)	(7)
Interest income	17	12
	(44)	**(73)**

Notes to the consolidated financial statements

8. Income tax recognised in the income statement

Current tax	2013 $'000	2012 $'000
Current year	-	-

Reconciliation of effective tax rate	2013 $'000	2012 $'000
Loss before tax	(1,611)	(4,031)
Income tax using the domestic corporation tax rate of 23.25% (2012: 24.49%)	(375)	(987)
Non-deductible expenses	(555)	313
Share options disallowed	116	61
Share options relief	-	(8)
Exchange rate differences	(6)	345
Depreciation in excess of capital allowances	8	9
Short term timing differences not recognised in a deferred tax asset	(289)	(580)
Capitalised interest	(604)	-
Tax losses carried forward	1,705	847
Total tax expense/(credit)	-	-

At the year end the Group had tax losses to carry forward of approximately $35,881,000 (2012: $27,628,000).

Under IFRS a net deferred tax asset of approximately $4,127,000 (2012: $3,461,000) has not been recognised due to the uncertainty as to the amount that can be utilised.

9. Loss per share

Basic loss per share
The calculation of basic loss per share at 31 December 2013 was based on the loss attributable to common shareholders of $1,611,000 (2012: $4,031,000) and a weighted average number of common shares outstanding during the year ended 31 December 2013 of 32,212,527 (2012: 30,205,901). The issue of common shares prior to the date of the share consolidation have been restated to the nearest whole number as if they had occurred post-consolidation.

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

Notes to the consolidated financial statements

10. Intangible assets

Cost	Goodwill $'000	Deferred Exploration Costs $'000	Total $'000
Balance – 1 January 2012	13,446	1,278	**14,724**
Foreign exchange	-	83	**83**
Balance – 31 December 2012	13,446	1,361	**14,807**
Balance – 1 January 2013	13,446	1,361	**14,807**
Foreign exchange	-	(8)	**(8)**
Balance – 31 December 2013	13,446	1,353	**14,799**
Impairment losses and amortisation			
Balance – 1 January 2012	(13,446)	(185)	**(13,631)**
Balance – 31 December 2012	(13,446)	(185)	**(13,631)**
Balance – 1 January 2013	(13,446)	(185)	**(13,631)**
Balance – 31 December 2013	(13,446)	(185)	**(13,631)**
Carrying amounts			
At 31 December 2013	-	1,168	**1,168**
At 31 December 2012	-	1,176	**1,176**
At 1 January 2012	-	1,093	1,093

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

Deferred exploration costs as at 31 December 2013 consisted mainly of costs relating to Calicanto $798,000 (2012: $803,000), San Celso $93,000 (2012: $94,000) and Los Campos $84,000 (2012: $85,000).

Notes to the consolidated financial statements

11. Property, plant and equipment

	Mine Development costs $'000	Plant and equipment $'000	Fixtures & fittings $'000	Vehicles $'000	Total $'000
Cost					
Balance – 1 January 2012	8,206	132	28	93	**8,459**
Additions	1,760	119	-	-	**1,879**
Foreign exchange movement	610	9	2	7	**628**
Balance – 31 December 2012	10,576	260	30	100	**10,966**
Balance – 1 January 2013	10,576	260	30	100	**10,966**
Additions	1,208	6,158	-	-	**7,366**
Foreign exchange movement	(66)	2	-	-	**(64)**
Balance – 31 December 2013	11,718	6,420	30	100	**18,268**
Depreciation and impairment losses					
Balance – 1 January 2012	(201)	(75)	(13)	(88)	**(377)**
Depreciation and amortisation charge for the year	(141)	(12)	(3)	(2)	**(158)**
Foreign exchange movement	(13)	(5)	(1)	(7)	**(26)**
Balance – 31 December 2012	(355)	(92)	(17)	(97)	**(561)**
Balance – 1 January 2013	(355)	(92)	(17)	(97)	**(561)**
Depreciation and amortisation charge for the year	(41)	(13)	(3)	(2)	**(59)**
Foreign exchange movement	2	-	-	1	**3**
Balance – 31 December 2013	(394)	(105)	(20)	(98)	**(617)**
Carrying amounts					
At 31 December 2013	11,324	6,315	10	2	**17,651**
At 31 December 2012	10,221	168	13	3	**10,405**
At 1 January 2012	8,005	57	15	5	**8,082**

The mine development costs at 31 December 2013, relate to the 100% owned San José property in Zacatecas State, Mexico.

Plant and equipment of $6,315,000 includes $6,275,000 (2012: $nil) for the El Bote mill, of which $2,596,000 (2012: $nil) relates to transaction costs that have been capitalised during the year.

12. Trade and other receivables

	2013 $'000	2012 $'000
Other receivables	904	1,077
Receivables due from related parties	204	-
Prepayments	218	129
	1,326	**1,206**

Included within other receivables is $695,000 (2012: $998,000) of Mexican IVA (sales goods tax) which is recoverable from the Mexican authorities. The Group has previously been successful recovering IVA and management are confident that this amount will be recovered.

13. Cash and cash equivalents

	2013 $'000	2012 $'000
Bank balances	7,241	491
Cash and cash equivalents in the statement of cash flows	**7,241**	**491**

Notes to the consolidated financial statements

14. Inventories

	2013 $'000	2012 $'000
Consumables	22	13
Stockpiled ore	958	631
	980	**644**

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

Following the completion in 2011 of the disposal of the group's Tepal Gold-Copper Project to Geologix Explorations Inc ("Geologix"), the Group was issued 1,089,318 Geologix shares. The Group disposed of its total Geologix shareholding of 1,089,318 shares during the year ended 31 December 2013 generating a loss of $51,000. The Geologix shares were acquired with the principal intent to be disposed of in the near future and as such, were classified as financial assets held at fair value through profit and loss.

16. Share capital and reserves

Authorised

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

Issued and outstanding common shares

Following the approval of shareholders on 29 August 2013, every 10 pre-consolidated common shares in the Company were consolidated into one post-consolidation common share of the Company, effective from 3 September 2013. The references to common shares prior to the date of the share consolidation have been restated to the nearest whole number as if they were post-consolidation.

Changes for the years ended 31 December 2013 and 2012 are detailed in the following table:

	2013		2012	
	Number of Shares 000's	Amount $000's	Number of Shares 000's	Restated Amount $000's
Balance – 1 January	30,490	48,223	30,119	47,326
Shares issued for cash	2,876	3,495	318	823
Issue costs of share issuance	-	(204)	-	(20)
Exercise of share options	-	-	53	94
Balance – 31 December	33,366	51,514	**30,490**	**48,223**

During the years ended 31 December 2013 and 2012, the Company made the share issuances as set out below. The issue of common shares prior to the date of the share consolidation have been restated to the nearest whole number as if they had occurred post-consolidation.

Notes to the consolidated financial statements

16. Share capital and reserves *(continued)*

2013

- 101,989 common shares issued at £1.42172 per share to provide additional working capital of £145,000 in connection with the drawdown of the SEDA.
- 165,780 common shares issued at £1.36326 per share to provide additional working capital of £226,000 in connection with the drawdown of the SEDA.
- 219,828 common shares issued at £1.3647 per share to provide additional working capital of £300,000 in connection with the drawdown of the SEDA.
- 182,102 common shares issued at £1.0258 per share to provide additional working capital of £186,800 in connection with the drawdown of the SEDA.
- 249,321 common shares issued at £1.050805 per share to provide additional working capital of £262,000 in connection with the drawdown of the SEDA.
- 440,316 common shares issued at £0.68133 per share to provide additional working capital of £300,000 in connection with the drawdown of the SEDA.
- 430,286 common shares issued at £0.50199 per share to provide additional working capital of £216,000 in connection with the drawdown of the SEDA.
- 321,656 common shares issued at £0.4045 per share to provide additional working capital of £130,110 in connection with the drawdown of the SEDA.
- 207,694 common shares issued at £0.46003 per share to provide additional working capital of £95,545 in connection with the drawdown of the SEDA.
- 557,063 common shares issued at £0.70004 per share to provide additional working capital of £389,967 in connection with the drawdown of the SEDA.

2012

- 97,507 common shares issued at £1.57938 per share to provide additional working capital of £154,000 drawdown of the SEDA.
- 220,939 common shares issued at £1.62941 per share to provide additional working capital of £360,000 drawdown of the SEDA.
- 50,000 common shares issued at £1.20 per share to provide additional working capital of £60,000 in connection with share options exercised.
- 2,500 common shares issued at £0.55 per share to provide additional working capital of £1,375 in connection with share options exercised.

Share-based payment reserve

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

Foreign exchange translation reserve

The translation reserve comprises foreign exchange differences arising on the translation of amounts relating to overseas operations.

Accumulated losses

Accumulated losses contain losses in the current and prior years.

Notes to the consolidated financial statements

17. Share-based payment transactions

The number and weighted average exercise prices of share options for the years ended 31 December 2013 and 2012 are set out below. The issue of common shares prior to the date of the share consolidation have been restated to the nearest whole number as if they had occurred post-consolidation.

	2013		2012	
	Outstanding (000's)	Weighted average exercise price ($)	Outstanding (000's)	Weighted average exercise price ($)
Balance – 1 January	1,596	6.20	1,849	6.70
Issued	845	1.10	100	3.10
Exercised	-	-	(50)	(1.90)
Exercised	-	-	(3)	(0.90)
Lapsed	(210)	(2.60)	(300)	(7.90)
Balance – 31 December	**2,231**	**4.54**	**1,596**	**6.20**

Share options in issue at 31 December 2013:

Outstanding shares	Exercise price	Expiry
130,000	£0.55/C$1.00	16 July 2014
1,186,000	£4.925/C$7.90	18 January 2016
70,000	£2.00/C$3.2077	29 May 2017
845,000	£0.70/C$1.09123	29 May 2018

The weighted average remaining contractual life of share options as at 31 December 2013 was 1,058 days.

Share options held by directors and senior management at 31 December 2013:

Holder	Shares '000s	Exercise price	Grant Date	Vesting Date	Expiry[1]
A Williams	200	£0.70/C$1.09123	30 May 2013	30 May 2013	29 May 2018
	350	£4.925/C$7.90	19 January 2011	19 April 2011	18 January 2016
J Williams	200	£0.70/C$1.09123	30 May 2013	30 May 2013	29 May 2018
	350	£4.925/C$7.90	19 January 2011	19 April 2011	18 January 2016
J Cable	25	£0.70/C$1.09123	30 May 2013	30 May 2013	29 May 2018
	65	£4.925/C$7.90	19 January 2011	19 April 2011	18 January 2016
	20	£0.55/C$1.00	17 July 2009	17 July 2009	16 July 2014
T Bailey	25	£0.70/C$1.09123	30 May 2013	30 May 2013	29 May 2018
	65	£4.925/C$7.90	19 January 2011	19 April 2011	18 January 2016
	20	£0.55/C$1.00	17 July 2009	17 July 2009	16 July 2014
J Crombie	25	£0.70/C$1.09123	30 May 2013	30 May 2013	29 May 2018
	65	£4.925/C$7.90	19 January 2011	19 April 2011	18 January 2016
	55	£0.55/C$1.00	17 July 2009	17 July 2009	16 July 2014
Senior Management	300	£0.70/C$1.09123	30 May 2013	30 May 2013	29 May 2018
	50	£2.00/C$3.2077	30 May 2012	30 May 2012	29 May 2017
	60	£4.925/C$7.90	19 January 2011	19 July 2011	18 January 2016
	60	£4.925/C$7.90	19 January 2011	19 January 2012	18 January 2016
	25	£0.55/C$1.00	17 July 2009	17 January 2010	16 July 2014

Notes to the consolidated financial statements

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

[1] The expiry date is subject to the option holder holding office on the expiry date and not having previously exercised the share option. Share options may lapse at an earlier date in accordance with the rules of the share option plan, for example, should an option holder cease to hold office.

Changes to share options held by directors and senior management in the year ended 31 December 2013:

Holder	At 1 January 2013 '000s	Granted '000s	Lapsed '000s	At 31 December 2013 '000s
A Williams	425	200	(75)	550
J Williams	425	200	(75)	550
J Cable	85	25	-	110
T Bailey	85	25	-	110
J Crombie	120	25	-	145
Senior Management	255	300	(60)	495
Total	**1,395**	**775**	**(210)**	**1,960**

During the year 775,000 share options were issued to directors and senior management at an exercise price of £0.70/C$1.09123. In addition 210,000 share options lapsed during the year at exercise prices ranging from £1.20/C$2.50 to £3.00/C$4.80. There were no share options exercised during the year. The aggregate gains made by directors and senior management on share sales for the year ended 31 December 2013 was $nil (2012: $23,000).

Fair value of share options and assumptions
The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The following inputs were used in the calculation of the fair value of the share options granted.

	2013	2012
Fair value	$497,000	$167,000
Share price 31 December 2012		$2.40
Share price 31 December 2013	$0.36	
Exercise price (expressed as weighted average)	$1.05	$3.20
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes model)	93%	90%
Option life (expressed as weighted average life used in the modelling under Black-Scholes model)	5yrs	5yrs
Expected dividends	-	-
Risk-free interest rate (based on national government bonds)	0.98%	0.72%

The expected volatility is based on the historical share price of the Company. There are no market conditions associated with the share option grants.

The total expense relating to the fair value of the share options recognised in administrative expenses was $497,000 (2012: $247,000) during the year ended 31 December 2013; of these expenses $427,000 (2012: $183,000) related to share options issued to key management personnel.

18. Trade and other payables

	2013 $'000	2012 $'000
Payables due to related parties	11	21
Trade payables	921	785
Other payables	241	133
	1,173	**939**

Notes to the consolidated financial statements

19. Convertible note

	Convertible Note		Derivative Liability	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Proceeds at issuance	15,585	-	-	-
Less interest prepaid at issuance	(2,182)	-	-	-
Fair value derivative liability on recognition	(3,509)	-	3,509	-
Transaction costs capitalised on recognition	(1,320)	-	-	-
Change in fair value derivative liability at 31.12.13	-	-	(3,457)	-
Unwind effective interest period ended 31.12.13	2,596	-	-	-
Closing balance	11,170	-	52	-
Transaction costs expensed on recognition	-	-	468	-

The conversion option of the Convertible Note has been treated as an embedded derivative because it does not meet the definition of equity. The liability and derivative liability components are presented separately in the Consolidated Statement of Financial Position starting from initial recognition. Initial recognition of the liability component is based on the proceeds from the transaction less the fair value of the derivative liability. Subsequent to initial recognition, the liability component is measured at amortised cost using the effective interest method; the liability component is increased by accretion of the effective interest to reach the nominal value of the notes plus premium payable on maturity.

On initial recognition, the derivative liability is fair valued using a Monte Carlo simulation and is then deducted from the carrying value of the convertible note liability. Subsequently, the derivative liability is fair valued at each reporting date and changes in the fair value are taken directly to the Statement of Comprehensive Income. The derivative liability is impacted by market risk and foreign exchange rate risk.

Transaction costs are distributed between the convertible note liability and derivative liability on a pro-rata basis of their carrying amounts on initial recognition.

The gain reported on the derivative at 31 December 2013 is primarily a result of the weakening in Arian Silver Corporations' share price between the issuance of the loan note and the year end. Any subsequent increase in the share price from the reporting date would be likely to result in a loss on the derivative.

20. Provision for mine closure

	2013	**2012**
	$'000	**$'000**
Opening balance	177	170
Unwinding of discount	10	**7**
Closing balance	**187**	**177**

The provision has been made to cover projected closure costs at the San José mine for the initial mining period of approximately 4 years, should the company fail to extend the operations beyond the initial period. Closure costs are calculated to be $206,000 (2012: $206,000) at the end of the 4 years using a discount rate of 5% (2012: 5%). Closure activities include decommissioning, reclamation and rehabilitation.

21. Group entities

Significant Subsidiaries	**Country of incorporation and operation**	**Principal activity**	**Arian Silver Corporation effective interest** 2013	2012
Arian Silver de Mexico S.A. de C.V.	Mexico	Exploration and Production of Silver	100%	100%

Notes to the consolidated financial statements

22. Financial instruments and financial risk management

Categories of financial instruments	**Loans and receivables**		**Financial liabilities measured at amortised cost**		**Financial liabilities at fair value through profit or loss**		**Financial assets at fair value through profit or loss**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	7,241	491	-	-	-	-	-	-
Shares	-	-	-	939	-	-	-	197
Trade and other receivables	413	79	-	-	-	-	-	-
Convertible note liability	-	-	11,170	-	-	-	-	-
Derivative liability	-	-	-	-	52	-	-	-
Trade and other payables	-	-	1,173	-	-	-	-	-
	7,654	570	12,343	939	52	-	-	197

Exposure to interest rate and currency risks arises in the normal course of the Group's business. Derivative financial instruments are not used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

The Group's policy is to retain its surplus funds on short term deposits, usually between one week and four weeks duration, at prevailing market rates. Credit risk is managed by ensuring that surplus funds are only deposited with well established financial institutions of high quality credit standing.

Valuation hierarchy

The carrying amount of the financial assets at fair value through profit or loss stated above is based on unadjusted quoted prices in active markets for identical assets i.e. Level 1. The carrying amount of the financial liabilities at fair value through profit and loss is based on inputs other than quoted prices that are observable for the liability including implied volatilities and market-corroborated inputs i.e. Level 2.

Market risk

Market risk is the risk that the Group's future earnings will be adversely impacted by changes in market prices. Market risk for Arian comprises two types of risk: currency risk and price risk.

Price risk

The price risk is the risk that the Group's future earnings will be adversely impacted by changes in the market prices of commodities, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments in the market.

Foreign currency risk

The Group's operational expenditure is made in Mexico in Mexican pesos 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 pound sterling, the Canadian dollar or the Mexican peso against 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 pound sterling, the Canadian dollar or the Mexican peso 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.

Notes to the consolidated financial statements

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

Foreign currency risk *(continued)*

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

	Cash Held 2013 $'000	Cash Held 2012 $'000
Pounds Sterling	231	383
United States Dollars	6,900	60
Canadian Dollars	6	44
Mexican pesos	104	4
	7,241	**491**

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that the Group uses. Treasury activities take place under procedures and policies approved and monitored by the Board to minimise the financial risk faced by the Group. Interest bearing assets comprise cash and cash equivalents which are considered to be short-term liquid assets. No sensitivity analysis has been disclosed as management does not consider any reasonable fluctuation in interest rates to be sufficiently material to disclose.

Liquidity risk

The Group's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at 31 December 2013, the Group had cash of $7,241,000 to settle accounts payable of $1,173,000. The Group's accounts payable have contractual maturities of less than 30 days and are subject to normal trade terms. In the short-term, liabilities will be funded by cash. The Convertible Note matures in August 2014 (see note 19). Once the Group resumes production it is expected that the Group will generate sufficient cash from the sale of concentrates and funds raised from investors and the SEDA facility to settle operating accounts payable.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligations. The Group's maximum exposure to credit risk is attributable to cash and trade receivables. The credit risk on cash is limited because the Group invests its cash in deposits with well capitalised financial institutions with strong credit ratings. Credit risk attributable to trade receivables is managed by way of off-take agreements.

Fair values

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

Capital Management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern and have access to adequate funding for its exploration and development projects, so that it can provide returns for shareholders and benefits for other stakeholders. The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Group may issue new shares, acquire debt, or sell assets. Management regularly review cash flow forecasts to determine whether the Group has sufficient cash reserves to meet future working capital requirements and to take advantage of business opportunities.

Notes to the consolidated financial statements

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

Sensitivity Analysis

The Group holds cash in pounds sterling to settle accounts payable balances derived in that currency. The main risk is through foreign exchange fluctuations and how this moves in companies where the cash balances are held in a currency that is different to the functional currency.

Exposure to foreign currency risk sensitivity analysis:

	Profit/Loss		Equity	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
If there was a 10% weakening of pounds sterling against US dollar with all other variables held constant – increase/(decrease)	(23)	(38)	(23)	(38)
If there was a 10% strengthening of pounds sterling against US dollar with all other variables held constant – increase/(decrease)	23	38	23	38

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

23. Future commitments

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

	Milling contract		Buildings		Total	
	2013	2012	2013	2012	2013	2012
	$'000	$'000	$'000	$'000	$'000	$'000
Payable in less than one year	-	3,420	74	15	74	3,435
Payable in one to two years	-	-	-	-	-	-
	-	3,420	74	15	74	3,435

24. Related parties

Control of the Company

In the opinion of the Board, at 31 December 2013 there was no ultimate controlling party of the Company.

Identity of related parties

The Company and its subsidiaries have a related party relationship, with its Directors and executive officers.

Transactions with key management personnel

At 31 December 2013 the Directors of the Company and their immediate relatives controlled approximately 2.6% (2012: 2.8%) of the voting shares of the Company.

During the year ended 31 December 2013 the Company entered into the following transactions involving key management personnel:

Companies in the Dragon Group charged the Company a total of $121,498 (2012: $123,083). This relates to the reimbursement of Tony Williams' remuneration paid on behalf of the Company. Tony Williams, Chairman and a director of the Company, beneficially owns the Dragon Group. At 31 December 2013, $10,672 (2012: $20,910) was outstanding.

On 24 September 2013 the Company acquired an option for $200,000 to conduct due diligence on Siberian Goldfields Ltd ("SGL") and its mineral properties, with a view to Arian undertaking a potential equity transaction or other corporate transaction or investment with SGL ("Transaction"). On 27 November 2013, Arian gave notice to SGL of its election not to proceed with a Transaction.

Notes to the consolidated financial statements

24. Related parties *(continued)*

The option grant fee is repayable by SGL to Arian together with interest payable at a rate of 10% per annum in the event that Arian elects not to proceed with a Transaction. Interest accrued during the year ended 31 December 2013 amounts to $3,780 (2012: $nil). As at 31 December 2013, $203,780 (2012: $nil) was owed to Arian by SGL.

Tony Williams is a director and shareholder of SGL.

Key management personnel also participate in the Group's share option programme as disclosed in note 17.

Key management personnel compensation is disclosed in note 6.

Directors' interests in the common shares of the Company as at 31 December 2013 and 2012 are set out below. The issue of common shares prior to the date of the share consolidation have been restated to the nearest whole number as if they had occurred post-consolidation.

	2013	**2012**
A J Williams	220,000	220,000
J T Williams	480,000	480,000
J A Crombie	150,000	150,000
T A Bailey	-	200

25. Post balance sheet events

On 14 January 2014 the Company granted 50,000 share options under the Company's share option plan. These share options are exercisable at £0.325 or C$0.57624 per share up to 13 January 2018.