Arian Silver's MD&A and Results for the Three and Nine Months Ended 30 September 2013

28.11.2013 | Marketwire

NOT FOR DISTRIBUTION TO U.S. NEWSWIRE SERVICES NOT FOR DISTRIBUTION IN THE UNITED STATES

LONDON, ENGLAND -- (Marketwired - Nov. 28, 2013) - Arian Silver Corporation ("Arian" or the "Company") (TSX VENTURE:AGQ)(AIM:AGQ)(FRANKFURT:I3A), a silver exploration, development and production company with a focus on projects in the silver belt of Mexico, today announced the release of its Management's Discussion and Analysis ("MD&A") and unaudited Financial Statements ("Financials") for the three months and nine months ended 30 September 2013.

The MD&A and Financials are available at SEDAR at www.sedar.com and on the Company's website at www.ariansilver.com. These documents can also be obtained on application to the Company. The following information has been extracted from the MD&A and Financials. The financial information in this announcement does not constitute full statutory accounts.

Arian's Chief Executive Officer, Jim Williams, commented today, "This past reporting quarter has been one of substantial progress for the Company. We have successfully raised finance, and with it acquired our own custom processing plant that will have capacity to treat up to 1,500 tonnes per day of San José ore. We have already commenced the refurbishment of the plant and are looking forwards to the reassembly of the plant, the installation of its associated infrastructure at the San José mine, and the expansion of the mine capacity to furnish the plant to its maximum sustainable throughput. In addition, we are actively exploring both replacement and additional forms of financing as well as other corporate transactions, and we will update shareholders on the progress of all these events in due course."

OVERVIEW OF THIRD QUARTER 2013

Financial

Three months ended
30 Sep 2013 Three months ended 30 Sep 2012 Change Nine months ended
30 Sep 2013 Nine months ended
30 Sep 2012

Change
$000s $000s $000s $000s $000s $000s
Revenue - 136 (136) 129 4,554 (4,425)
Gross loss (25) (339) 314 (515) (542) 27
Net profit/(loss) for the period 874 (968) 1,843 (1,029) (2,875) 1,846
As at
30 Sep 2013 As at
31 Dec 2012 Change
$000s $000s $000s
Cash and cash equivalents 9,253 491 8,762
Total assets 27,361 14,119 13,242

- On 29 August 2013, the Company issued a convertible note instrument raising $15.6m before transaction costs ("Convertible Note"), with Platinum Long Term Growth VIII LLC ("Platinum"). The instrument is convertible in whole or in part at the option of the note holder at a conversion price of C$1.10.

- Upon the issuance of the Convertible Note, the Company acquired the El Bote Processing Plant for $3.12m.

- Cash reserves increased during Q3 2013 as a result of the proceeds from the Convertible Note, as well as further drawdowns on the Company's Standby Equity Distribution Agreement ("SEDA") facility.

- Total assets have increased since 31 December 2012 due to the cash proceeds from the Convertible Note and SEDA issuances as well as the investment in the El Bote Processing Plant.

- The net profit recognised in Q3 2013 comes as a result of a $2.5m gain recognised in relation to the fair value adjustment of the derivative liability relating to the Convertible Note.

Operations

Third Quarter 2013 Third Quarter 2012 Change
Head grade - Ag grams per tonne - - 0%
Tonnes mined 708 4,072 (83%)
Tonnes milled - - 0%
Silver concentrate tonnes produced - - 0%
Silver ounces produced - - 0%
Silver ounces per concentrate tonne produced - - 0%
Silver ounces sold - - 0%
Silver concentrate tonnes sold - - 0%

- The Company completed the purchase and commenced the refurbishment of the El Bote Processing Plant in the period. The Plant will be refurbished, dismantled, transported and installed in a modular manner at the Company's 100%-owned site adjacent to the San José mine.

- Small scale mining and preparation work was performed during Q3 2013.

Subsequent Events

None

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

Q3 Q2 Q1
2013 2013 2013
Head grade - Ag grams per tonne (g/t) - 191 174
Tonnes mined 708 4,628 -
Tonnes milled - 3,221 258
Silver concentrate tonnes produced - 43 4
Recovery % - 47.05 60.90
Silver ounces produced - 9,294 878
Silver ounces per concentrate tonne produced - 216 251
Silver ounces sold - 9,058 -
Silver concentrate tonnes sold - 37 -
Quarter end inventory balances
Mined tonnes stockpile 17,850 17,142 17,935
Silver concentrate inventory tonnes 4 4 4
Silver ounces included in concentrate inventory 1,114
1,114 878
Q4 Q3 Q2 Q1
2012 2012 2012 2012
Head grade - Ag grams per tonne (g/t) - - 181 173
Tonnes mined - 4,072 26,268 21,553
Tonnes milled - - 28,903 24,394

Silver concentrate tonnes produced - - 298 302
Recovery % - - 58.74 49.01
Silver ounces produced - - 98,616 66,688
Silver ounces per concentrate tonne produced - - 331 221
Silver ounces sold - 8,937 93,112 75,911
Silver concentrate tonnes sold - 32 286 330
Quarter end inventory balances
Mined tonnes stockpile 18,192 18,204 15,003 17,637
Silver concentrate inventory tonnes - - 36 24
Silver ounces included in concentrate inventory - - 11,276 5,772

Following the acquisition of the El Bote Processing Plant in August 2013, the Company commenced the refurbishment of the Plant in-situ. Upon completion of the refurbishment, the Plant will be dismantled, transported and installed in a modular manner at the Company's 100%-owned site adjacent to the San José mine. An internal team is leading the refurbishment of the Plant to ensure the Company has the control necessary to ensure the project is performed to a suitable standard and in the most cost-efficient manner. Third parties will, in due course, commence the development of the necessary site works, tailings dam and electrical infrastructure for the plant.

The Plant is currently located approximately 50 kilometres ("km") from the site of the San José mine and is comprised of a crushing circuit with a reported throughput of 150 tonnes per hour, a grinding circuit of four ball mills, two flotation circuits, thickening tanks and filters.

It is anticipated that the Plant will be commissioned towards the end of 2014 with a capacity of 750 tonnes per day "tpd". The plant will be expanded to 1,500 tpd shortly afterwards.

Mining and development at the San José mine were minimised during Q3 2013 following the decision in Q2 2013 to terminate the Company's pilot mining and processing program at the Juan Reyes plant. Mining and development activities will be accelerated alongside the refurbishment and relocation of the El Bote Plant to ensure readiness for the resumption of processing operations in 2014.

REVIEW OF FINANCIAL PERFORMANCE

SUMMARY OF QUARTERLY RESULTS

The Company's focus during the quarter was to complete the financing and acquisition of the El Bote Processing Plant and commence the project of refurbishment, relocation and commissioning in a modular manner.

Unaudited

2013 2012 2011
Q3 Q2 Q1 Q4 Q3 Q2 Q1 Q4
$'000 $'000 $'000 $'000 $'000 $'000 $'000 $'000
Revenue - 129 - 34 136 2,104 2,314 2,367
Cost of sales (25) (413) (206) (256) (475) (2,242) (2,379) (1,921)
Gross loss (25) (284) (206) (222) (339) (138) (65) (446)
Net investment income/(loss) 44 (68) (21) (84) 57 (127) 81 (50)
Net profit/ (loss) for the period 875 (947) (956) (1,156) (968) (1,133) (774) (443)
Basic and diluted earnings/ (loss) per share $0.03 ($0.03) ($0.03) ($0.04) ($0.03) ($0.04) ($0.03) ($0.03)
Total assets 27,361 14,582 15,154 14,119 14,409 15,021 16,732 16,250
Total non-current financial liabilities 185 182 186 177 175 172 171 170
Shareholders' equity 15,717 13,414 13,971 13,003 13,464 13,647 15,370 14,909

REVIEW OF Q3 2013 RESULTS

Revenue

Revenue of $nil (Q3 2012: $0.1m) was recorded as a result of the termination of trial production in Q2 2013.

Cost of sales

Cost of sales of $25k (Q3 2012: $0.5m) comprises the reversal of an inventory write-down of $41k offset by semi-fixed production costs of $66k.

Gross loss

A gross loss of $25k (Q3 2012: $0.3m) was incurred relating to cost of sales.

Net profit/(loss)

The net profit of $0.9m (Q3 2012: net loss of $1.0m) was primarily on account of the $2.5m gain (Q3 2012: $nil) on the fair value adjustment on the derivative liability relating to the Convertible Note. See Liquidity, Capital Resources and Working Capital for more information concerning the Convertible Note. This was largely offset by administrative expenses of $1.6m (Q3 2012: $0.7m), $0.9m higher than the equivalent period last year. This increase is as a result of $0.5m transaction costs relating to the Convertible Note, a $0.3m foreign exchange loss and $0.1m relating to pay awards.

Total assets

Total assets of $27.4m increased by $12.8m from Q2 2013, due to the receipt of cash proceeds from the Convertible Note and SEDA facility, and the investment in the El Bote Processing Plant.

Total non-current financial liabilities

Total non-current financial liabilities were $185k 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 $206k and discount rate of 5%.

Shareholders' equity

Shareholders' equity increased by $2.3m compared to Q2 2013. This increase was a result of gain in foreign exchange reserves of $0.5m, net profit of $0.9m and share capital issued of $0.9m.

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 the 3rd September 2013.

Third quarter 2013 vs. third quarter 2012

The operating profit for the quarter was $0.9m (Q3 2012: operating loss $1.0m). This includes a $2.5m (Q3 2012: $nil) profit from the fair value adjustment over the derivative liability relating to the Convertible Note. This was largely offset by administrative expenses of $1.6m (Q3 2012: $0.7m), $0.9m higher than the equivalent period last year. This increase relates to $0.5m transactions costs relating to the Convertible Note, $0.3m foreign exchange loss and $0.1m relating to pay awards.

Third quarter 2013 vs. second quarter 2013

The Q3 2013 gross loss of $25k was $0.2m lower than that reported in the previous quarter. The net profit for Q3 2013 of $0.9m was $1.8m higher than the previous quarter mainly due to the $2.5m gain from the fair value adjustment over the derivative liability relating to the Convertible Note, offset by related transaction costs and a foreign exchange loss. Cash available at the end of the Q3 2013 of $9.3m was $8.6m higher than the previous quarter - attributable to the proceeds of the Convertible Note.

LIQUIDITY, CAPITAL RESOURCES AND WORKING CAPITAL

On 29 August 2013, the Company issued a convertible note instrument raising $15.6m before transaction costs, with Platinum. The instrument is convertible in whole or in part at the option of the note holder at a conversion price of C$1.10. The note will mature at a premium of 5% if not otherwise converted before 29 August 2014. On closing, the Company prepaid the full interest of 14%. This facility was entered into to fund the purchase, refurbishment, transportation and reassembly of the El Bote Plant.

As announced on 27 September 2012, the Company entered into a 3 year £5m 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.

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

At 30 September 2013, £2.2m remained available for drawdown from the SEDA facility.

The following share purchase options were outstanding as of 26 November 2013, each entitling the holder to acquire one common share of the Company: 2,231,000 share purchase options with exercise prices ranging from £0.55 to £4.925 (C$1.00 to C$7.90) and expiring on various dates up to May 2018.

Working Capital - 30 September 2013

As at 30 September 2013, the Company had a net current liability of $0.3m (31 December, 2012: net current asset of $1.6m). The items of working capital and changes compared to 31 December 2012 are as follows:

Current assets

- cash and cash equivalents of $9.3m (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 $0.9m (31 December 2012: $0.6m) relates to stockpile held at cost relating to production at the San José mine; and
- financial assets held at fair value through profit or loss of $nil (31 December 2012: $0.2m) relates to shares held in Geologix Explorations Inc. which were sold in the period.

Current liabilities
- trade payables of $1.2m (31 December 2012: $0.9m);
- convertible note liability of $9.2m (31 December 2012: $nil) relating to the Convertible Note which reaches maturity on 29th August 2014; and
- derivative liability $1.1m (31 December 2012: $nil) this relates to the conversion option of the Convertible Note.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

FUTURE OUTLOOK

The Company successfully acquired the El Bote Processing Plant in August 2013. Upon completion of its refurbishment, the Plant will be transported to the Company's site adjacent to the San José project, where it will be reassembled and commissioned.

The plant, which is expected to be in operation during Q3 2014, will have capacity to treat up to 1,500 tonnes per day of silver-lead-zinc ore and is projected to deliver substantial cost savings against the previous toll milling operations. With reduced operating costs, the Company should enjoy significantly higher operating margins than would otherwise have been achievable under previous toll milling arrangements.

***Forward-Looking Information**:*

This press release contains certain "forward-looking information". 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. This forward-looking information reflects the current expectations or beliefs of the Company based on information currently available to the Company as well as certain assumptions (including that the Company will be able to obtain the necessary financing). Forward-looking *information is subject to a number of significant risks and uncertainties and other factors that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, 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, but are not limited to, the failure to raise the necessary financing, as well as unexpected delays in completing the transportation and refurbishment of the El Bote Processing Plant which could lead to unexpected delays in the start of operations and delays in the Company's mine expansion plans.*

Any forward-looking information 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 information, 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 information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

This press release does not constitute an offer to sell or a solicitation of an offer to buy any of the securities of the Company in the United Sates. The securities of the Company have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws and may not be offered or sold within the United States or to U.S. persons unless registered under the U.S. Securities Act and applicable state securities laws or an exemption from such registration is available.

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) and no stock exchange, securities commission or other regulatory authority accepts responsibility for the adequacy or accuracy of this release nor approved or disapproved of the information contained herein.

CONTACT INFORMATION

Arian Silver Corporation
Jim Williams, CEO
(London) +44 (0)20 7887 6599
jwilliams@ariansilver.com

Arian Silver Corporation
David Taylor, Company Secretary
(London) +44 (0)20 7887 6599
dtaylor@ariansilver.com

Grant Thornton UK LLP
Philip Secrett / David Hignell
(London) +44 (0)20 7383 5100
Philip.J.Secrett@uk.gt.com

Yellow Jersey PR Limited
Dominic Barretto
(London) +44 (0)7768537739
dominic@yellowjerseypr.com

XCAP Securities PLC
Jon Belliss
(London) +44 (0)20 7101 7070
jon.belliss@xcapgroup.com

CHF Investor Relations
Juliet Heading
(Canada) +1 416 868 1079 x 239
juliet@chfir.com