ARIAN SILVER CORPORATION

Management's Discussion and Analysis

of the Financial Condition and Results of Operations

For the six months ended 30 June 2013

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*
CORPORATE SECRETARY	David H. Taylor
HEAD OFFICE	Berkeley Square House Berkeley Square London, W1J 6BD United Kingdom Tel: +44 (0)20 7887 6599 Fax: +44 (0)20 7887 6598
REGISTERED OFFICE	Craigmuir Chambers P.O. Box 71 Road Town, Tortola British Virgin Islands
NOMINATED ADVISER	Grant Thornton UK LLP 30 Finsbury Square London, EC2P 2YU
BROKER	XCAP Securities PLC 24 Cornhill London, EC3V 3ND
FINANCIAL PR	Yellow Jersey PR Limited South Building, Upper Farm Wootton St. Lawrence Basingstoke Hants, RG23 8PE
INVESTOR RELATIONS	CHF Investor Relations 90 Adelaide Street West Toronto, M5H 3V9 Canada
AUDITOR	BDO LLP 55 Baker Street London, W1U 7EU
REGISTRAR	Computershare Investor Services Inc. 100 University Avenue Toronto, Ontario, M5J 2Y1 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 28 August 2013 and compares its financial results for the first quarter ended 30 June 2013 with the equivalent period of the previous year. This MD&A should be read in conjunction with the Company's 30 June 2013 unaudited Consolidated Financial Statements and the related notes. The unaudited Consolidated Financial Statements and the related notes have been prepared in accordance with International Financial Reporting Standards. All dollar amounts referred to in this MD&A are expressed in United States Dollars, unless specifically stated otherwise.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING AND CONTROLS

The unaudited Consolidated Financial Statements of the Company for the six months ended 30 June 2013, and the comparative information for 2012, 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 unaudited 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 unaudited 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 unaudited Consolidated Financial Statements may contain certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis to ensure that the unaudited 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.

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 unaudited Consolidated Financial Statements and the Company's 2012 Annual Report, both of which can be accessed on SEDAR at www.sedar.com or the Company's website at www.ariansilver.com.

Arian Silver is a publicly quoted silver exploration, development and production company, operating in one of the richest silver-bearing districts in the world, Zacatecas State, Mexico. The Company is committed to mining existing silver areas, and to exploring new opportunities. Arian's current main project is in San José, Zacatecas State. As part of the Company's strategy for future development, Arian will aim to use large scale mechanised mining techniques over wider mineralised structures, thus reducing the overall unit operating cost of metals, and building up compliant resources.

Arian Silver Corporation was co-founded by Jim Williams (President & CEO) and Tony Williams (Chairman).

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. The Company's headquarters are in Berkeley Square, London.

OVERVIEW OF SECOND QUARTER 2013

Financial

	Second Quarter 2013 $000s	Second Quarter 2012 $000s	Change $000s
Revenue	129	2,104	(1,975)
Gross (loss)/profit	(284)	(138)	(146)
Net (loss)/ profit for the period	(947)	(1,133)	186

	Six Months ended 30 Jun 2013 $000s	Year ended 31 Dec 2012 $000s	Change $000s
Cash and cash equivalents	635	491	144
Total assets	14,582	14,119	463

Trial production resumed in February 2013 at the Beneficiadora de Jales y Minerales Juan Reyes SA de CV ("Juan Reyes") processing plant albeit on a small scale. However, following the recent volatility in the silver price, an agreement has been reached by mutual consent with the owner of Juan Reyes to cease operations in June 2013. The decrease in revenues is due partly to the silver price being significantly lower, but mainly due to the production being much less than the equivalent quarter in 2012.

Cash balances at Q2 2013 were higher as further drawdowns on the Standby Equity Distribution Agreement ("SEDA") facility have contributed to working capital and other costs in the short-term.

Operations

	Second Quarter 2013	Second Quarter 2012	Change
Head grade - Ag grams per tonne	191	181	6%
Tonnes mined	4,628	26,268	(82%)
Tonnes milled	3,221	28,903	(89%)
Silver concentrate tonnes produced	43	298	(86%)
Silver ounces produced	9,294	98,616	(91%)
Silver ounces per concentrate tonne produced	216	331	(35%)
Silver ounces sold	9,058	93,112	(90%)
Silver concentrate tonnes sold	37	286	(87%)

Trial production ceased during the quarter at the Juan Reyes plant.

Exploration

The preparation and exploring of mining blocks continued in order to verify the continuity of mineralisation. Level 150 was dewatered and rehabilitated, and sampling took place obtaining new accessible mining blocks that were included in the resource estimate. The preparation and exploring of mining blocks continued in order to verify the continuity of mineralisation.

Subsequent Events

The Company announced on 23rd August 2013 the positive advancement of negotiations regarding future financing. The private placement debt financing of US$15,585,000 (the "Private Placement") comprises a senior secured convertible note (the "Note"), which would mature at a premium of 5% if not otherwise converted, twelve months from its date of issuance and will bear interest at an annual rate of 14% to be prepaid in full upon closing of the Private Placement.

It remains expected the Note will be convertible, in whole or in part, at the option of the holder, at any time following the closing date and up to and including the maturity date into fully paid and non-assessable common shares ("Common Shares") in the capital of the Company (collectively the "Note Shares") at price of CAD$0.11 per Note Share (the "Conversion Price"). If at the time of sending a conversion notice the Common Shares are then listed on the TSX Venture Exchange ("TSXV"), not more than 96% in aggregate (including prior conversions, if any) of the principal amount may be converted at the Conversion Price, and in the event that all or any part of the remaining 4% is to be converted, it shall be converted based on the last closing price of the Common Shares on the TSXV immediately prior to the date of sending the applicable conversion notice. The Note is expected to be secured on all or substantially all of the Company's and its subsidiaries' assets.

In connection with the Private Placement, the subscriber will receive a 4% arrangement fee from the gross proceeds. The TSXV has conditionally approved the Private Placement, subject to the Company fulfilling all of the listing requirements of the TSXV.

Assuming that all the regulatory conditions are satisfied, the proceeds from the private placement are intended to be used to acquire the El Boté processing plant, including transportation of plant to new site, refurbishment of plant, and new ground works at the site, mine expansion as well as for working capital and corporate purposes.

This processing plant has the capacity for processing up to 1,500 tonnes per day and is expected to provide significant cost savings from toll milling.

Since 30 June 2013, the Company has issued 5,293,499 common shares at an average price of £0.043 in relation to the drawdown of the SEDA, generating funding of £225,655.

Following this share issue the Company has in issue 328,088,286 common shares with voting rights.

The Company sold all of its shareholding (of 1,089,318 shares) in Geologix Explorations Inc. ("Geologix") for proceeds of $143,603 (CAD 148,916). This shareholding was reported with a fair value of $104,000 at 30 June 2013.

THE STRATEGY

- Obtain advanced and low-cost (acquisition cost) silver projects and rapidly build up resources in the ground. Arian is focusing its exploration efforts in one of the richest known silver-bearing districts in the world - the Zacatecas State of Mexico.
- Focus on projects with prior exploration and production history, thereby reducing risks and capital costs.
- Develop projects towards production through a combination of company development and/or Joint Venture (JV) and acquisition opportunities.
- Build shareholder value by expanding silver resources and reserves, and increasingly efficient production.

REVIEW OF OPERATING PERFORMANCE

	Q2 2013	**Q1 2013**	**Q4 2012**	**Q3 2012**	**Q2 2012**	**Q1 2012**
Head grade - Ag grams per tonne (g/t)	**191**	**174**	-	-	181	173
Tonnes mined	**4,628**	**-**	-	4,072	26,268	21,553
Tonnes milled	**3,221**	**258**	-	-	28,903	24,394
Silver concentrate tonnes produced	**43**	**4**	-	-	298	302
Recovery %	**47.05**	**60.90**	-	-	58.74	49.01
Silver ounces produced	**9,294**	**878**	-	-	98,616	66,688
Silver ounces per concentrate tonne produced	**216**	**251**	-	-	331	221
Silver ounces sold	**9,058**	**-**	-	8,937	93,112	75,911
Silver concentrate tonnes sold	**37**	**-**	-	32	286	330
Quarter end inventory balances						
Mined tonnes stockpile	**17,142**	**17,935**	18,192	18,204	15,003	17,637
Silver concentrate inventory tonnes	**4**	**4**	-	-	36	24
Silver ounces included in concentrate inventory	**1,114**	**878**	-	-	11,276	5,772

Head Grade
The head grade of 191 is an increase on previous quarters.

Tonnes mined
4,628 tonnes were mined in the quarter.

Tonnes milled
3,221 tonnes of stockpiled ore were milled during Q2 2013 as processing commenced at the Juan Reyes mill.

Silver concentrate produced
9,294 ounces of silver concentrate were produced during Q2 2013 compared to 878 ounces during Q1 2013.

% Recovery
The recovery rate of 47.05% is a reduction from the 61.90% reported for Q1 2013, and is attributable to low and discontinuous throughput.

Mined tonnes stockpile
The stockpile of mined ore was 17,142 tonnes at the end of Q2 2013 compared to 17,935 tonnes at the end of Q1 2013.

Mining Operations

All figures in this table are quoted in metres	**2013**		**2012**			
	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Exploration Drilling	**44**	-	-	12	121	120
Ramp development	**67**	107	81	68	242	98
Preparation	**25**	-	-	8	151	179
Raises	**70**	-	-	33	31	32
Total	**206**	**107**	**81**	**121**	**545**	**429**

Mining focussed on the Ramal Norte/Sur, San José 75 m Level Central Zone and Santa Ana resource blocks. These were selected from several delineated resource blocks to support an initial pilot scale mining operation with the potential to increase the mining rate to circa 1,500 tpd subject to milling capacity availability.

During Q2 2013 the Company developed 206 metres. The preparation and exploring of mining blocks continued in order to verify the continuity of mineralisation. Level 150 was dewatered and rehabilitated, and sampling took place obtaining new accessible mining blocks that were included in the resource estimate. Development continues at the mine, but on a reduced scale to meet obligations to keep the mine operational until mining is resumed.

Milling Operations

The Company played an important role in managing and completing the commissioning of the Juan Reyes plant during Q2 2013. This included the identification of milestones, critical paths, task management, supervision and the completion of the Lead circuit and testing of the crushing section.

Water had been scarce owing to low levels of rainfall in Zacatecas state, although heavy rainfall during summer 2013 has alleviated this somewhat. Efforts were made to ensure a reliable source of water for the Juan Reyes processing plant, including sourcing water from the Calicanto mine, less than 1km away. This had the advantage of reducing the water levels in the mine, which will improve access to mining blocks.

During Q2 2013 a total of 3,221 tonnes were processed at Juan Reyes. This was more conservative than initial estimates, and reflects on-going adjustments to refine the operations and processes.

Following the recent volatility in the silver price, an agreement has been reached by mutual consent with the owner of Juan Reyes to cease operations in June 2013. The decrease in revenues is due partly to the silver price being significantly lower, but mainly due to the production being much less than the equivalent quarter in 2012.

Exploration Drilling

The phase 5 exploration drilling program has been prepared and it is anticipated that it will begin once additional funding has been secured.

Laboratory

The independent on-site laboratory was operated by the Stewart Group (a subsidiary of the ALS Chemex Group) until June 2013. Thereafter the Company assumed responsibility for laboratory operations in order to reduce expenditure. This valuable facility which provides timely analysis of samples and critical information to improve the decision making process of mining and milling staff. In addition the laboratory provides an invaluable tool during drilling programmes which has significantly decreased the turnaround times for analysis of Arian's sampled drill cores.

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.

Further underground evaluation of the deeper levels of the Calicanto Vein can begin once the water has receded to the appropriate level. This will include mapping and underground sampling and subsequent analyses. There has been no significant expenditure on the Calicanto Project during the past two years.

Additional information in respect of the Calicanto Project is contained in a technical report prepared by A.C.A. Howe International Limited 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 or on SEDAR at www.sedar.com.

MINERAL RESOURCE

Three of the Company's concessions representing 145 hectares, which were not considered to hold any mineralisation and which were outside the mineralisation trend, have been cancelled. The cancellation of these concessions does not impact the Company's NI 43-101 mineral resource estimate and the Company now holds 28 mineral concessions in Mexico totalling 7,755 hectares as set out below.

Project Name	No. of Concessions	Area in hectares ("ha")
San José	8	6,134
Calicanto	7	84
Others	13	1,537

Qualified Person

Mr. Jim Williams, Eur Ing, Eur Geol, BSc, MSc, DIC, 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

The 100%-owned San José property is located approximately 55 kilometres ("km") to the southeast of Zacatecas City and comprises 8 mining concessions totalling approximately 6,134 ha. The property has significant infrastructure, including a 4.5 x 5 metre ("m") main haulage ramp extending more than 4.0km along the San José vein ("SJV") system, and a 350m deep, 500 tonne per day ("tpd") vertical shaft with operational hoist. In addition, a number of shallower vertical shafts are located along the SJV.

A 2% NSR (net smelter royalty) on SJV revenue is payable to the vendor of the San José property.

Mineral Resource

Arian's resource estimate includes all drilling programmes from 2006 along the SJV which has a delineated NI 43-101 and a JORC-compliant resource estimate of approximately 30.61 million ounces of silver, 67.02 million pounds of lead and 149.91 million pounds of zinc in the "indicated" mineral resource category, and 88.65 million ounces of silver, 205.25 million pounds of lead and 410.50 million pounds of zinc in the "inferred" mineral resource category. These NI 43-101 and JORC-compliant mineral resources are summarised in the table below:

Resource Category	Tonnes	Average Grade			Contained Metal		
		Ag	Pb	Zn	Ag	Pb	Zn
	(t)	(g/t)	%	%	(Moz)	(Mlb)	(Mlb)
Indicated	8,000,000	119	0.38	0.85	30.61	67.02	149.91
Inferred	24,500,000	110	0.38	0.76	86.65	205.25	410.50

1. *Geological characteristics and +30 ppm grade envelopes used to define resource volumes.*
2. *Each mineral resource estimate is in accordance with CIM standards.*
3. *The effective date of each mineral resource estimate is 12 March 2012.*
4. *The estimates are based on geological, statistical and geostatistical data assessment and computerised IDW3, Ag grade wireframe restricted, linear block modelling.*
5. *The resource was estimated using 188 drill holes and more than 38,000 metres.*
6. *Resource figures were prepared under the supervision of Malcolm Titley who is a Qualified Person (as defined in Canadian National Instrument 43-101).*
7. *Tonnage figures have been rounded to reflect this as an estimate.*
8. *Ag (silver) ounces have been calculated using 31.1035 g = 1 oz.*
9. *Pb (lead) and Zn (zinc) tonnes have been calculated using 2204.622 lbs = 1 tonne.*
10. *The mineral resource is 100% owned by Arian.*

The following reports prepared by A.C.A. Howe International Limited relating to the San José project are available on the Company's website www.ariansilver.com or on SEDAR at www.sedar.com :-

a) Report dated 22 September 2009 and entitled "Preliminary Economic Assessment Report (PEAR) on the San José Silver-Lead-Zinc Deposit, Zacatecas, Mexico"; and

b) Report dated 15 August 2008 and entitled "Resource Estimation Update for the San José Silver-Lead-Zinc Deposit, Zacatecas, Mexico".

Readers are reminded that mineral "resources" are not mineral "reserves" as they have not yet demonstrated economic viability. There is no certainty that mineral resources can be upgraded to mineral reserves through continued exploration.

On 24 May 2013 the Company filed an updated Technical Report entitled 'N143-101 Technical Report update- San José project, Zacatecas, Mexico'.

REVIEW OF FINANCIAL PERFORMANCE

SUMMARY OF QUARTERLY RESULTS

Milling re-commenced in February 2013. However, in June 2013, following downward volatility in the silver price, an agreement was reached with the owner of the mill to cease operations at the Juan Reyes plant. These factors have had a significant impact on the comparability of quarter-on-quarter figures set out below:

Unaudited	**2013**		**2012**				**2011**	
	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Revenue	129	-	34	136	2,104	2,314	2,367	2,434
Cost of sales	413	206	256	475	2,242	2,379	1,921	1,914
Gross (loss) / profit	(284)	(206)	(222)	(339)	(138)	(65)	446	520
Operating (loss) / profit	(879)	(935)	(1,072)	(1,025)	(1,006)	(855)	(393)	(486)
Net investment (loss)/profit	(68)	(21)	(84)	57	(127)	81	(50)	(116)
Net (loss)/profit for the period	(947)	(956)	(1,156)	(968)	(1,133)	(774)	(443)	(602)
Basic and diluted loss per share	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total assets	14,582	15,154	14,119	14,409	15,021	16,732	16,250	16,894
Total non-current financial liabilities	182	186	177	175	172	171	170	168
Shareholders' equity	13,414	13,971	13,003	13,464	13,647	15,370	14,909	15,806

REVIEW OF Q2 2013 RESULTS

Revenue
Revenue of $0.1m (2012: $2.1m) was recorded for the sale of 37 tonnes (2012: 286 tonnes) of concentrate.

Cost of sales
Cost of sales of $0.4m comprises costs of production of $0.2m mining costs and $0.2m milling costs.

Gross (loss)/profit
A gross loss of $0.3m (2012: $0.1m) was incurred primarily on account of the lower silver price and the allocation of semi-fixed production costs over lower production.

Operating loss
The operating loss of $0.9m was primarily on account the gross loss of $0.3m, and administrative expenses of $0.6m, which remained broadly in line with previous periods.

Total assets
Total assets of $14.6m decreased by $0.6m from Q1 2013, primarily due to the weakening of the US dollar against the Mexican peso.

Total non-current financial liabilities
Total non-current financial liabilities were $182,000 and relate to a provision for mine closure. This amount would only be payable if the mine were closed; it covers decommissioning, reclamation and rehabilitation at the end of the initial mining period of approximately 4 years, and is based on an estimated cost of $206,000 and discount rate of 5%.

Shareholders' equity
Shareholders' equity decreased by $0.6m compared to Q1 2013. This decrease was a result of loss in foreign exchange reserves of $0.7m, net loss of $1m, $0.1m net cost for fair value of lapsed options offset by fair value of options issued in the period, offset by share capital issued of $1.2m.

As at 30 June 2013 the Company had working capital of $1.4m (31 December 2012: $1.6m). **See *Liquidity, Capital Resources and Working Capital*** for the items of working capital.

Intangible assets amounted to $1.2m (31 December 2012: $1.2m) which relate to deferred exploration and evaluation costs in respect of the Company's Mexican projects. Property, plant and equipment amounted to $11.0m (31 December 2012: $10.4m); $10.7m of this relates to the San José mine development costs. Share capital increased by $2.5m to $50.7m (31 December 2012: $48.2m) as a result of the issue of common shares in connection with the drawdown of the standby equity distribution agreement ("SEDA"), ***see Liquidity, capital resources and working capital***.

Second quarter 2013 vs. second quarter 2012

The loss for the quarter was $0.9m (2012: $1.1m). This included a gross loss of $0.3m (2012: loss of $0.1m) generated by the San José mining operation, the expensing of the fair value of share purchase options vesting of $0.3m, a credit of $0.4m for the reversal of share options lapsed in the period (2012: expense of $0.2m), other administrative expenses of $0.6m (2012: $0.7m), and a net investment loss of $0.1m (2012: loss of $0.1m).

Second quarter 2013 vs. first quarter 2013

The Q2 2013 gross loss of $0.3m was $0.1m higher than the gross loss reported in the previous quarter. The net loss for Q2 2013 of $0.9m was in line with the previous quarter. Cash available at the end of the Q2 2013 of $0.6m was $0.1m higher than the previous quarter.

The decrease in shareholders' equity of $0.6m was a result of loss in foreign exchange reserves of $0.7m, the operating loss of $1m and $0.1m from net loss for fair value of lapsed options offset by fair value of options issued in the period, offset by share capital issued of $1.2m.

LIQUIDITY, CAPITAL RESOURCES AND WORKING CAPITAL

As announced on 27 September 2012, the Company entered into a 3 year £5 million SEDA with YA Global Master SPV Ltd ("Yorkville"), an investment fund managed by YA Global LP. The SEDA allows the company to draw down funds in exchange for the issue of shares in the Company.

Under the terms of the SEDA, any equity issued shall be priced at 95 per cent of the prevailing market price over a pricing period of between 5 and 20 days, in accordance with the agreement. The amount of each advance may not exceed, an amount not more than 400 per cent of the average daily trading volume of shares multiplied by the volume weighted average price on AIM for the five trading days prior to the drawdown request.

Use of the facility is entirely at the discretion of the Company and there are no penalties for not drawing down on the facility.

The following share purchase options were outstanding as of 28 August, 2013, each entitling the holder to acquire one common share of the Company: 22,310,000 share purchase options with exercise prices ranging from £0.055 to £0.4925 (Cdn$0.10 to Cdn$0.79) and expiring on various dates up to May 2018.

Working Capital – 30 June 2013

As at 30 June 2013, the Company has working capital of approximately $1.4m (31 December, 2012: $1.6m). The items of working capital and changes compared to 31 December 2012 are as follows:

Current assets

- cash and cash equivalents of $0.6m (31 December 2012: $0.5m);
- trade and other receivables of $1.0m (31 December 2012: $1.2m). $0.9m of the outstanding balance relates to the IVA (government sales tax) debtor owed to Arian which is in the process of being recouped as well as $0.1m for the concentrate sold;
- inventories of $0.7m (31 December 2012: $0.6m) relates to stockpile held at cost relating to production at the San José mine, this includes an inventory adjustment of $41,000 to write down to net realisable value; and
- financial assets held at fair value through profit or loss of $0.1m (31 December 2012: $0.2m) relates to the Geologix shares received as part consideration for the final instalment for the sale of the Tepal project.

Current liabilities

- trade payables of $1.0 million (31 December 2012: $0.9 million).

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During the six months ended 30 June 2013 the group entered into the following transactions involving related parties:

Transactions with key management personnel

The Dragon Group Ltd charged the Company a total of $59,976 (30 June 2012: $61,234) 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 30 June 2012, $9,843 (31 December 2012: $20,910) was outstanding.

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

FUTURE OUTLOOK

On 15 March 2013 the Company announced the signing of a provisional agreement with Sandy Hill Ltd, a company incorporated in the British Virgin Islands, to acquire a processing plant currently located close to Zacatecas City, with a capacity to treat up to 1,500 tonnes per day of silver-lead-zinc ore ("EL Bote Mill").

In March 2013 the Company paid an initial $100,000 to secure a 120 day due diligence period, which has been extended into August. On acquisition, the El Bote Mill would be reassembled in modular fashion on-site at San José, and once operating will enable production efficiencies and increased revenue potential.

The final purchase price for the El Bote Mill was agreed at $3.12 million.

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.

The following section discusses the critical accounting estimates and assumptions that management has made and how they affect the amounts reported in the consolidated financial statements. We consider these estimates to be an important part of understanding our consolidated financial statements.

Going Concern

The directors regularly review cash flow forecasts to determine whether the Company and its subsidiaries (together referred to as the "Group") have sufficient cash reserves to meet future working capital requirements and commitments, and to fund future exploration projects and business opportunities. Exchange rates and the price of silver have a significant impact on the Group's cash flow.

In September 2012, the Group entered into a £5 million Standby Equity Distribution Agreement ("SEDA") with YA Global Master SPV Ltd ("Yorkville"). This facility was to provide working capital funding to initiate the P5 drilling programme, milling and mining studies. The SEDA entitles the Group to drawdown funds in exchange for the issue of shares at a price based on the Company's market price over the previous 5 to 20 days period. At 30 June 2013, the Group had drawn down an amount of £2.15m against this facility.

This facility has been utilised to meet working capital requirements and other costs to enable continued development and mining work at the San Jose mine.

The Group is considering funding option including the issue of new equity, project and debt finance to provide additional funding for future growth and expansion, including the acquisition of a wholly owned production facility.

The Company announced on 23rd August 2013 the positive advancement of negotiations regarding future financing. The private placement debt financing of US$15,585,000 (the "Private Placement") comprises a senior secured convertible note (the "Note"), which would mature at a premium of 5% if not otherwise converted, twelve months from its date of issuance and will bear interest at an annual rate of 14% to be prepaid in full upon closing of the Private Placement.

It remains expected the Note will be convertible, in whole or in part, at the option of the holder, at any time following the closing date and up to and including the maturity date into fully paid and non-assessable common shares ("Common Shares") in the capital of the Company (collectively the "Note Shares") at price of CAD$0.11 per Note Share (the "Conversion Price"). If at the time of sending a conversion notice the Common Shares are then listed on the TSX Venture Exchange ("TSXV"), not more than 96% in aggregate (including prior conversions, if any) of the principal amount may be converted at the Conversion Price, and in the event that all or any part of the remaining 4% is to be converted, it shall be converted based on the last closing price of the Common Shares on the TSXV immediately prior to the date of sending the applicable conversion notice. The Note is expected to be secured on all or substantially all of the Company's and its subsidiaries' assets.

In connection with the Private Placement, the subscriber will receive a 4% arrangement fee from the gross proceeds. The TSXV has conditionally approved the Private Placement, subject to the Company fulfilling all of the listing requirements of the TSXV.

Assuming that all the regulatory conditions are satisfied, the proceeds from the private placement are intended to be used to acquire the El Boté processing plant, including transportation of plant to new site, refurbishment of plant, and new ground works at the site, mine expansion as well as for working capital and corporate purposes.

This processing plant has the capacity for processing up to 1,500 tonnes per day and is expected to provide significant cost savings from toll milling.

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 for future development.

The directors currently believe that 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.

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 amortised over the estimated life of the project, 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 share purchase 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 share purchase options vest unconditionally. The fair value of the share purchase options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the share purchase options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share purchase options that vest, except if the change is due to market based conditions not being satisfied.

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 Company'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.

Inventories

Concentrates and stockpile ore are valued at the lower of the average production costs or net realisable value. The assumptions used in the valuation of those inventories included 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 Company could be required to write-down the recorded value of its inventories, which would reduce the Company's earnings and working capital. Net realisable value is determined with reference to market prices.

FINANCIAL RISK FACTORS

Market Risk

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

Price Risk

The price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments in the market.

Currency Risk

The Company'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 Company is therefore exposed to the movement in exchange rates for these currencies.

The Company does not currently hedge foreign exchange risk.

The majority of the Company's cash resources were held in US Dollars. The Company therefore also has downside exposure to any strengthening of Pound Sterling, the Mexican Peso, or the Canadian Dollar against the US dollar as this would increase expenses in US Dollar terms and accelerate the depletion of the Company's cash resources. Any weakening of Pound Sterling, the Mexican Peso, or the Canadian Dollar against the US Dollar would, however, result in a reduction in expenses in US Dollar terms and preserve the Company'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.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at 30 June 2013, the Company had cash of $635,000, financial assets of $104,000, and receivables of $1,009,000 to settle accounts payable of $986,000. The Company's accounts payable have contractual maturities of less than 30 days and are subject to normal trade terms.

Credit Risk

Credit risk is the risk of loss associated with counterparty's inability to fulfil its payment obligations. The Company's credit risk is attributable to cash and trade receivables. The credit risk on cash is limited because the Company invests its cash in deposits with well capitalised financial institutions with strong credit ratings.

OTHER RISK FACTORS

The financing, exploration, development and exploitation of the Company's properties and the operations of the Company' business are subject to a number of factors, including metal prices, laws and regulations, political conditions, currency fluctuations, hiring qualified people and obtaining necessary services in jurisdictions where the Company operates.

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.

The following is a brief discussion of those distinctive or special characteristics of the Company's operations and industry that may have a material impact on, or constitute risk factors in respect of the Company's future financial performance.

Requirement of Additional Financing

The exploration and development of the Company's concessions, including continuing exploration projects, and the construction of larger scale mining facilities and commencement of larger scale mining operations, will require substantial additional financing. However, if the required funding is not forthcoming on a timely basis the Company may not be able to meet its on-going working capital and project expenditure requirements. No assurance can be given that the Company will be able to raise the additional financing necessary to continue its production activities or to explore and/or develop its concessions. 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 sources of funds currently available to the Company are through the sale of product from production activities, the issue of equity capital, the sale of concessions or other assets, royalty interests or the entering into of joint ventures, and raising debt or loans. 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 projects would be required to be reviewed.

Volatility of Metal Prices

The value of the Company's resources and financial results of operations will be affected by fluctuations in metal prices over which the Company has no control. A reduction in the metal prices may prevent the Company's properties from being economically mined or result in curtailment of existing production activities or result in the impairment and write-off of assets.

The price of silver, which is affected by numerous factors including inflation levels, fluctuations in the US Dollar and other currencies, supply and demand and political and economic conditions, may have a significant influence on the market price of the Company's common shares.

Mining concessions and Title

In relation to mining concessions over which the Company holds legal rights, if the Company fails to fulfil the specific terms or obligations 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.

Whilst the Company has received legal opinions in respect of title to its properties there is no guarantee that title to such properties will not be challenged or impugned by third parties. The Company's concessions may be subject to prior unregistered agreements, transfers or other claims and title may be affected by unidentified or unknown defects or government actions.

Nature of Mineral Exploration and Mining

Any exploration programme entails risks relating to the location of economic ore bodies, the development of appropriate metallurgical processes, the receipt of necessary governmental permits and the construction of mining and processing facilities. Save in respect of the San José project, the Company's projects are not in production and no assurance can be given that any exploration programme 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 expenditures 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 programmes 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 or will continue to 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, changes in the silver price, 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.

The Company is transitioning from an exploration company to a producer. In the mining industry such a transition is sometimes a difficult and challenging exercise due to operational issues and risks.

Limited Operating History

The Company has a limited history of producing revenue and its ultimate success will depend on its ability to generate cash flow from its concessions in the future. The Company has not earned any material 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 development of the SJV as well as 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.

Mineral Resource Estimates

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.

No Reserves

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

Insurance and Uninsured Risks

The mining industry is subject to significant risks that could result in damage to, or destruction of, mineral properties or producing facilities, personal injury or death, environmental damage, delays in mining or monetary losses and possible legal liability.

The Company's insurance policies may not provide adequate coverage for losses related to these or other risks. The Company's insurance policies do not cover all possible risks that may arise in relation to the Company's exploration activities and production facilities and as a result the Company may incur losses or damages that could have a material and adverse effect on the Company's operations and finances.

In the course of the Company's activities certain risks or unexpected or unusual geological conditions both underground and on surface may occur. It is not always possible to insure against such risks due to the absence of available cover or the Company may decide not to insure due to costs considerations of available cover. As a result the Company could incur losses or damages that could have a material and adverse effect on the Company's operations and finances.

Reliance on Contractors in Mexico

The Company relies on contractors to implement the Company's exploration and development programmes as well as its current mining operation at the San José project. The general availability of contractors or the failure of a 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 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, and 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.

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 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.

Other risks and uncertainties have been detailed in the Company's 2012 Annual MD&A which can be accessed on SEDAR at www.sedar.com or the Company's website at www.ariansilver.com.

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, statements relating to the mineral resource estimates, statements regarding the contract mining and milling operation at the San José Project (the "SJ Mining Operation"), the ability of the Company to achieve, maintain and possibly increase planned levels of production from the SJ Mining Operation, the ability of the Company to generate positive cash flow from the SJ Mining Operation, the ability to continue or implement proposed drilling programmes on the SJV system and the Company's exploration, development and production plans and objectives, including its ability to access and/or acquire production facilities 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, the performance of the contractors and plant and equipment engaged in relation to the SJ Mining Operation, failure to achieve anticipated production levels and mineral grades for ore from the SJ Mining Operation, 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 the silver commodity price, 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.

OTHER INFORMATION

Additional Information

Additional information relating to the Company may be accessed through SEDAR on the internet at www.sedar.com or the Company's website, www.ariansilver.com.

Disclosure of Outstanding Share Data

The following table sets out the outstanding securities of the Company as at 28 August, 2013:-

	Number in issue
Common shares of no par value	328,088,286
Share purchase options	22,310,000

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