ARIAN SILVER CORPORATION

ANNUAL REPORT AND ACCOUNTS 2014

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* David C. Laing *Non-executive* Oliver Rodz *Non-executive*
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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)

INTRODUCTION

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 30 March 2015 and compares its fourth quarter and consolidated 2014 financial results with the previous year. This document should be read in conjunction with the Company's audited Consolidated Financial Statements and the related notes which are available on SEDAR at www.sedar.com or the Company's website at www.ariansilver.com.

The audited Consolidated Financial Statements and related notes have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts referred to in this document are expressed in United States dollars, unless specifically stated otherwise.

Arian 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 currently developing its flagship wholly-owned San José Project (comprised of the San José mine and La Tesorera Plant) into a sustainable long life, low cost mining operation.

The Company is incorporated in the British Virgin Islands and its common shares are listed for trading on the TSX Venture Exchange and depository receipts are traded on the London Stock Exchange's AIM market. The Company's headquarters are in Berkeley Square, London.

References to the Group include the Company's direct and indirect subsidiaries.

Qualified persons

Mr Jim Williams, Eur Ing, Eur Geol, BSc, MSc, D.I.C., FIMMM, the Chief Executive Officer of Arian, a "Qualified Person" as defined in the AIM Rules 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 MD&A.

THE STRATEGY

The Company's strategy is to:

- establish a silver mining business capable of sustaining two million ounces per annum, and
- build shareholder value by expanding silver resources on the Company's mining concessions in Zacatecas, Mexico.

OVERALL PERFORMANCE

This past year has seen Arian take great strides towards becoming a silver producer.

In August 2013, the Company purchased the El Bote processing plant (subsequently renamed "La Tesorera") (the "Plant") comprising 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. Following the acquisition of the Plant in 2013 and during the year, the Plant was disassembled, refurbished, and transported to the Company's 100%-owned site adjacent to the San José mine, where during 2014, site preparations and civil works had been completed, and where the Plant was then reassembled.

In addition to the construction of the Plant, the Company developed the site infrastructure, including the installation of a 4km dedicated 35kV power line connecting the Plant to the grid. Site offices were constructed and haul roads built. Furthermore, Arian commenced construction of the water reservoirs, water management systems and the tailings facility which is nearing completion.

Development of the San José and Santa Ana mine blocks continued and a new decline ramp commenced in the Soledad area. In total, over 1,700 metres of mine development work were completed since October 2014, when the Company entered into a new financing agreement. This development work will support production at levels up to the Plant's design rate of 1,500 tonnes per day ("tpd").

In October 2014 the Company entered into a US$32 million financing arrangement ("Quintana Financing"), restructuring its convertible loan note and funding the future development of the San José project.

Summary financial information

	Full Year 2014 $000s	Full Year 2013 $000s	Change $000s
Revenue	-	129	(129)
Gross loss	(441)	(564)	123
Net loss for the period	(5,914)	(1,611)	(4,303)
Cash and cash equivalents	2,846	7,241	(4,395)
Total assets	35,865	28,366	7,499

The absence of revenue in 2014 results reflects the termination of toll milling operations in June 2013.

The net loss for the period increased year-on-year primarily on account of a gain of $3.7 million in 2013 in respect of the reported fair value of the derivative liability of the $15.6 million convertible loan note issued to Platinum Long Term Growth VIII, LLC in August 2013 ("Platinum Note") and transaction costs relating to the Quintana Financing.

Cash and cash equivalents decreased primarily as a result of the offset of proceeds from the Base Metal Purchase Agreement ("BMPA") and the issue of share capital against the cost of operating activities and investment in the purchase and refurbishment of the Plant.

Total assets increased during 2014 primarily on account of the investment in the Plant and the development of the San José mine.

REVIEW OF OPERATIONS

San José Project, Zacatecas State

Overview

The 100%-owned San José property lies 55 kilometres to the southeast of the city of Zacatecas and covers eight mining concessions totalling approximately 6,134 hectares. The property has significant infrastructure, including a 4x5 metre main haulage ramp extending more than 8.5 kilometres along the footwall of the San José vein system, and a 350 metres deep, 500 tpd vertical shaft with an operational hoist. In addition, a number of shallower vertical shafts are located along the vein.

Production information summary for San José mine	Full Year 2014	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Head grade (mill): Ag grams per tonne (g/t)	-	-	-	-	-
Tonnes mined	6,632	(695)	-	1,588	5,739
Tonnes milled	-	-	-	-	-
Ag concentrate tonnes produced	-	-	-	-	-
Recovery %	-	-	-	-	-
Ag ounces produced	-	-	-	-	-
Ag ounces per concentrate tonne produced	-	-	-	-	-
Ag ounces sold	-	-	-	-	-
Ag concentrate tonnes sold	-	-	-	-	-
Quarter end inventory balances					
Mined tonnes stockpile	33,647	33,647	34,342	34,342	32,754
Ag concentrate inventory tonnes	-	-	-	-	-
Ag ounces included in concentrate inventory	-	-	-	-	-

Production information summary for San José mine	Full Year 2013	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Head grade (mill): Ag grams per tonne (g/t)	**189**	-	-	191	174
Tonnes mined	**14,501**	8,057	1,816	4,628	-
Tonnes milled	**3,479**	-	-	3,221	258
Ag concentrate tonnes produced	**47**	-	-	43	4
Recovery %	**42.74**	-	-	41.42	60.90
Ag ounces produced	**9,058**	-	-	8,180	878
Ag ounces per concentrate tonne produced	**194**	-	-	190	251
Ag ounces sold	**9,058**	-	-	9,058	-
Ag concentrate tonnes sold	**37**	-	-	37	-
Quarter end inventory balances					
Mined tonnes stockpile	**27,015**	27,015	18,958	17,142	17,935
Ag concentrate inventory tonnes	-	-	-	4	4
Ag ounces included in concentrate inventory	-	-	-	1,204	878

	Three months ended 31 Dec 2014	Three months ended 31 Dec 2013	Twelve months ended 31 Dec 2014	Twelve months ended 31 Dec 2013	Change (%)
Head grade - Ag grams per tonne	-	-	-	189	(100)
Tonnes mined	(695)	8,057	6,632	14,501	(54)
Tonnes milled	-	-	-	3,479	(100)
Silver concentrate tonnes produced	-	-	-	47	(100)
Silver ounces produced	-	-	-	9,058	(100)
Silver ounces per concentrate tonne produced	-	-	-	194	(100)
Silver ounces sold	-	-	-	9,058	(100)
Silver concentrate tonnes sold	-	-	-	37	(100)

Mining & milling

Mining activities continued at the San José mine during Q4 2014 in preparation for the resumption of milling activities at the refurbished La Tesorera plant.

In August 2013, the Company purchased the El Bote processing plant (subsequently renamed “La Tesorera”) comprising 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. Following the acquisition of the Plant in 2013 and during the year, the Plant was disassembled, refurbished, and transported to the Company’s 100%-owned site adjacent to the San José mine, where during 2014, site preparations and civil works had been completed, and where the Plant was then reassembled.

The Company has built a strong local operating team that has lead the refurbishment and construction of the Plant, and continues to strengthen its team with experienced plant operators as it transitions from being a development to a producing mining company. Arian encourages its contractors, that wherever practicable, workers are hired from local communities; 90% of the personnel employed at the San José project are from the surrounding ejido-based communities. The Company also employed a number of specialised contractors for the development of the necessary site works, tailings dam and electrical infrastructure for the plant.

Arian negotiated the buyback of a 2% Net Smelter Return (“NSR”) royalty on the San José project from the previous owners, for $750,000 (including all amounts owed in respect of production from the Company’s earlier toll milling operations, paid in instalments over a six month period; the purchase includes any amounts owing for NSR payments due under the former toll milling operations.

By the end of 2014, the Plant was almost fully constructed, as scheduled. Commercial production is expected to commence at an initial rate of up to 500 tpd, increasing to a maximum of 1,500 tpd over the following 18 months.

Exploration assets

The Company holds 28 mineral concessions in Zacatecas totalling 7,822 hectares, including the San José Project.

During the year, the Company applied for a drilling permit in the town of Guanajuatillo which lies on the San José vein in between the Soledad and West End areas. Following several consultations with the local community, in the second half of 2014, the permit was granted and the Company commenced a 5,000 metre drilling programme in Q1 2015 to delineate the resources blocks beneath the town.

Information on Arian’s exploration assets are 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”. Additional information on Arian’s San José Project is contained in a technical report prepared by CSA Global Pty Ltd dated 23 May 2013. Copies of these reports are available on the Company’s website www.ariansilver.com and on SEDAR at www.sedar.com.

REVIEW OF FINANCIAL RESULTS

Selected annual information

	Annual 2014 $'000	Annual 2013 $'000	Annual 2012 $'000	Change 2014-13 $'000	Change 2014-13 (%)
Revenue	-	129	4,588	(129)	(100)
Cost of sales	(441)	(693)	(5,352)	252	36
Gross (loss)/profit	(441)	(564)	(764)	123	22
Operating (loss)/profit	(5,923)	(1,567)	(3,958)	(4,356)	(278)
Net investment income/(loss)	9	(44)	(73)	53	120
Net (loss)/profit for the period	(5,914)	(1,611)	(4,031)	(4,303)	(267)
Basic and diluted (loss)/profit per share $	($0.18)	($0.05)	($0.13)	($0.14)	(220)
Intangible assets	1,038	1,168	1,176	(130)	(11)
Property, plant and equipment	28,440	17,651	10,405	10,789	61
Trade and other receivables	2,043	1,326	1,206	717	54
Cash	2,846	7,241	491	(4,395)	(61)
Inventories	1,498	980	644	518	53
Financial assets held for sale	-	-	197	-	-
Total assets	35,865	28,366	14,119	7,499	26
Current Convertible Note liability	-	(11,170)	-	11,170	100
Current derivative liabilities	(5,233)	(52)	-	(5,181)	(9,963)
Non-current Convertible Note liability	(10,666)	-	-	(10,666)	(100)
Non-current derivative liabilities	(6,206)	-	-	(6,206)	(100)
Shareholders' equity	(11,358)	(15,784)	(13,003)	4,426	28

Revenue
Revenues decreased by 100% to $nil (2013: $0.1 million) as a result of the suspension of production.

Cost of sales
Cost of sales decreased by 36% to $0.4 million (2013: $0.7 million).

Gross loss
The gross loss of $0.4 million (2013: $0.6 million) related to operating costs incurred in the period.

Operating loss
The operating loss increased by $4.4 million to $5.9 million (2013: $1.6 million), primarily on account a $3.7 million gain reported in 2013 in respect of the fair value of the derivative liability of the Platinum Note (which reflected movements to the Company's share price), and transaction costs relating to the Quintana Financing. Furthermore, fees totalling $0.7 million were paid in respect of extending the term of the Platinum Note, financing transaction costs increased by $0.5 million, non-cash expenses for the fair value of share-based payments decreased $0.4 million, and the gross loss reduced by $0.1 million.

Net loss
Net loss increased by $4.3 million to $5.9 million (2013: $1.6 million), mainly on account of the gain recognised in 2013 on the fair value adjustment of the derivative liability relating to the Platinum Note, which offset operating costs in that year.

Total assets
Total assets increased by $7.5 million to $35.9 million (2013: $28.4 million) primarily due to $8.7 million in capitalised costs relating to the Plant, a $2.1 million investment in development of the San José mine, $0.7 million increase in trade and other receivables and $0.4 million increase in inventories, offset by a $4.3 million reduction in cash.

Current and non-current Convertible Note liability
As part of the Quintana Financing, Quintana purchased the Platinum Note which was then cancelled on 29 October 2014 and a new senior secured convertible note was issued to Quintana AGQ Holding Co. LLC ("Quintana") for a principal amount of $16.5 million at an 8% coupon (the "Quintana Note")

and 12,151,926 common share purchase warrants exercisable at C$1.00 per common share until 29 October 2017 were issued to Quintana.

Upon initial recognition of the Quintana Note, $3.5 million was recognised as a derivative liability, and $10.7 million recognised as a convertible note liability. The $10.7 million convertible loan liability incorporated $2.7 million in respect of transaction costs relating to the fair value of the share purchase warrants, and the effective interest of $0.4 million that unwound during the period.

Current and non-current derivative liabilities

The derivative liability at 31 December 2013 related to the Platinum Note that was subsequently unwound during 2014. The derivative liabilities held at 31 December 2014 related to the restructured Quintana Note and the BMPA with Quintana San José Streaming Co. LLC ("Quintana Streaming"). These were valued at initial recognition, and subsequently revalued as at 31 December 2014, and split between current and non-current liabilities. The reduction in value of the BMPA derivative liability related to a reduction in commodity prices for lead and zinc from initial recognition to the end of the period. The increase in value in the Quintana Note derivative liability related to the increase in the Arian share price in the period from initial recognition to year end.

Shareholders' equity

Shareholders' equity decreased by $4.4 million to $11.4 million (2013: $15.8 million). This decrease reflects the $5.9 million loss for the year, a $2.3 million decrease in foreign exchanges reserves, offset by a $3.5 million increase in the warrant reserve relating to the warrants issued to Quintana and a $0.3 million issue of equity.

Quarterly results

Unaudited	Q4 2014 $'000	Q3 2014 $'000	Q2 2014 $'000	Q1 2014 $'000
Revenue	-	-	-	-
Cost of sales	(65)	(223)	(140)	(13)
Gross (loss) / profit	(65)	(223)	(140)	(13)
Net investment (loss)/profit	2	7	(2)	2
Net (loss)/profit for the period	(2,951)	(1,211)	(699)	(1,053)
Basic and diluted earnings/(loss) per share	($0.09)	($0.04)	($0.02)	($0.03)
Total assets	35,865	30,352	30,687	29,454
Total current liabilities	(6,789)	(17,606)	(16,127)	(14,422)
Total non-current liabilities	(17,718)	(195)	(192)	(190)
Shareholders' equity	(11,358)	(12,551)	(14,368)	(14,842)

Unaudited	Q4 2013 $'000	Q3 2013 $'000	Q2 2013 $'000	Q1 2013 $'000
Revenue	-	-	129	-
Cost of sales	(49)	(25)	(413)	(206)
Gross (loss) / profit	(49)	(25)	(284)	(206)
Net investment (loss)/profit	1	44	(68)	(21)
Net (loss)/profit for the period	(583)	875	(947)	(956)
Basic and diluted earnings/(loss) per share	($0.02)	$0.03	($0.03)	($0.03)
Total assets	28,366	27,361	14,582	15,154
Total current liabilities	(12,395)	(11,459)	(986)	(997)
Total non-current liabilities	(187)	(185)	(182)	(186)
Shareholders' equity	(15,784)	(15,717)	(13,414)	(13,971)

Q4 2014 v Q3 2014

The net loss for Q4 of $3.0 million was $1.7 million lower than Q3 mainly due to the transaction costs incurred in Q3, comprising of: $0.7 million in fees paid in respect of the extension of the Platinum Note and $1.0 million in transaction costs in respect of the Quintana Financing, of which $0.7 million were non cash-expenses for the fair value of warrants apportioned to the Quintana Note derivative liability.

Total assets increased by $5.5 million to $35.9 million after investment of $1.9 million in the Plant, a $1.0 million investment in the San José mine, a $0.3 million increase in trade and receivables due from the Mexican authorities in relation to sales good taxes recoverable, and a $0.2 million increase in inventories and an increase in cash of $2.1 million to $2.8 million.

Q3 2014 v Q2 2014
The gross loss of $0.2 million was $0.1 million higher than Q2 2014. The net loss for Q3 2014 of $1.2 million was $0.5 million higher than Q2 2014 due to $0.3 million transaction costs and $0.3 million for the fair value adjustment relating to the derivative liability offset by a reduction of $0.1 million in due diligence costs.

Total assets decreased by $0.3 million to $30.4 million compared to Q2 2014 following a decrease of $2.3 million in cash and $0.1 million decrease in inventories offset by an increase in the value of the Plant asset of $1.3 million in the Plant (including a non-cash interest capitalisation of $1.9 million), a $0.5 million investment in the San José mine, a $0.2 million increase in trade and receivables due from the Mexican authorities in relation to sales good taxes recoverable.

Q2 2014 v Q1 2014
The gross loss of $140k was $127k higher than Q1 2014. The net loss for Q2 2014 of $0.7 million was $0.4 million lower than Q1 2014 mainly on account of the fair value adjustment relating to the derivative liability.

Total assets increased by $1.2 million to $30.7 million after investment of $2.4 million in the Plant (including a non-cash interest capitalisation of $1.9 million), a $0.6 million investment in the San José mine, a $0.1 million increase in trade and receivables due from the Mexican authorities in relation to sales good taxes recoverable, and a $0.1 million increase in inventories offset by a decrease in cash of $1.9 million to $3.0 million.

Q1 2014 v Q4 2013
The gross loss of $13k was $36k lower than Q4 2013. The net loss for Q1 2014 of $1.0 million was $0.5 million higher than Q4 2013 mainly on account of the fair value adjustment relating to the derivative liability.

Total assets increased by $1.1 million to $29.5 million after investment of $2.5 million in the Plant (including a non-cash interest capitalisation of $1.9 million), a $0.6 million investment in the San José mine, a $0.1 million increase in trade and receivables due from the Mexican authorities in relation to sales good taxes recoverable, and a $0.1 million increase in inventories offset by a decrease in cash of $2.3 million to $5.0 million.

Q4 2013 v Q3 2013
The gross loss of $49k was $24k higher than Q3 mainly due to the write back of inventory in Q3 as a result of a marginally improved silver price. The net loss for Q4 of $0.6 million was $1.5 million lower than Q3 mainly on account of the fair value adjustment relating to the derivative liability.

Total assets increased by $1.0 million to $28.4 million after investment of $2.3 million in the Plant, a $0.3 million investment in the San José mine, a $0.3 million increase in trade and receivables due from the Mexican authorities in relation to sales good taxes recoverable, and a $0.1 million increase in inventories offset by a decrease in cash of $2.0 million to $7.2 million.

Q3 2013 v Q2 2013
The Q3 gross loss of $25k was $0.2 million lower than the second quarter, mainly as a result of the suspension of production due to the volatility in the silver price. The net profit for Q3 of $0.9 million was $1.8 million higher than Q2 mainly due to the $2.5 million 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 Q3 of $9.3 million was $8.6 million higher than Q2 attributable to the proceeds from the convertible note.

Q2 2013 v Q1 2013
The Q2 gross loss of $0.3 million and the net loss for Q2 2013 of $0.9 million were in line with the previous quarter.

Liquidity, working capital and capital resources

Liquidity

At 31 December 2014 the Company had cash and cash equivalents of $2.8 million (2013: $7.2 million) and net current liabilities of $0.4 million.

Cash and cash equivalents decreased by $4.4 million during 2014 as a result of the offset of: $7.7 million proceeds from the BMPA and $0.3 million proceeds from the issue of share capital, against $5.8 million in the cost of operating activities, $3.2 million of investment in the purchase and refurbishment of the Plant, $3.4 million of investment in mine development and $0.1 million of foreign exchange losses.

Working capital

Current assets

- Cash and cash equivalents of $2.8 million (2013: $7.2 million) decreased by $4.4 million as a result of the offset of proceeds from the BMPA and funds from the issue of shares in connection with the SEDA drawdown against cash invested in the Plant and mine development.
- Trade and other receivables of $2.0 million (2013: $1.3 million) increased due to an increase in receivables relating to IVA (Mexican sales tax).
- Inventories of $1.5 million (2013: $1.0 million) increased as ore stockpiles increased as mining continues at the San José mine.

Current liabilities

- Trade payables of $1.6 million (2013: $1.2 million) increased by $0.4 million.
- Derivative liabilities of $5.2 million (2013: $nil) comprised $4.1 million in respect of the Quintana Note and $1.1 million which related an apportionment in respect of the obligations arising within the next 12 months under the terms of the BMPA.

Capital resources

Quintana financing

On 15 October 2014 the Company announced the execution of a $32 million joint financing package with Quintana and Quintana Streaming, as part of which, Quintana purchased from Platinum a US$15.6 million principal amount senior secured note of the Company convertible into common shares at C$1.10 per share. On 29 October 2014, the Company announced conditional approval from the TSX Venture Exchange to restructure the Platinum Note and issue a $16.5 million senior secured convertible note and 12,151,926 warrants over Common shares to Quintana.

In addition to the restructuring of the Platinum Note, the Company entered into a $15,635,750 BMPA with Quintana Streaming.

Under the terms of the BMPA, 78.2% of lead and zinc produced at the San José project will be delivered to Quintana Streaming as finished metal until the delivery hurdles of 37,783,112 pounds, in the case of lead, and 32,057,308 pounds in the case of zinc, have been met; thereafter, the percentage will drop to 27.4% of production of each base metal. Quintana Streaming will pay the lesser of market price or $0.25 per pound of lead or zinc (as applicable) until the delivery hurdles have been met, and $0.375 per pound thereafter.

Upon reimbursement of the upfront payment of $15.6 million through the delivery and sale of finished metals, Quintana Streaming will pay an additional 45% of the amount, if any, by which the market price of lead or zinc exceeds $1.10 per pound of commodity purchased.

The BMPA has a 50 year term, which can be extended for 10 years at a time, at the discretion of Quintana. The Group has the right to buy-back 50% of Quintana Streaming's rights to the San José base metal production within a 3 year period for $10.6 million. Under the terms of the BMPA, funds will be advanced to the Company upon the achievement of certain operational milestones. Should the Company fail to meet one or more of the milestones, it would not receive the full amount of funds that would otherwise be expected from Quintana.

At 31 December 2014, $8.0 million remained available to drawdown under the BMPA. A further $4.1 million had been drawn-down in January 2015 (see subsequent events).

Standby Equity Distribution Agreement (“SEDA”)
In September 2012 the Company signed a three year £5 million standby equity distribution agreement with YA Global Master SPV Ltd, an investment fund managed by Yorkville Advisors Global, L.P. 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, equity is issued at 95 per cent of the prevailing market price over a pricing period of between 5 and 20 days. The amount of each drawdown may not exceed 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.

During the year, the Company issued 541,443 shares under the terms of the SEDA, for an aggregate of £0.3m. £2.1 million remains available to be drawn down before the SEDA expires on 27 September 2015.

Share options
As at 31 December 2014, 2,056,000 share purchase options with exercise prices ranging from £0.325 to £4.925 or C$0.58 to C$7.90 expiring on various dates up to January 2019, were in issue, each entitling the holder to acquire one common share of the Company.

Future commitments
The following table discloses the contractual obligations for the Company as at 31 December 2014:

	Less than 1 year
	$’000
Building lease	102

Income taxes and Mexican tax reform

In December 2013, the Mexican President approved a tax reform bill that enacted a new Income Tax Law (“MITL”) which came into effect in January 2014. The MITL eliminated the scheduled reduction in corporate income tax, maintaining the rate of 30%, and created a 10% withholding tax on dividends paid to non-resident shareholders (subject to any reduction by an income Tax Treaty). The MITL also created a new royalty levied at 0.5% of gross revenues from the sale of gold, silver and platinum (“Extraordinary Mining Royalty”), and a new mining tax whereby the MITL requires taxpayers with a mining concession to pay a new 7.5% tax applicable to earnings before income tax, depreciation, depletion, amortization and interest (“Special Mining Tax”). In calculating the Special Mining Tax there are no deductions related to development type costs but exploration and prospecting costs are deductible when incurred. The Extraordinary Mining Royalty and Special Mining Tax are tax deductible for income tax purposes.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

Transactions between related parties

Directors’ interests in shares of the Company

At 31 December 2014 the directors of the Company and their immediate relatives controlled approximately 2.5% (2013: 2.6%) of the voting shares of the Company.

Directors’ interests in the common shares of the Company as at 31 December 2014 and 2013 are set out below:

	2014	**2013**
A J Williams	220,000	220,000
J T Williams	480,000	480,000
J A Crombie	150,000	150,000

Transactions involving key management personnel
During the year ended 31 December 2014 the Company entered into the following transactions involving key management personnel:

Quintana and Quintana Streaming
On 15 October 2014 the Group executed a $32 million joint financing package with Quintana and Quintana Streaming. As at 31 December 2014 Arian held the following balances in relation to the Quintana Financing; convertible note $11.6 million (2013: $nil), and derivative liabilities $10.1 million (2013: $nil). Interest of $0.5 million (2013: $nil) was capitalised during the year ended 31 December 2014.

Oliver Rodz was appointed as a director of the Company subsequent to the Quintana Financing. Mr Rodz is the President of Quintana and Quintana Streaming.

Siberian Goldfields Ltd
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.

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 2014 amounted to $25,000 (2013: $3,780). As at 31 December 2014, $221,469 (2013: $203,780) was owed to Arian by SGL.

Tony Williams is a director of the Company and both a director and shareholder of SGL.

Dragon Group Ltd
Dragon Group Ltd charged the Company a total of $134,003 (2013: $121,498). 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 Dragon Group Ltd. At 31 December 2014, $15,742 (2013: $10,672) was outstanding.

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 financial statements have been prepared on a going concern basis.

At 31 December 2014 the Company had net current liabilities of $0.4 million. $4.1 million of the current derivative liability balance relates to the valuation of the conversion option of the Quintana Note, which will not be settled in cash and, when added back, results in net current asset position of $3.7 million.

In October 2014 the Company entered into the $32 million Quintana Financing arrangement, which is expected to complete the Group's funding requirements for the development of the San José project. Please refer to the Capital Resources section on page 10 of this document.

Included in the Group's cash flow forecast are assumptions over the ability to drawdown funds available to it under the BMPA with Quintana Streaming, which is subject to the Group meeting certain operational milestones. Under the terms of the BMPA, the Group is also subject to covenants over the

operational performance of the San José mine and La Tesorera processing plant ("Completion Tests"). If the Group does not satisfy the Completion Tests, Quintana may elect to terminate the BMPA and require the Group to repay the uncredited balance of the upfront payment under the agreement. At the time of releasing this report it was the directors' opinion that the conditions surrounding the drawdown milestones and operational covenants under the BMPA were expected to be satisfied. At 31 December 2014, $8.0m remained available to draw down under the BMPA. A further $4.1m was drawn down in January 2015 as detailed in Subsequent Events.

In March 2015 the Group produced the first concentrate from the La Tesorera plant. The San José project remains in a commissioning phase as the Company progresses the project into production and ramp-up. There are risks associated with establishing new mining and processing operations, the realisation of which, could delay profitable commercial production and increase the Company's working capital requirements. The Company manages these risks by employing a proven processing method, completing studies over the critical aspects of the project to ensure that the variables and operational risks are understood, by employing a management team and contractors with suitable capabilities and experience, and building into its business model, contingency to manage events such as deterioration in market conditions or operational difficulties.

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.

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 would be charged to the Statement of Comprehensive Income.

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 Company directors, officers, employees and consultants to acquire shares of the Company. The fair value of options granted is recognised as an expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the period until the share purchase options vest unconditionally. The fair value of the options granted is measured using the Black-Scholes model, taking into account share price movements and 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.

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.

Derivative liability – Convertible Note
The conversion option of the Convertible Note has been treated as an embedded derivative because it does not meet the definition of equity.

On initial recognition, the fair value of the derivative liability is established using a Monte Carlo simulation valuation model. Subsequently, the derivative liability is fair valued at each reporting date and changes in the fair value are taken directly to the profit or loss. The derivative liability is impacted by price risk and foreign currency risk.

Derivative liability – BMPA
Management has determined it appropriate to measure the entire BMPA as a derivative liability and revalue at fair value through profit or loss.

On initial recognition, the derivative liability was fair valued using a discounted cash-flow analysis. The fair value of the derivative liability is established with reference to the amount of the facility drawn down under the BMPA, and the split of obligations between those of a current and non-current nature. Subsequently, the derivative liability is fair valued at each reporting date and any changes in the fair value are taken directly to the profit and loss. The derivative liability is impacted by price risk, volatility of metal prices and operational performance.

Warrant reserve
The Company estimates the fair value of the future liability relating to issued warrants using the Black-Scholes pricing model. The fair value of warrants is recognised as an expense with a corresponding increase in equity. The fair value is measured at issue date and spread over the period until the warrants vest unconditionally. The fair value of the warrants issued is measured using the Black-Scholes model, taking into account the terms and conditions upon which the warrants were issued.

Inventories
Concentrates and stockpiled 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.

Changes in accounting policies including initial adoption
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.

SUBSEQUENT EVENTS

Operations
In January 2015, mechanical completion of the Plant was achieved and the Company commenced a phased commissioning programme, starting with the silver-lead circuit and then moving onto the zinc circuit.

In February 2015, the company commenced a 5,000 metre exploration programme within the town of Guanajuatillo, which lies on the San José vein in between the Soledad and the West End area and which the Company had not previously explored, even though historic workings together with recent geological interpretation indicate that the vein continues underneath the town. This fifth phase of exploration is underway and scheduled to be completed within Q1 of 2015. Concurrently, the Company commenced construction of a third haulage ramp in the Guanajuatillo area to develop the western boundary of the Soledad resource blocks as well as to open up the Guanajuatillo area. This

ramp is part of the mine development programme to ensure a sustainable operation for life-of-mine at 1,500 tpd.

In March 2015 the first lead-silver concentrate was produced at La Tesorera processing plant.

Share options

On 7 January 2015 the Company granted 50,000 share options under the Company's share option plan. These share options are exercisable at £0.44 or C$0.79 per share up to 5 January 2020, subject to a four months hold period from date of grant.

Funding

Cash of $4.1 million was received in January 2015 pursuant to the terms of the BMPA. The Company has now received $11.8 million of the $15.4 million committed by Quintana Streaming.

RISK FACTORS AND UNCERTAINTIES

The financing, exploration, development and mining of any of the Company's properties is subject to a number of factors including the price of silver, lead and zinc, laws and regulations, political conditions, currency fluctuations, environmental regulations, hiring qualified people and obtaining necessary services in jurisdictions where the Company operates. The current trends of relating to these trends are favourable but could change at any time and negatively affect the Company's operations and business.

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

Financial Risks

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: price risk and foreign currency 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. Arian does not hedge its exposure to price risk.

Price risk in regard to market commodity prices of both lead and zinc may have a significant impact on the value of the BMPA and the associated derivative liabilities.

Foreign Currency risk

The Company's exploration expenditure is made in Mexico in Mexican pesos and head office expenses are predominantly made in the UK in pounds sterling, US 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.

At the year end the majority of the Company's cash resources were held in US dollars. The Company therefore also has downside exposure to any strengthening of the pound sterling, the Canadian dollar or the Mexican peso 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 the pound sterling, the Canadian dollar or the Mexican peso 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 pounds 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 US dollars.

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

Operational performance
The Company's production plan defines the ore blocks to be mined and the production rates which together determine the production of metal concentrate over the life-of-mine. The production plan requires estimates and assumptions to be made, including the mineral resource estimate and expectations regarding mining and processing performance. Such estimates and assumptions are made utilising the judgement of management and the input of independent third party experts. Actual production may differ from the production plan if there are fluctuations in the rate at which ore is extracted from the mine or if the throughput of the processing plant is adjusted. The production plan will be updated as appropriate, to reflect any changes to the mineral resource estimate and other information relevant to the project. Operational performance will significantly impact revenue, operating and capital costs, as well as the value of the BMPA and its associated derivative liabilities.

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 Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at 31 December 2014, the Company had cash of $2.8 million to settle accounts payable of $1,6 million. The Company'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. Once the Company resumes commercial production, it is expected that the Company will generate sufficient cash from the sale of concentrates and funds raised from investors 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 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. 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 reviews 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.

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.

The BMPA is valued based on expected future commodity prices and the valuation adopted fluctuates dependent upon those future prices.

Other risk factors

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 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 could be subject to prior unregistered agreements, transfers or other claims and title could 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. The Company's exploration 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 expenditure may be required to establish reserves by drilling and to construct mining and processing facilities at a site. It is impossible to ensure that preliminary feasibility studies or full feasibility studies on the Company's projects or the current or proposed exploration 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 could 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 might 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 could result in the Company not receiving an adequate return on invested capital.

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

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 could 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 United States dollar and other currencies, supply and demand and political and economic conditions, could have a significant influence on the market price of the Company's common shares.

Requirement for additional financing

Under the terms of the BMPA, funds will be advanced to the Company upon the achievement of certain operational milestones. Should the Company fail to meet one or more of the milestones, it would not receive the full amount of funds that would otherwise be expected from Quintana Streaming.

No assurance can be given that the Company will be able to raise the additional financing should it become necessary to continue its development and production activities or to explore and/or develop its concessions.

Failure to obtain sufficient financing for any projects would 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.

Additional sources of funds currently available to the Company are through the sale of product from production activities, the issue of equity capital, debt financing facilities or instruments, the sale of concessions or other assets, royalty interests or the entering into farm-in or joint venture agreements.

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 might not be available when needed, or if available, the terms of such financing might not be favourable to the Company and could involve substantial dilution to shareholders. In the absence of adequate funding, the Company would not be able to continue as a going concern in which event the carrying value of the Company's projects would be impaired.

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 San José vein as well as the search for and the development of new silver deposits. Significant capital investment will be required for completion of the San José Project and the continued exploration at the Company's other exploration concessions. 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 published by the Company 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. The Company's mineral resource estimate complies with the requirements of the Canadian NI 43-101 regulations, and the Company considers its mineral resource estimate to be well established, but it should be noted that mineral resource estimates are by their nature, 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 might not provide adequate coverage for losses related to these or other risks. The Company's insurance policies do not cover all possible risks that could arise in relation to the Company's exploration activities and production facilities and as a result the Company might 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 failure of a contractor or key service provider 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 might also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances, which might exist on or under any of the properties covered by its concessions, or which might 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 might be subject to penalties, its operations might 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 United Mexican States. The Company may be adversely affected by changes in economic, political, judicial, administrative or other regulatory factors such as taxation in Mexico, where the Company operates and holds its major assets. 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.

Payment obligations

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

Regulatory approvals

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

Competition

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

Conflicts of interest

Certain directors and officers of the Company also serve as directors and/or officers of other companies involved in mineral exploration and development and consequently there is the potential for conflicts of interest. The Company expects that any such director or officer shall disclose such interest in accordance with its articles of association or his contractual obligations to the Company and any decision made by any of such directors and officers involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company and its shareholders.

FORWARD-LOOKING STATEMENTS

Certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterised by words such as “plan”, “expect”, “forecast”, “project”, “intend”, “believe”, “anticipate”, “expect”, “budget”, “scheduled”, “outlook” and other similar words or statements that certain events or conditions “may” or “will” occur.

Forward-looking statements are based on the opinions and estimates of management at the dates the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements.

These factors include the inherent risks involved in exploration and development, and mining of mineral properties, the uncertainties involved in interpreting drilling results and other geological data, fluctuating metal prices, the possibility of project cost overruns or unanticipated operating costs and expenses, uncertainties related to the necessity of financing, the availability of and costs of financing needed in the future, and other factors described in this document under the heading “Risk Factors and Uncertainties”.

The Company undertakes no obligation to update forward-looking statements if circumstances or management’s estimates or opinions should change, other than as required by securities laws. The reader is cautioned not to place undue reliance on forward-looking statements (including, without limitation, statements relating to the mineral resource estimates, statements regarding the San José Project, the ability of the Company to achieve, maintain and possibly increase planned levels of production, and the ability of the Company to generate positive cash flow from the San José Project,

the ability to continue or implement proposed drilling programmes on the San José vein system and the Company's exploration, development and production plans and objectives).

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 contractors and plant and equipment, and failure to achieve anticipated production levels and mineral grades for ore from the San José Project, 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.

Any 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 judgement 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.

AVAILABILITY OF DOCUMENTS ON SEDAR

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

DISCLOSURE OF OUTSTANDING SHARE DATA

The following sets out the outstanding securities of the Company as at 30 March 2015:

	Number in issue
Common shares of no par value	33,907,448
Share purchase options	2,056,000

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

The Company has outstanding loan notes representing $16.5 million, which are convertible at the option of the holder, at any time up to and including 29 October 2017 into fully paid and non-assessable common shares of the Company at a price equal to C$0.7567 each. As at 30 March 2015, this represented an aggregate of 27,352,153 common shares of the Company.

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 AIM and the rules of the Toronto Venture Stock Exchange.

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, 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 2014 and the year ended 31 December 2013 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) as issued by the IASB.

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, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the IASB.

"BDO LLP"

BDO LLP
Chartered Accountants
London
United Kingdom

30 March 2015

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

Consolidated statement of comprehensive income
For the year ended 31 December 2014
(tabulated amounts expressed in thousands of US dollars unless otherwise stated)

	Note	**2014 $**	**2013 $**
Continuing operations			
Revenue		-	129
Cost of sales		(441)	(693)
Gross loss		(441)	(564)
Administrative expenses		(4,539)	(3,992)
(Loss)/gain on derivative liability	*18*	(208)	3,457
Transaction costs on derivative liabilities	*18*	(735)	(468)
Operating loss	*5*	(5,923)	(1,567)
Net investment income/(loss)	*7*	9	(44)
Loss for the year attributable to equity shareholders of the parent		(5,914)	(1,611)
Other comprehensive income			
Foreign exchange translation differences recognised directly in equity		(2,248)	604
Other comprehensive income for the year		(2,248)	604
Total comprehensive income for the year attributable to equity shareholders of the parent		(8,162)	(1,007)
Basic and diluted loss per share ($/share)	*9*	(0.18)	(0.05)

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

Consolidated statement of financial position
As at 31 December 2014
(tabulated amounts expressed in thousands of US dollars unless otherwise stated)

	Note	2014 $	2013 $
Assets			
Intangible assets	10	1,038	1,168
Property, plant and equipment	11	28,440	17,651
Total non-current assets		29,478	18,819
Inventories	12	1,498	980
Trade and other receivables	13	2,043	1,326
Cash and cash equivalents	14	2,846	7,241
Total current assets		6,387	9,547
Total assets		35,865	28,366
Equity attributable to equity shareholders of the parent			
Share capital	15	51,781	51,514
Warrant reserve	15	3,455	-
Share-based payment reserve	15	7,683	8,001
Foreign exchange translation reserve	15	(3,214)	(966)
Accumulated losses	15	(48,347)	(42,765)
Total equity		11,358	15,784
Liabilities			
Trade and other payables	17	1,556	1,173
Convertible note liabilities	18	-	11,170
Derivative liabilities	18	5,233	52
Total current liabilities		6,789	12,395
Convertible note liabilities	18	10,666	-
Derivative liabilities	18	6,206	-
Provision for mine closure	19	846	187
Total non-current liabilities		17,718	187
Total liabilities		24,507	12,582
Total equity and liabilities		35,865	28,366

The financial statements were approved and authorised for issue by the Board of Directors on 30 March 2015 and were signed on its behalf by:

"James T. Williams"

J T Williams
Chief Executive Officer

"Dean L. Friday"

D L Friday
Chief Financial Officer

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

Consolidated statement of cash flows
For the year ended 31 December 2014
(tabulated amounts expressed in thousands of US dollars unless otherwise stated)

	Note	**2014 $**	**2013 $**
Cash flows from operating activities			
Loss before tax		(5,914)	(1,611)
Add platinum note extension fee		700	-
Adjustments for non-cash items:			
Depreciation and amortisation		64	59
Exchange difference		117	54
Net investment loss		(9)	44
Fair value of derivative liability		208	(3,457)
Transactions costs on derivative liabilities		735	-
Equity-settled share-based payment transactions		14	497
Cash before movements in working capital		**(4,085)**	**(4,414)**
(Increase)/decrease in trade and other receivables		(849)	(71)
Increase/(decrease) in trade and other payables		451	196
(Increase)/decrease in inventories		(627)	(310)
Cash used in operating activities		**(5,110)**	**(4,599)**
Cash flows from investing activities			
Interest received		20	17
Proceeds from disposal of investments		-	142
Acquisition of property, plant and equipment		(6,626)	(4,770)
Cash used in investing activities		**(6,606)**	**(4,611)**
Cash flows from financing activities			
Proceeds from issue of share capital		267	3,291
Proceeds from Base Metal Purchase Agreement		7,680	-
Platinum note extension fee		(700)	-
Proceeds from issue of convertible note (net of transaction costs)		-	12,159
Cash from financing activities		**7,247**	**15,450**
Net increase/(decrease) in cash and cash equivalents		(4,469)	6,240
Cash and cash equivalents at 1 January		7,241	491
Effect of exchange rate fluctuations on cash held		74	510
Cash and cash equivalents at 31 December	*14*	**2,846**	**7,241**

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

Consolidated statement of changes in equity
For the year ended 31 December 2014
(tabulated amounts expressed in thousands of US dollars unless otherwise stated)

	Share capital $	Warrant reserve $	Share based payment reserve $	Foreign exchange translation reserve $	Accumulated losses $	Total $
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	**-**	**-**	**-**	**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**
Loss for the year	-	-	-	-	(5,914)	(5,914)
Foreign exchange	-	-	-	(2,248)	-	(2,248)
Total comprehensive income	**-**	**-**	**-**	**(2,248)**	**(5,914)**	**(8,162)**
Fair value of share options	-	-	14	-	-	14
Fair value of warrant reserve	-	3,455	-	-	-	3,455
Shares issued for cash	273	-	-	-	-	273
Share issue costs	(6)	-	-	-	-	(6)
Lapse of share options	-	-	(332)	-	332	-
Balance – 31 December 2014	**51,781**	**3,455**	**7,683**	**(3,214)**	**(48,347)**	**11,358**

The accompanying notes are an integral part of these 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 2014 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 2014 have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board.

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 2014. 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. The Group has not adopted any standards or interpretations in advance of the required implementation dates.

The accounts were approved by the board and authorised for issue on 30 March 2015.

(b) Going concern

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

At 31 December 2014 the Company had net current liabilities of $0.4 million. $4.1 million of the current derivative liability balance relates to the valuation of the conversion option of the Quintana Note (see note 18). This item will not be settled in cash and, when added back, results in a net current asset position of $3.7 million.

In October 2014 the Company entered into a $32 million financing package, which was expected to complete the Group's funding requirements for the development of the San José project and to enable the Group to achieve full-scale commercial production. Details of the financing package and defined terms used in this note are set out in note 18.

Included in the Group's cash flow forecast are assumptions over the ability to drawdown funds available to it under the BMPA with Quintana Streaming, which is subject to the Group meeting certain operational milestones. Under the terms of the BMPA, the Group is also subject to covenants over the operational performance of the San José mine and La Tesorera processing plant ("Completion Tests"). If the Group does not satisfy the Completion Tests, Quintana may elect to terminate the BMPA and require the Group to repay the uncredited balance of the upfront payment under the agreement. At the time of releasing this report it was the directors' opinion that the conditions surrounding the drawdown milestones and operational covenants under the BMPA were expected to be satisfied. At 31 December 2014, $8.0 million remained available to draw down under the BMPA. A further $4.1 million was drawn down in January 2015 as detailed in note 24.

In March 2015 the Group produced the first concentrate from the La Tesorera plant. The San José project remains in a commissioning phase as the Company progresses the project into production and ramp-up. There are risks associated with establishing new mining and processing operations, the realisation of which, could delay profitable commercial production and increase the Company's working capital requirements. The Company manages these risks by employing a proven processing method, completing studies over the critical aspects of the project to ensure that the variables and operational risks are understood, by employing a management team and contractors with suitable capabilities and experience, and building into its business model, contingency to manage events such as deterioration in market conditions or operational difficulties.

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.

2. Basis of preparation *(continued)*

(c) Use of estimates and judgement

The preparation of financial statements in conformity with 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 are 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), 16
- Depreciation on property, plant and equipment – Note 3(i), 11
- Revenue – Note 3(c)
- Inventories – Note 3(k)
- Valuation of convertible loan note and derivatives – Note 3(l), 18

(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.

3. Significant accounting policies *(continued)*

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, lead and zinc and is therefore considered to be the most useful currency to the users of the accounts.

(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, 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.

3. Significant accounting policies *(continued)*

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.

(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 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) 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.

(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.

3. Significant accounting policies *(continued)*

(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.

(k) Inventories

Concentrate and stockpiled ore are valued at the lower of production cost 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 and estimated production costs to complete.

(l) Financial instruments

(i) Loans and receivables

Loans and receivables that are short term in nature are stated at cost less any impairment provision. They are valued at fair value less any derivative component and transaction costs on intial recognition. They are valued at amortised cost using the effective interest rate method. Gains and losses are recognised through profit or loss when the loans and receivables are derecognised.

(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 measured 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 liabilities measured at fair value through profit or loss also include the BMPA, which contains an embedded derivative. Management has determined to measure the entire BMPA at fair value through profit or loss.

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

3. Significant accounting policies *(continued)*

(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.

(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) Warrants

The Company estimates the fair value of the future liability realting to issued warrants using the Black-Scholes pricing model. The fair value of warrants is recognised as an expense with a corresponding increase in equity. The fair value is measured at issue date and spread over the period until the warrants vest unconditionally. The fair value of the warrants issued is measured using the Black-Scholes model, taking into account the terms and conditions upon which the warrants were issued.

(p) Share capital – common shares

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

(q) 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.

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 chief operating decision maker 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	
	2014 $	2013 $	2014 $	2013 $	2014 $	2013 $
Revenue	-	129	-	-	-	129
Interest income	-	-	20	-	20	-
Loss before tax	(441)	(564)	(5,473)	(1,047)	(5,914)	(1,611)
Capital expenditure	3,401	1,208	3,225	6,158	6,626	7,366
Depreciation and amortisation	46	41	18	18	64	59
Total assets	14,924	12,304	20,941	16,062	35,865	28,366
Total liabilities	846	187	23,661	12,395	24,507	12,582

San José revenue in 2013 relates to transactions from one customer.

(ii) Geographical information

	Mexico		UK		Total	
	2014 $	2013 $	2014 $	2013 $	2014 $	2013 $
Non current assets excluding investments	25,952	15,448	3,526	3,371	29,478	18,819
Revenue	-	129	-	-	-	129

5. Operating loss

Operating loss is stated after charging:

	2014 $	2013 $
Depreciation and amortisation	64	59
Operating lease	102	74
Convertible loan note extension fees	700	-
Finance transaction costs	1,023	468
Loss on disposal of non-current assets held for sale	-	51
Exchange loss	74	510

Auditors Remuneration

	2014 $	2013 $
Fees payable to the Group's auditor for the audit of the annual financial statements	73	48
Fees payable to the Group's auditor for other services:		
- Taxation	12	10
Fees payable to other auditors	20	22
Total	**105**	**80**

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 2014	Number of Employees 2013
Finance and administration	16	16
Technical	52	44
Total staff numbers	**68**	**60**

The aggregate staff costs of these persons were as follows:

	2014 $	2013 $
Wages and salaries	1,266	1,224
Social security costs	116	110
Share based payments	14	497
Total staff costs	**1,396**	**1,831**

Remuneration of key management personnel

Key management personnel remuneration is detailed below:

	2014			2013
	Salary $	Fees $	Total $	Total $
Executive directors				
A J Williams	124	-	124	113
J T Williams	280	-	280	289
Non-executive directors				
T A Bailey	27	-	27	23
J S Cable	27	-	27	23
J A Crombie	27	-	27	23
O Rodz	5	-	5	-
D C Laing	5	-	5	-
Other key management				
Country Manager – Mexico	-	133	133	79
Chief Financial Officer	165	-	165	151
Company Secretary	170	-	170	141
Total remuneration	**830**	**133**	**963**	**842**

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 $1,057,000 (2013: $935,000).

Key management personnel also participate in the Group's share option programme as disclosed in note 16.

7. Net investment income/(loss)

	2014 $	2013 $
Loss on disposal of financial assets held	-	(51)
Unwinding of provision for mine closure	(11)	(10)
Interest income	20	17
Total net investment income/(loss)	**9**	**(44)**

8. Income tax recognised in the income statement

Current tax	2014 $	2013 $
Current year	-	-

Reconciliation of effective tax rate	2014 $	2013 $
Loss before tax	(5,914)	(1,611)
Income tax using the domestic corporation tax rate of 21.49% (2013: 24.49%)	(1,271)	(375)
Non-deductible expenses	(440)	(555)
Share options disallowed	3	116
Share options relief	-	-
Exchange rate differences	-	(6)
Depreciation in excess of capital allowances	7	8
Short term timing differences not recognised in a deferred tax asset	(26)	(289)
Capitalised interest	(1,228)	(604)
Other	(595)	-
Tax losses carried forward	2,721	1,705
Total tax expense/(credit)	-	-

At the year end the Group had tax losses to carry forward of approximately $47,496,000 (2013: $35,881,000).

Under IFRS a net deferred tax asset of approximately $5,909,000 (2013: $4,127,000) 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 2014 was based on the loss attributable to common shareholders of $5,914,000 (2013: $1,611,000) and a weighted average number of common shares outstanding during the year ended 31 December 2014 of 33,501,531 (2013: 32,212,527). 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.

10. Intangible assets

	Deferred Exploration Costs $
Cost	
At 31 December 2012	1,361
Foreign exchange	(8)
At 31 December 2013	1,353
Foreign exchange	(130)
At 31 December 2014	1,223
Impairment losses and amortisation	
At 31 December 2012	(185)
At 31 December 2013	(185)
At 31 December 2014	(185)
Carrying amounts	
At 31 December 2012	1,176
At 31 December 2013	1,168
At 31 December 2014	**1,038**

Deferred exploration costs as at 31 December 2014 consisted mainly of costs relating to Calicanto $709,000 (2013: $798,000), San Celso $83,000 (2013: $93,000) and Los Campos $75,000 (2013: $84,000).

11. Property, plant and equipment

	Mine development costs $	Plant and equipment $	Fixtures & fittings $	Vehicles $	Total $
Cost					
At 31 December 2012	10,576	260	30	100	**10,966**
Additions	1,208	3,562	-	-	**4,770**
Interest capitalised	0	2,596	-	-	**2,596**
Foreign exchange movement	(66)	2	-	-	**(64)**
At 31 December 2013	11,718	6,420	30	100	**18,268**
Additions	3,401	3,225	-	-	**6,626**
Interest capitalised	-	5,714	-	-	**5,714**
Foreign exchange movement	(1,285)	(244)	(3)	(11)	**(1,543)**
At 31 December 2014	13,834	15,115	27	89	**29,065**
Depreciation and impairment losses					
At 31 December 2012	(355)	(92)	(17)	(97)	**(561)**
Depreciation and amortisation charge for the year	(41)	(13)	(3)	(2)	**(59)**
Foreign exchange movement	2	-	-	1	**3**
At 31 December 2013	(394)	(105)	(20)	(98)	**(617)**
Depreciation and amortisation charge for the year	(46)	(13)	(3)	(2)	**(64)**
Foreign exchange movement	32	11	2	11	**56**
At 31 December 2014	(408)	(107)	(21)	(89)	**(625)**
Carrying amounts					
At 31 December 2012	10,221	168	13	3	**10,405**
At 31 December 2013	11,324	6,315	10	2	**17,651**
At December 2014	13,426	15,008	6	-	**28,440**

The mine development costs at 31 December 2014, relate to the 100% owned San José property in Zacatecas State, Mexico.

Plant and equipment of $15,008,000 (2013: $6,315,000) includes $14,972,000 (2013: $6,275,000) for the La Tesosera plant, of which $8,310,000 relates to transaction costs that have been capitalised.

12. Inventories

	2014 $	2013 $
Consumables	37	22
Stockpiled ore	1,461	958
Total inventories	**1,498**	**980**

13. Trade and other receivables

	2014 $	2013 $
Other receivables	1,650	904
Receivables due from related parties	221	204
Prepayments	172	218
Total trade and receivables	**2,043**	**1,326**

Included within other receivables is $1,551,000 (2013: $695,000) 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.

14. Cash and cash equivalents

	2014 $	2013 $
Bank balances	2,846	7,241
Cash and cash equivalents in the statement of cash flows	**2,846**	**7,241**

15. Share capital and reserves

Authorised

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

Issued and outstanding common shares

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 2014 and 2013 are detailed in the following table:

	2014		2013	
	Number of Shares 000's	Amount $	Number of Shares 000's	Amount $
Opening balance 1 January	33,366	51,514	30,490	48,223
Shares issued for cash	541	273	2,876	3,495
Issue costs of share issuance	-	(6)	-	(204)
Closing balance 31 December	**33,907**	**51,781**	**33,366**	**51,514**

During the years ended 31 December 2014 and 2013, 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.

15. Share capital and reserves *(continued)*

2014

- 316,790 common shares issued at £0.337763 per share to provide additional working capital of £107,000 drawdown of the SEDA.
- 224,653 common shares issued at £0.268258 per share to provide additional working capital of £60,265 drawdown of the SEDA.

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.

Warrants

As part of the Quintana Financing, Quintana were issued with 12,151,926 common share purchase warrants ("Warrants"), exercisable at C$1.00 per common share, until 29 October 2017. Please refer to note 18 for further details.

The number and weighted average exercise price for the year ended 31 December 2014 and 2013:

	2014		**2013**	
	Out-standing (000's)	**Weighted average exercise price ($)**	**Out-standing (000's)**	**Weighted average exercise price ($)**
Issued	12,152	0.88	-	-
Closing balance 31 December	**12,152**	**0.88**	**-**	**-**

The Warrants have an average remaining term of 2.83 years.

15. Share capital and reserves *(continued)*
Warrants *(continued)*

Fair value of Warrants and assumptions
The estimate of the fair value of the Warrants is measured based on the Black-Scholes model. The following inputs were used in the calculation of the fair value of the warrants granted.

	2014	2013
Fair value ($ 000's)	3,455	-
Share price ($)	0.57	-
Weighted average exercise price ($)	0.88	-
Expected volatility	92%	-
Expected warrants life	3 years	-
Expected dividend yield	0%	-
Risk-free interest rate	1.84%	-

The expected volatility is based on the historical share price of the Company.

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.

16. Share-based payment transactions
The number and weighted average exercise prices of share options for the years ended 31 December 2014 and 2013 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.

	2014		2013	
	Out-standing (000's)	Weighted average exercise price ($)	Out-standing (000's)	Weighted average exercise price ($)
Opening balance 1 January	2,231	4.54	1,596	6.20
Issued	50	0.51	845	1.10
Lapsed	(225)	0.96	(210)	(2.60)
Closing balance 31 December	**2,056**	**5.08**	**2,231**	**4.54**

Share options in issue at 31 December 2014:

Outstanding shares	Exercisable shares	Exercise price	Expiry
1,141,000	1,141,000	£4.925/C$7.90	18 January 2016
70,000	70,000	£2.00/C$3.2077	29 May 2017
795,000	795,000	£0.70/C$1.09123	29 May 2018
50,000	50,000	£0.325/C$0.57624	13 January 2019

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

The share options outstanding at 31 December 2014 are settled by issue of equity.

The weighted average remaining contractual life of share options as at 31 December 2014 was 1,058 days.

Share options held by directors and senior management at 31 December 2014:

Holder	Shares '000s	Exercise price	Grant Date	Vesting Date	Expiry[1]
A 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 T 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 S 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
T A 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
J A 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
Senior	50	£0.325/C$0.57624	14 January 2014	14 January 2014	13 January 2019
Management	250	£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

[1] The expiry date is subject to the terms and conditions contained in the share option plan.

Changes to share options held by directors and senior management in the year ended 31 December 2014:

Holder	At 1 January 2014 '000s	Granted '000s	Lapsed '000s	At 31 December 2014 '000s
A J Williams	550	-	-	550
J T Williams	550	-	-	550
J S Cable	110	-	(20)	90
T A Bailey	110	-	(20)	90
J A Crombie	145	-	(55)	90
Senior Management	495	50	(75)	470
Total	**1,960**	**50**	**(170)**	**1,840**

During the year 50,000 share options were issued to senior management at an exercise price of £0.325/C$0.57624. In addition 170,000 share options lapsed during the year at exercise prices ranging from £0.55/C$1.00 to £0.70/C$1.09123. There were no share options exercised during the year.

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

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.

	2014	2013
Fair value ($)	14,000	497,000
Share price 31 December 2013 ($)	-	0.36
Share price 31 December 2014 ($)	0.35	-
Weighted average exercise price ($)	0.53	1.05
Expected volatility	88%	93%
Option life	5 years	5 years
Expected dividend yield	-	-
Risk-free interest rate	1.84%	0.98%

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 $14,000 (2013: $497,000) during the year ended 31 December 2014; of these expenses $14,000 (2013: $427,000) related to share options issued to key management personnel.

17. Trade and other payables

	2014 $	2013 $
Payables due to related parties	16	11
Trade payables	758	921
Other payables	782	241
Total trade and other payables	**1,556**	**1,173**

18. Convertible notes and derivative liabilities

	Convertible Notes		Derivative Liabilities	
	2014 $	2013 $	2014 $	2013 $
Platinum Note				
Opening balance 1 January	11,170	-	52	-
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	-	-	(52)	(3,457)
Unwind effective interest	5,194	2,596	-	-
Derecognition of Platinum Note 29 October	(16,364)	-	-	-
Closing balance	**-**	**11,170**	**-**	**52**
Quintana Note				
Platinum Note derecognition	16,364	-	-	-
Interest paid 14 October to 29 October	88	-	-	-
Restructure of note 29 October	16,452	-	-	-
Fair value derivative liability on recognition	(3,499)	-	3,499	-
Transaction costs capitalised on recognition	(2,720)	-	-	-
Change in fair value derivative liability	-	-	619	-
Unwind effective interest	433	-	-	-
Closing balance	**10,666**	-	**4,118**	-
Base metal purchase agreement				
Fair value derivative liability on recognition	-	-	7,680	-
Change in fair value derivative liability	-	-	(359)	-
Closing balance	**-**	**-**	**7,321**	**-**
Total convertible note and derivative liabilities	**10,666**	**11,170**	**11,439**	**52**
Current	-	11,170	5,233	52
Non-current	10,666	-	6,206	-
Total convertible note and derivative liabilities	**10,666**	**11,170**	**11,439**	**52**
Fair value of derivative liability through profit or loss				
Platinum Note	**-**	**-**	52	3,457
Quintana Note	**-**	**-**	(619)	**-**
Base metal purchase agreement	**-**	**-**	359	**-**
(Loss)/gain on derivative liability	**-**	**-**	**(208)**	**3,457**
Transaction costs expensed on recognition	**-**	**-**	**735**	**468**

Platinum Note and Quintana Note

On 29 August 2013, the Company issued a convertible note instrument raising $15.6 million before transaction costs, with Platinum Long Term Growth VIII (“Platinum Note”). The Platinum Note was convertible in whole or in part at the option of the note holder at a conversion price of C$1.10 and would 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 Plant, and the development of the San José mine. The Company extended the maturity date of this facility to 15 October 2014 with the mutual consent of Platinum and in exchange for consideration of US$700,000 plus interest which has been recognised within the income statement.

18. Convertible notes and derivative liabilities *(continued)*

On 15 October 2014 the Company announced the execution of a $32 million joint financing package ("Quintana Financing") with Quintana AGQ Holding Co. LLC ("Quintana") and and Quintana San José Streaming Co. LLC ("Quintana Streaming"). As part of the financing package, Quintana purchased the Platinum Note, which was then cancelled on 29 October 2014 and a new senior secured convertible note was issued for a principal amount of US$16,452,343 at an 8% coupon ("Quintana Note"). The principal amount of the Quintana Note is convertible at any time at the option of Quintana for Common shares at a price equal to C$0.7567 per share (converted into US$ on the business day prior to the time of such conversion) and matures on 29 October 2017. As part of the issue of the Quintana note, Quintana were issued with 12,151,926 common share purchase warrants exercisable at C$1.00 per common share, until 29 October 2017. Please refer to note 15 for further details.

The conversion option of the convertible notes 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 transaction costs relating to the derivative liabilities are expensed as they are incurred.

The loss (2013: gain) reported on the derivative at 31 December 2014 is primarily a result of the strengthening (2013: weakening) in Arian Silver Corporation's 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.

Fund advances from Base Metal Purchase Agreement

In addition to the restructuring of the Platinum Note, the Company entered into a $15,635,750 Base Metal Purchase Agreement ("BMPA") as part of the Quintana Financing.

Under the terms of the BMPA, 78.2% of lead and zinc produced at the San José project will be delivered to Quintana Streaming as finished metal until the delivery hurdles of 37,783,112 pounds, in the case of lead, and 32,057,308 pounds in the case of zinc, have been met; thereafter, 27.4% of production of each base metal will be delivered to Quintana Streaming. Quintana Streaming will pay the lesser of market price or $0.25 per pound of lead or zinc (as applicable) until the delivery hurdles have been met, and $0.375 per pound thereafter.

Upon reimbursement of the upfront payment of $15.6m through the delivery and sale of finished metals, Quintana Streaming will pay an additional 45% of the amount, if any, by which the market price of lead or zinc exceeds $1.10 per pound of commodity purchased.

The BMPA has a 50 year term, which can be extended for 10 years at a time, at the discretion of Quintana. The Group has the right to buy-back 50% of Quintana Streaming's rights to the San José base metal production within a 3 year period for $10.6 million. Under the terms of the BMPA, funds will be advanced to the Company upon the achievement of certain operational milestones. Should the Company fail to meet one or more of the milestones, it would not receive the full amount of funds that would otherwise be expected from Quintana.

Under IAS 39, the Base Metal Purchase Agreement with Quintana is deemed to contain an embedded derivative. The Company elected to account for the entire agreement as fair value through profit and loss.

18. Convertible notes and derivative liabilities *(continued)*

Under this method, the agreement should be recognised on the balance sheet at fair value, with any movements of the fair value being taken to the profit and loss.

19. Provision for mine closure

	2014 $	2013 $
Opening balance	187	177
Increase in provision	648	-
Unwinding of discount	11	10
Closing balance	**846**	**187**

Additional provision of $648,000 has been made during the year to cover projected closure costs at the San José mine as a result of the refurbishment and construction of La Tesorera processing plant and an extension to the mining period of approximately 10 years. Closure costs are calculated to be $1,390,000 (2013: $206,000) at the end of 10 years (2013: 4 years) using a discount rate of 5% (2013: 5%). Closure activities include decommissioning, reclamation and rehabilitation.

20. Group entities

Significant Subsidiaries	Country of incorporation and operation	Principal activity	Arian Silver Corporation effective interest	
			2014	2013
Arian Silver de Mexico S.A. de C.V.	Mexico	Silver exploration & production	100%	100%
Arian Silver Barbados	Barbados	Trading	100%	-
Arian Silver (Netherlands) BV	The Netherlands	Trading	100%	-

21. 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	
	2014 $	2013 $	2014 $	2013 $	2014 $	2013 $
Cash and cash equivalents	2,846	7,241	-	-	-	-
Trade and other receivables	333	413	-	-	-	-
Convertible note liability	-	-	10,666	11,170	-	-
Derivative liabilities – convertible note	-	-	-	-	4,118	52
Derivative liabilities - BMPA	-	-	-	-	7,321	-
Trade and other payables	-	-	1,556	1,173	-	-
Total	**3,179**	**7,654**	**12,222**	**12,343**	**11,439**	**52**

Exposure to interest rate and foreign 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.

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

Fair Value Hierarchy

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3: Inputs that are not based on observable market data.

The carrying amount of the financial liabilities at fair value through profit and loss relating to the convertible note are based on inputs other than quoted prices that are observable for the liability including implied volatilities and market-corroborated inputs i.e. Level 2. The valuation uses a Monte-Carlo simulation to capture the movements in the Canadian dollar to US dollar exchange rate and the Arian Silver share price.

The carrying amount of the financial liabilities at fair value through profit and loss relating to the BMPA are based on a combination of observable inputs and significant unobservable inputs i.e Level 3. The valuation technique used to value this liability uses a discounted cashflow with significant inputs of future lead and zinc prices and production volumes based on the Company's 10-year mine plan to derive a fair value for the BMPA. The discount rate used was 32.09%, benchmarked to the discount rate implicit in the agreement based on an analysis of the expected cashflows at the time the agreement was entered into.

The following table shows the changes to the fair value of the Company's Level 3 financial liabilities:

	2014 $	2013 $
Opening balance	-	-
Fair value of derivative liability on initial recognition	7,680	-
Change in fair value derivative liability	(359)	-
Closing balance	**7,321**	**-**

The following table sets out quantitative information about the significant unobservable inputs for the valuation of the BMPA liability:

Unobservable input	Range
Discount rate (%)	32.09-32.09
Future lead price ($ per pound)	0.84-0.97
Future zinc price ($ per pound)	0.99-1.08
Production of payable lead (000's of lbs per month)	0-521
Production of payable zinc (000's of lbs per month)	0-605

The following provides a description of the sensitivities of the Company's level 3 financial liabilities:

- Lead and zinc prices – an increase in lead and zinc prices would result in a higher fair value
- Production volumes – an increase in production volumes would result in a higher fair value
- Discount factor – an increase in the discount factor would result in a lower fair value

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: price risk and foreign currency risk.

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

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, most significantly in regard to silver. Price risk in regard to the market prices of both lead and zinc may have a significant impact on the value of the BMPA and the associated derivative liability as described in the fair value hierarchy above.

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.

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.

	2014 $	2013 $
Pounds sterling	52	231
United States dollars	957	6,900
Canadian dollars	14	6
Mexican pesos	1,823	104
Total cash held	**2,846**	**7,241**

Operational risk

The Company's production plan defines the ore blocks to be mined and the production rates which together determine the production of metal concentrate over the life-of-mine. The production plan requires estimates and assumptions to be made, including the mineral resource estimate and expectations regarding mining and processing performance. Such estimates and assumptions are made utilising the judgement of management and the input of independent third party experts. Actual production may differ from the production plan if there are fluctuations in the rate at which ore is extracted from the mine or if the throughput of the processing plant is adjusted. The production plan will be updated as appropriate, to reflect any changes to the mineral resource estimate and other information relevant to the project. Operational performance will significantly impact revenue, operating and capital costs, as well as the value of the BMPA and its associated derivative liabilities.

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.

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

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 2014, the Group had cash of $2,846,000 to settle accounts payable of $1,556,000. 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 October 2017 (see note 18). 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 reviews 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.

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	
	2014 $	**2013 $**	**2014 $**	**2013 $**
If there was a 10% weakening of pounds sterling against US dollar with all other variables held constant – increase/(decrease)	(5)	(23)	(5)	(23)
If there was a 10% strengthening of pounds sterling against US dollar with all other variables held constant – increase/(decrease)	5	23	5	23

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

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

Sensitivity Analysis *(continued)*

The BMPA is valued based on expected future commodity prices and the valuation adopted fluctuates dependent upon those future prices.

Exposure to commodity price risk sensitivity analysis:

	Profit/Loss		Equity	
	2014 $	**2013 $**	**2014 $**	**2013 $**
If there was a 5% weakening of the lead price with all other variables held constant – increase/(decrease)	(533)	-	533	-
If there was a 5% strengthening of the lead price against US dollar with all other variables held constant – increase/(decrease)	533	-	(533)	-
If there was a 5% weakening of the zinc price with all other variables held constant – increase/(decrease)	(433)	-	433	-
If there was a 5% strengthening of the zinc price against US dollar with all other variables held constant – increase/(decrease)	433	-	(433)	-

A 5% variation is considered an appropriate level of sensitivity given recent commodity price volatility.

22. Future commitments

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

	Buildings		Total	
	2014 $	**2013 $**	**2014 $**	**2013 $**
Payable in less than one year	**102**	**74**	**102**	**74**

23. Related parties

Control of the Company
In the opinion of the Board, at 31 December 2014 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.

Directors' interests in shares of the Company
At 31 December 2014 the Directors of the Company and their immediate relatives controlled approximately 2.5% (2013: 2.6%) of the voting shares of the Company.

Directors' interests in the common shares of the Company as at 31 December 2014 and 2013 are set out below.

	2014	2013
A J Williams	220,000	220,000
J T Williams	480,000	480,000
J A Crombie	150,000	150,000

Transactions with key management personnel
During the year ended 31 December 2014 the Company entered into the following transactions involving key management personnel:

On 15 October 2014 the Group executed a $32 million joint financing package with Quintana and Quintana Streaming. As at 31 December 2014 Arian held the following balances in relation to the Quintana Financing; convertible note $11,602,023 (2013: $nil), and derivative liabilities $10,073,000 (2013: $nil). Interest of $471,284 (2013: $nil) was capitalised as part of the plant during the year ended 31 December 2014

Oliver Rodz was appointed as a director of the Company subsequent to the Quintana Financing. Mr Rodz is the President of Quintana and Quintana Streaming.

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.

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 2014 amounts to $25,000 (2013: $3,780). As at 31 December 2014, $221,469 (2013: $203,780) was owed to Arian by SGL.

A.J. Williams is a director and shareholder of SGL.

Dragon Group Ltd charged the Company a total of $134,003 (2013: $121,498). This relates to the reimbursement of A.J. Williams' remuneration paid on behalf of the Company. A.J. Williams, Chairman and a director of the Company, beneficially owns Dragon Group Ltd. At 31 December 2014, $15,742 (2013: $10,672) was outstanding.

Key management personnel also participate in the Group's share option programme as disclosed in note 16.

Key management personnel compensation is disclosed in note 6.

24. Post balance sheet events

Share options
On 6 January 2015 the Company granted 50,000 share options under the Company's share option plan. These share options are exercisable at £0.44 or C$0.79 per share up to 5 January 2020.

Funding

A Cash receipt of $4,080,000 was received in January after successful completion of the second milestone under the BMPA. The company has now received $11,760,000 (76.5%) of a total of $15,360,000.

Plant Commissioning
In March 2015 the first lead-silver concentrate was produced at La Tesorera processing plant.