# Annual Report 2015

For the year ended 31 December 2015

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## Forward looking statements

Certain information in this annual report may constitute a forward-looking statement. 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 not guarantees of future performance. Rather, they are based on current opinions and estimates of management and involve known and unknown risks, uncertainties, and other factors that may cause actual results to differ from any future results or developments expressed or implied from each forward-looking statement. Each forward-looking statement is expressed only as at the date on which it is made and 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.

# Chairman’s and Chief Executive’s statement

Dear shareholders,

There is no doubt that 2015 has been a difficult year for the mining industry, and one in which the challenges facing the industry have been brought into sharp focus. The fall in commodity prices amid concerns over global growth and the negative outlook for precious metals prices resulted in significant financing issues across the sector.

Against this challenging backdrop, Arian continued the development of the San José project and achieved significant milestones throughout the first half of the year. In March, we produced our first lead-silver concentrate while commissioning the La Tesorera plant and continued the development of the zinc circuit, as well as continued the underground development at San José. Meanwhile Arian completed a 5,000 metre exploration programme which resulted in a significant resource upgrade announced in October.

Despite our progress on the project, the continued decline of the silver price during 2015 together with the additional time that was required to complete the commissioning process, made it evident an additional cash injection would have been necessary, which was not practicable given market conditions at that time coupled with the Company’s existing debt financing arrangements.

As at 31 October 2015 Arian's accrued debt under the senior secured financing arrangement with Quintana amounted to approximately US$17.8 million with the initial repayment commencing in April 2016. In addition, the outstanding balance under the Base Metal Purchasing Agreement amounted to US$15.2 million. Despite lengthy discussions regarding possible solutions, none of these were acceptable to the Company’s lenders. Therefore the Board, in conjunction with its legal advisors, concluded that it was in the best interests of shareholders and creditors that an orderly foreclosure process be pursued to enable the Company to meet its financial commitments as they fell due.

Accordingly, the Company concluded a Settlement Deed with Quintana as described in our press release on 27 November last year and obtained a release from all obligations to Quintana including approximately US$1.9 million of outstanding third party creditor balances in Mexico and provided the Company with a cash injection of US$700,000. This enabled us to preserve the value of the remaining concessions and allow the Company to refinance, free of its debt burden, with corporate overheads reduced by two-thirds.

We have since invested time identifying new development opportunities with nearer term revenue potential and assessing further exploration opportunities amongst the Company’s portfolio of nineteen green and brownfield mineral concessions. In May 2016, we obtained an exclusive option on a gold and silver tailings project in Zacatecas Mexico and are currently undertaking metallurgical test-work on the project, the results of which we look forward to reporting in the second half of 2016.

Furthermore, during the first half of 2016 we raised £1.5 million before expenses, providing the Company with the financial resources to advance exploration activities and assess new opportunities.

Given the rebound of the silver price since the start of this calendar year, of some 25% from its low in October 2015, this seems an opportune point during the macro-economic cycle to gain access to new projects.

We would like to thank all our shareholders for their continued support during what has been a very challenging period for the Company but we look forward to updating you on our progress during the rest of this year.

A J Williams
Executive Chairman

J T Williams
Chief Executive Officer

# Business overview

## Strategy

Arian Silver is focused on identifying economic sources of silver and other precious metals, and developing mineral projects through to production. The Company has previously concentrated exclusively on projects within the Zacatecas silver belt in Mexico, but recent economic conditions have presented abnormally high value opportunities around the world, and the Company may broaden its focus beyond solely the Zacatecas region and indeed beyond Mexico, to ensure the Company does not automatically preclude valuable opportunities should they arise elsewhere.

## Financial highlights

As at 31 December 2015, the Company had total assets of $1.7 million (2014: $35.9 million) of which $0.5 million (2014: $2.8 million) was cash. The Company had total liabilities of $0.5 million (2014: $6.8 million) of which $0.5 million were current liabilities (2014: $6.8 million).

In the year ended 2015 the Company made an operating loss of $2.9 million (2014: $3.9 million) and a loss per share of $0.13 (2014: $0.18).

## Overview of operations

During the year ended 31 December 2015, the Company was focused on the development of the San José project and during the first half of the year, the Company undertook a 5,000 metre drilling programme which led to a mineral resource upgrade reported in October 2015.

In February 2015, the Company bought back the 2% net smelter return royalty in respect of the San José project for consideration of US$750,000.

The Company was compelled to enter into a settlement agreement with its financing partner Quintana AGQ Holding Co. LLC and its affiliates ("Quintana") in November 2015. This settlement agreement resulted in Quintana taking control of the Company's primary operating subsidiary Arian Silver de Mexico SA de CV.

Under the terms of the settlement agreement, Quintana was required to transfer back to Arian Silver the mineral concessions not related to the San José project.

In return for receiving certain indemnities and releases, Quintana paid Arian US$650,000 (plus a further US$50,000 during 2016).

## Properties

The company currently has 19 fully owned mining concessions split between three distinct project areas:

### Calicanto project

The Calicanto property consists of seven contiguous mining concessions totalling approximately 75 hectares. The property is located in the heart of the Zacatecas mining district, adjacent and partly contiguous to Capstone Mining's Cozamin mine, and covers four known main vein systems.

The Company's 2007 drilling programme returned high grade gold and bonanza grade (>1,000g/t) silver intercepts from one of the four veins. The drilling also intersected a number of veins parallel to the principal structures that contained high grade gold as well as significant lead and zinc values.

### San Celso project

San Celso consists of three contiguous mining concessions totalling 88 hectares. The concessions are located in the historic mining district of Pánfilo Natera-Ojocaliente and are surrounded by other concessions to the south and west.

### Los Campos

The Los Campos project comprises four concessions covering an area of approximately 500 hectares located on the south side of the city of Zacatecas. The property is easily accessible and is only a 15-minute drive from the centre of the City of Zacatecas and from the Calicanto project.

### Others

Arian Silver holds five additional concessions not otherwise grouped into project groupings, covering over 900 hectares. These concessions were acquired in 2006 because of their strategic position to the San Celso project. These concessions too require further exploratory work to fully assess their economic potential.

## Future outlook

The management team continues to advance potential opportunities to expand and develop the Company's mining assets, with a particular focus on assets giving access to near-term revenues.

In May 2016, the Company entered into an exclusive arrangement with Tierra Nuevo Mining Limited ("TNM") in Mexico to conduct further assessment and due diligence on its assets including a tailings project containing gold and silver, adjacent to Goldcorp's Peñasquito open-pit mine.

A NI 43-101 report prepared for TNM in 2012 outlined an indicated mineral resource in respect of its tailings project, containing 1 million tonnes with 3 grams per tonne (g/t) gold and 55 g/t silver, representing approximately 100,000 ounces (oz) of gold and some 1.7 million oz of silver.

Arian Silver is undertaking detailed metallurgical test work together with a scoping study with a view to producing a saleable gold and silver concentrate from the tailings project.

# Governance

## Corporate governance statement

Maintaining the highest standards of corporate governance in the context of the stage, size and complexity of any company, together with robust systems of internal control are fundamental building blocks for any business.

## Board of directors

The Board of Directors is responsible for overseeing the long term success and strategic direction of the Company in accordance with the schedule of matters reserved for board decision and it responsible for monitoring the activities of the executive management.

| | |
|---|---|
| Executive Chairman<br>A. J. Williams | Skills and experience<br>Tony Williams has over 40 years' experience in the international mining industry, having been involved in projects in the Americas, Australia, Africa and Europe and the former Soviet Union. Mr Williams co-founded Arian Silver and has held a number of directorships in public and private companies engaged principally in mining finance and mineral exploration.<br><br>Roles on Board committees<br>None |
| Chief Executive Officer<br>J. T. Williams | Skills and experience<br>Jim Williams is a professional geologist with over 30 years' experience in exploration, development and mining, evaluation and management. Prior to co-founding Arian Silver, Mr Williams was a director of two US companies, one of which was operational in Zacatecas State, Mexico. Mr Williams holds BSc, MSc and D.I.C. degrees in Geology, Geo-mechanics, mineral exploration and evaluation. In addition Mr Williams is a Fellow of the Institute of Mining, Metallurgy and Materials (FIMMM), a Chartered Engineer (CEng), Chartered Geologist (CGeol), European Engineer (Eur Ing) and European Geologist (Eur Geol) and is therefore a "Competent Person" under the rules of the London Stock Exchange and a "Qualified Person" under the rules of the Toronto Stock Exchange.<br><br>Mr Williams has published work including a diamond policy study review in Sierra Leone on behalf of the UK government, and has worked as an expert witness for a leading London-based law firm.<br><br>Roles on Board committees<br>Member: Health, Safety & Environment Committee |
| Non-executive director<br>T. A. Bailey | Skills and experience<br>Tom Bailey qualified as a solicitor in 1975 and worked as an in-house lawyer for a number of years with Citibank and Chase Manhattan before returning to private practice to establish a law firm which ultimately became one of the top 500 law firms in London. Mr Bailey was the senior partner of his firm specialising in commercial law. Mr Bailey has for a number of years carried out consultancy work for various companies.<br><br>Roles on Board committees<br>Member: Audit Committee member<br>Chairman: Corporate Governance Committee<br>Chairman: Nomination & Remuneration Committee |

| Non-executive director | Skills and experience |
|---|---|
| J. S. Cable | James Cable has been a chartered accountant for over 35 years and is a finance director with extensive experience at board level in quoted and entrepreneurial private companies. He has significant international and commercial experience gained in the Middle East, Africa, Far East and Europe in several business sectors including natural resources and construction. He is a former Finance Director of Kopane Diamond Developments Plc and Mantle Diamonds Ltd and he advises natural resources companies on corporate strategy and project finance. |

Roles on Board committees

| | |
|---|---|
| Chairman: | Audit Committee |
| Member: | Corporate Governance Committee |
| Member: | Health, Safety & Environment Committee |
| Member: | Nomination & Remuneration Committee |

| Non-executive director | Skills and experience |
|---|---|
| J. A Crombie | Mr Crombie is a mining engineer with over 30 years of broadly based experience in the mining industry. Mr Crombie has held several senior executive positions with various mining companies, including Hope Bay Gold Corporation, Palmarejo Silver & Gold Corporation until its merger with Coeur d'Alene Mines, and was a mining analyst and investment banker with Shepards, Merrill Lynch, James Capel & Co. and Yorkton Securities. Mr Crombie is also currently an officer or director or both of a number of publicly-traded resource companies. He graduated from the Royal School of Mines, London, with a Bachelor of Science (Hons). |

Roles on Board committees

| | |
|---|---|
| Member: | Audit Committee |
| Member: | Health, Safety & Environment Committee |
| Member: | Nomination & Remuneration Committee |

All directors are required to allocate sufficient time to the Company to discharge their responsibilities effectively and the Board meets frequently throughout the year.

There is a clear division of responsibilities between the Chairman and the Chief Executive. The Chairman is responsible for the leadership of the Board and ensuring its effectiveness on all aspects of its role. The Chief Executive is responsible for the performance of the Company, together with the Chairman.

In addition, at least half the Board comprises independent non-executive directors who provide a balance of skills and experience, and who are responsible for providing constructive challenge to and assistance in, developing proposals on strategy.

The Board considers each of the non-executive directors to be independent in character and judgement and are therefore deemed independent directors despite not meeting all of the criteria set out in the UK Corporate Governance Code. Each of the non-executive directors has a tenure in excess of nine years, and during the year ended 31 December 2015, Messrs Bailey and Cable received additional fees for services provided to the company during that period ($28k and $16k respectively) (2014: nil).

The Company has a schedule of matters reserved for its own decision, an executive committee comprising exclusively executive directors or officers, and two committees comprised entirely of non-executive directors: the Audit Committee and the Nomination & Remuneration Committee.

Each committee has formally delegated responsibilities by way of terms of reference.

The performance of the Board, committees and individual directors are evaluated on a regular basis.

**Appointment and removal of directors**
The powers of the directors of the Company are determined by its Articles of Association and British Virgin Islands ("BVI") legislation, each of which contain rules about the appointment and replacement of directors. They provide that subject to certain conditions, directors may be appointed by an ordinary resolution of the members or by a resolution of the directors, provided that, in the latter instance, a Director appointed in this way retires at the first AGM following his or her appointment.

The Company's Articles of Association also provide that directors should normally be subject to re-election at the AGM at intervals of three years although directors may volunteer to stand for re-election annually.

A director may cease to be a director:
- By special resolution of the members approved by 75% of the shareholders entitled to vote
- By resolution of the directors
- If he resigns
- If he ceases to meet the eligibility requirements under the BVI Companies Act.

**Conflicts of interest**
All Directors have duties under the BVI Business Companies Act to act with care, diligence and skill, in the best interests of the Company.

Certain directors and officers of the Company also serve as directors and/or officers of, or have investments in other companies involved in mineral exploration and development and consequently there is the potential for conflicts of interest.

In the event a conflict of interest should arise, each individual so conflicted is required to disclose the conflict in accordance with the Company's Articles of Association in order that it can be considered and approved if appropriate. No director may vote on any matter in which he or she may be deemed to be interested.

On an ongoing basis, the directors are responsible for informing the Company Secretary of any new actual or potential conflicts that may arise or if there are any changes in circumstances that may affect an authorisation previously given. Even when provided with authorisation, a director is not absolved from his or her statutory duties.

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 2015 amounted to $20,000 (2014: $20,000). As at 31 December 2015, $245,000 (2014: $221,469) 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 $154,851 (2014: $134,003). 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 2015, $12,498 (2014: $15,742) was outstanding.

## Board Committees
The Board of Directors has four standing committees:
- Audit Committee
- Nomination & Remuneration Committee
- Corporate Governance Committee
- Health, Safety & Environment Committee

The Company Secretary is Secretary to each Committee and attends all meetings.

The Board considers that each of the Committees has an appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.

**Audit Committee**
The Audit Committee meets at least four times a year at appropriate times in the reporting and audit cycle, and otherwise as required. It is responsible for nominating the external auditor recommending to the Board the auditor's compensation, overseeing the work of the auditor, and approving any proposals for non-audit services. The Audit Committee is also responsible for reviewing public announcements relating to the Company's profit or loss or cash flow, satisfying itself of the adequacy of procedures for the release of financial information, and ensuring the maintenance of appropriate and proportionate procedures for addressing matters relating to accounting, internal financial controls and auditing matters.

It is the Board of Directors' conclusion that each of the members of the Audit Committee has an understanding of the accounting principles used by the Company to prepare its financial statements, the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves, and experience in evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements.

The Audit Committee is currently composed of three members, being Messrs James S. Cable, Thomas A. Bailey, and James A. Crombie, each of whom is an independent non-executive director and each of whom is deemed financially literate. Mr Cable serves as Chairman of the Audit Committee.

**Nomination & Remuneration Committee**
The Nomination & Remuneration Committee meets at least once each year, and otherwise as required. It is responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise, having due regard for the structure, size and composition of the Board together with the skills, knowledge, experience and diversity of both the Board and the individual. Additionally, the Nomination & Remuneration Committee is responsible for reviewing the results of any board effectiveness review that relates to the composition of the board.

The scale and structure of the remuneration and compensation packages for the directors is set taking into account time commitment, comparatives, and risks and responsibilities, to ensure that the amount of compensation adequately reflects the individual's previous performance, achievements, experience, responsibilities and the risks of the office or position held, and in the context of the Company's risk profile, to ensure they do not encourage excessive risk taking.

The Nomination & Remuneration Committee is currently composed of three members, being Messrs Thomas A. Bailey, James S. Cable and James A. Crombie, each of whom is an independent non-executive director.

Mr Bailey serves as Chairman of the Nomination & Remuneration Committee.

**Corporate Governance Committee**
The corporate governance committee was established in March 2015 and will meet at least once each year, and otherwise as required. The corporate governance committee is responsible for reviewing the corporate governance framework for the Company, its implementation, and compliance, and making suitable recommendations to the Board.

The Corporate Governance Committee is currently composed of two members, being Messrs Tom Bailey and James Cable. Mr Rodz served as a member of the Corporate Governance Committee until his resignation on 28 August 2015. Mr Bailey serves as Chairman of the Corporate Governance Committee.

**Health, Safety & Environment ("HSE") Committee**
The HSE Committee was established in March 2015 and will meet at least once each year, and otherwise as required. The HSE Committee is responsible for reviewing the health, safety and environmental policies of the group, performance in its adherence thereto, and adequacy of relevant resources.

The HSE Committee is currently composed of three members, being Messrs Jim Williams, James Cable and Jim Crombie. Mr Laing served as Chairman to the HSE Committee until his resignation on 28 August 2015.

## Board assessments
Based upon the Company's size, its current state of development and the number of individuals historically on the Board of Directors, the Board of Directors has considered a formal process for assessing regularly the effectiveness and contribution of the Board of Directors, as a whole, its committee or individual directors to be unnecessary. The Board of Directors plans to continue evaluating its own effectiveness on an ad hoc basis.

## Relations with shareholders
The directors encourage major shareholders to engage with the Chairman or Chief Executive in discussing strategy and governance. The Chairman or Chief Executive reports to the Board as a whole, on the views of major shareholders.

All investors are encouraged and welcomed at the Company's annual general meeting, at which there is opportunity to pose questions to the directors.

## Major shareholders
As at 27 June 2016 being the latest practicable date, the Company had been notified of the following interests in its shares:

| Name | No. Shares | Percentage of issued share capital |
|---|---|---|
| Beaufort Securities Ltd | 14,413,763 | 12.7% |

## Directors' remuneration

**Overview**

The Company's policy is to set remuneration to attract and retain the highest quality of directors and senior executives, and to:

- align their interests with shareholders',
- avoid incentivising excessive risk taking by executives,
- be proportionate to the contribution of the individuals concerned, and
- be sensitive to pay and employment conditions elsewhere in the group.

The Board of Directors has established a Nomination & Remuneration Committee.

The Nomination & Remuneration Committee meets as required each year to review the performance of the executive directors and to determine their respective compensation. The scale and structure of the remuneration and compensation packages of directors is set taking into account time commitment, comparatives, risks and responsibilities, to ensure that the amount of compensation adequately reflects the individual's previous performance, achievements, experience, responsibilities and risks of the office or position held, and in the context of the Company's risk profile, to ensure they do not encourage excessive risk taking on the part of the recipient of such compensation.

The Company is at an early stage of development. As a result, the use of traditional performance standards, such as corporate profitability, is not considered by the Nomination & Remuneration Committee to be appropriate in the evaluation of corporate or directors' performance. Discretionary bonuses may be paid to aid staff retention and reward performance.

The members of the Nomination & Remuneration Committee have the necessary experience of executive compensation matters relevant to their responsibilities as members of such a committee by virtue of their respective professions, contacts within the minerals industry as well as experience in the broader business community. In addition, each member of the Nomination & Remuneration Committee keeps abreast on a regular basis of trends and developments affecting executive compensation. Accordingly, it is considered that the Nomination & Remuneration Committee has sufficient experience and knowledge to set appropriate levels of compensation. Neither the Company nor the Nomination & Remuneration Committee engaged independent consultants to evaluate the levels of compensation during the year ended 31 December 2015.

The recommendations of the Nomination & Remuneration Committee are submitted to the independent members of the Board of Directors for consideration and approval.

The Company provides executive directors with base salaries which represent their minimum compensation for services rendered during the financial year. The base salaries of directors and senior executives depend on the scope of their experience, responsibilities, and performance. A description of the material terms of each director's contract is provided under "Terms of Employment, Termination and Change of Control Benefits" below.

The Nomination & Remuneration Committee has considered the risk implications of the Company's compensation policies and practices and has concluded that there is no appreciable risk associated with such policies and practices since such policies and practices do not have the potential of encouraging an executive officer or other applicable individual to take on any undue risk or to otherwise expose the Company to inappropriate or excessive risks. Furthermore, although the Company does not have in place any specific prohibitions preventing executives from purchasing financial instruments, including prepaid variable forward contracts, equity swaps, collars, or units of exchange funds that are designed to hedge or offset a decrease in market value of options or other equity securities of the Company granted in compensation or held directly or indirectly, by the director, the Company is unaware of the purchase of any such financial instruments by any director.

Other than changes to the share option plan as disclosed below, the Company does not anticipate making any significant changes to its compensation policies and practices during 2016.

**Share Option Plan and Option-Based Awards**

The Company currently has one discretionary share option plan, as amended and restated, effective as of 1 December 2006 (the "Share Option Plan").

The Share Option Plan was established to encourage ownership of the Common Shares of the Company by directors, officers, employees of the Company and its subsidiaries, and other service providers responsible for the management and profitable growth of the Company's business and to advance the interests of the Company by providing additional incentive for such persons and to enable the Company and its subsidiaries to attract and retain valued directors, officers, employees and other service providers.

Historically, options were allocated as approved by the Board of Directors on the recommendation of the Nomination & Remuneration Committee. Option awards were reviewed periodically and took into account previous option grants, changes in executive positions and overall contribution to the Company.

The Share Option Plan is a "fixed" stock option plan as it provides that the maximum number of shares which may be reserved and set aside for issue under the Share Option Plan be fixed at 30,000,000. The aggregate number of shares which may be reserved for issuance to any one person under the Share Option Plan and which are subject to outstanding options granted under a prior plan, must not exceed 5% of the issued shares (determined at the date the option was granted), in a 12 month period.

It is the intention of the Board of Directors to make changes to its Share Option Plan arrangements during the course of 2016 to accommodate UK tax-approved standards.

**Summary Compensation Table**

The following table sets forth the compensation awarded, paid to or earned by each director during 2015.

| **All figures in US$** | **2015** | | | | | **2014** |
|---|---|---|---|---|---|---|
| **Director and position** | **Base Salary / Fees** | **Option based awards** | **Bonus** | **All other compensation** | **Total** | **Total** |
| A. J. Williams<br>*Executive Chairman* | 138,000 | - | - | - | 138,000 | 124,000 |
| J. T Williams<br>*Chief Executive* | 336,000 | - | - | - | 336,000 | 280,000 |
| T. A Bailey<br>*Non-Executive Director* | 38,000 | - | - | - | 38,000 | 27,000 |
| J. S. Cable<br>*Non-Executive Director* | 38,000 | - | - | - | 38,000 | 27,000 |
| J. A. Crombie<br>*Non-Executive Director* | 38,000 | - | - | - | 38,000 | 27,000 |
| D. C. Laing<br>*Non-Executive Director* | 25,000 | - | - | - | 25,000 | 5,000 |
| O. Rodz<br>*Non-Executive Director* | 25,000 | - | - | - | 25,000 | 5,000 |

Notes:

(1) Salaries are paid in pounds sterling and translated to US dollars based on the average £:$ foreign exchange rate for each respective year (2015: 1.4802; 2014: 1.6476).

(2) The fair value of options granted is calculated using the Black-Scholes model as this model is widely accepted as an industry standard and is considered to provide the best estimation of value.

(3) D. C. Laing and O. Rodz resigned as directors on 28 August 2015.

**Outstanding Option-based Awards**

The following table sets out all stock options outstanding at 31 December 2015 for each of the Company's directors.

| Name | Number of securities underlying unexercised options | Option exercise price | Option expiration date | Value of unexercised in-the-money options ($)[1] |
|---|---|---|---|---|
| A. J. Williams | 350,000<br>200,000 | £4.925[2]<br>£0.700[3] | 18 January 2016<br>29 May 2018 | -<br>- |
| J. T Williams | 350,000<br>200,000 | £4.925[2]<br>£0.700[3] | 18 January 2016<br>29 May 2018 | -<br>- |
| T. A. Bailey | 65,000<br>25,000 | £4.925[2]<br>£0.700[3] | 18 January 2016<br>29 May 2018 | -<br>- |
| J. A. Cable | 65,000<br>25,000 | £4.925[2]<br>£0.700[3] | 18 January 2016<br>29 May 2018 | -<br>- |
| J. S. Crombie | 65,000<br>25,000 | £4.925[2]<br>£0.700[3] | 18 January 2016<br>29 May 2018 | -<br>- |

Notes:

(1) The value of unexercised in-the-money options is calculated by using the closing share price on AIM on 31 December 2015 of £0.0175 less the exercise price of the in-the-money stock options, and using the foreign exchange rates as at 31 December 2015 of £:$ 1.4802.

(2) The exercise prices are based on the adjusted pre-consolidation closing market price on the TSX Venture Exchange on the trading day immediately prior to the date of grant, representing market value at that time. The Company's securities are no longer traded on the TSX Venture Exchange. Each of these options lapsed unexercised on 18 January 2016.

(3) The adjusted pre-consolidation market price on the TSX Venture Exchange on the trading day immediately prior to the date of grant was C$0.80. The option exercise price was therefore at a 36% premium to the market value at that time. The Company's securities are no longer traded on the TSX Venture Exchange.

**Terms of directors' employment, termination and change of control benefits**

In the context of the summaries below, change of control means where any person (or persons acting in concert) who (directly or indirectly) controls the Company ceases to do so or if a person (or persons acting in concert) acquires (directly or indirectly) control of the Company. Control shall be construed in accordance with section 840 of the Income and Corporation Taxes Act 1988 of Great Britain.

<u>Anthony Williams, Executive Chairman</u>

Mr A. Williams provides his services to the Company on a part-time basis. His appointment may be terminated by either party upon 12 months' written notice. The Company may terminate the appointment by notice but with immediate effect for reasons including gross misconduct or bankruptcy. The appointment agreement is governed by the laws of England. If during the term of Mr Williams' appointment there is a change of control and within 12 months of such change of control the Company or Mr Williams terminate the appointment, Mr Williams will be entitled to compensation, being a lump sum of 300% of his salary at the date of the change of control. The appointment agreement contains restrictive covenants including a non-compete clause for six months following termination.

<u>James Williams, Chief Executive Officer</u>

Mr J. Williams provides his services to the Company on a full-time basis. His appointment may be terminated by either party upon 12 months' written notice. The Company may terminate the appointment by notice but with immediate effect for reasons including gross misconduct or bankruptcy. The appointment agreement is governed by the laws of England. If during the term of Mr Williams' appointment there is a change of control and within 12 months of such change of control the Company or Mr Williams terminate the appointment, Mr Williams will be entitled to compensation, being a lump sum of 300% of his salary at the date of the change of control. The appointment agreement contains restrictive covenants including a non-compete clause for six months following termination.

## Principal risks 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, gold, lead and zinc, laws and regulations, political conditions, currency fluctuations, environmental regulations, hiring and retaining qualified people and obtaining necessary services in jurisdictions where the Company operates.

The Board periodically carries out robust assessments of the principal risks facing the Company and the effectiveness of the Company's risk management and internal control systems.

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.

| Key risks | Description of risk | Mitigating factors |
|---|---|---|
| **Strategic risks** | | |
| Exploration and development | The Company's operations are subject to all of the hazards and risks normally incidental to exploration, development and the production of minerals including damage to life or property, environmental damage and legal liability for damage, which could have a material adverse impact on the business and its financial performance.<br><br>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. | Our mineral concessions are evaluated carefully by qualified geologists, and independent advisors are engaged as and when appropriate.<br><br>The management team has significant experience operating in Mexico. |
| No reserves or resources | The Company does not hold any concessions in respect of which reserves or resource estimates have been established that comply with Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") Standards and Guidelines or other similar recognised industry standards.<br><br>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 Company has had significant success in the past at delineating mineral resources in accordance with both "JORC" and NI 43-101. |
| Mineral concessions and titles risks | 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.<br><br>Ownership of the mineral concessions has been transferred from the Company's former ("ASM") operating subsidiary Arian Silver de Mexico SA de CV to its new operating subsidiary, Compañía Minera Estrella de Plata SA de CV ("CMEP"). Whilst the Company has previously received legal opinions in respect of title of ASM 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. A formal legal opinion has not been obtained as to the legal title of CMEP to the mineral concessions. | The mineral concessions have been held by the Company's former operating subsidiary ASM for several years without legal challenge.<br><br>The applications to re-register the Company's mineral concessions in the name of CMEP have been submitted and no contest or objection has been received.<br><br>Prior to entering into agreements relating to mineral concessions, formal searches and reviews of legal documentation are conducted to provide evidence of the legal owner. |

| Key risks | Description of risk | Mitigating factors |
|---|---|---|
| **Financial risks** | | |
| Requirement of additional financing | 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.<br><br>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 or cost reductions, the Company may not be able to continue as a going concern. | We have an experienced board and management team with significant experience in financing mining activities.<br><br>We have been successful in raising funds in the past and it is our intention to raise additional funds in future to support the ongoing development of the business. |
| 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 2015, the Company had cash and other receivables of $785k to settle accounts payable of $528k. 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. | It is expected that the Company will raise sufficient funds from investors to settle any future growth and its on-going exploration, development and operating costs. |
| Capital management risk | 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. |
| 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. | The Company does not currently have any financial instruments in issue other than share options and warrants.<br><br>The Company does not hedge its exposure to price risk. |
| Foreign currency risk | The Company's exploration expenditure is made in Mexican pesos or US dollars and head office expenses are predominantly made in the UK in pounds sterling or US dollars. The Company is therefore exposed to the movement in exchange rates for these currencies.<br><br>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 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 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.<br><br>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 | The Company does not currently hedge foreign exchange risk.<br><br>There is not considered to be any material exposure in respect of other monetary assets and liabilities of the Group. |

| Key risks | Description of risk | Mitigating factors |
|---|---|---|
| **Financial risks** | | |
| | currencies into US dollars. | |
| Credit risk | The Company's credit risk is primarily attributable to cash and the financial stability of the institutions holding it. | The Company invests its cash in deposits with well-capitalised financial institutions with strong credit ratings. |
| **External risks** | | |
| Metals prices | 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. The Company's resources and financial results of operations will also 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.<br><br>The price of silver, which is affected by numerous factors including inflation levels, fluctuations in the US dollar and other currencies, supply and demand and political and economic conditions, could have a significant influence on the market price of the Company's common shares. | It is an accepted risk that the Company's performance will be impacted by the price of metals.<br><br>The Board and management believe the price of precious metals in particular, will increase in the long term.<br><br>The Company does not hedge its exposure to metals prices. |

| Key risks | Description of risk | Mitigating factors |
|---|---|---|
| **Operational risks** | | |
| Reliance on contractors | The Company relies on contractors to implement exploration and development programmes. 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. | The Company has operated in Zacatecas in Mexico, for several years and has well-established and trusted relationships with various contractors. |
| 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. | The Board has established a Nomination & Remuneration Committee which is responsible for considering succession planning and ensuring remuneration is sufficient to attract and retain staff of a the necessary calibre. |

| Key risks | Description of risk | Mitigating factors |
|---|---|---|
| **Operational risks** | | |
| Environmental factors | The Company's operations are subject to environmental regulation in the jurisdictions in which it 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.<br><br>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.<br><br>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.<br><br>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. | The Company has an experienced board and management team with an awareness and knowledge of these types of risk.<br><br>Concessions are evaluated carefully prior to their acquisition for environmental risks and consultants are engaged to advise on specific risks when appropriate.<br><br>The Company has an excellent track record on environmental matters. |
| Political risk | The Company is conducting its exploration activities in the Mexico. 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. 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. | The directors believe the government of Mexico supports the development of natural resources by foreign operators. |

| Key risks | Description of risk | Mitigating factors |
|---|---|---|
| **Operational risks** | | |
| 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 directors have in place a system of internal controls to ensure any payment obligations are complied with. |
| Regulatory approvals | The operations of the Company require approvals, licenses and permits from various regulatory authorities, governmental and otherwise. 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. | The Board has significant experience in operating in Mexico and 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. |
| 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 and other precious metals opportunities available and, as a result, the Company may be unable to acquire further mineral concessions on terms it considers acceptable. | The Company, its Board and management team have significant experience in mining operations in Mexico. Through its experience and relationships in Mexico, counterparties may consider the Company to have lower transaction risk than its competitors. |
| 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. | The Company's Articles of Association have been adopted by shareholders and any conflicts of interest are dealt with in accordance with the rules set out therein.<br><br>In the event of a conflict of interests, the conflicted director shall not vote on the relevant matter. |

# Financial statements

## 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.

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's 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 2015 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.

This report is made solely to the company's members, as a body, in accordance with our engagement letter dated 14 June 2016. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Directors' Responsibility for the Consolidated Financial Statements**

The directors are 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 the directors determine are 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 Federation of Accountants). 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 qualified audit opinion.

**Basis for qualified opinion on financial statements - Limitation of scope**

With respect to the loss on discontinued operations of $12,671k relating to the loss from operations and loss on transfer of control of Arian Silver de Mexico SA de CV we were unable to obtain sufficient appropriate audit evidence to support the result from operations prior to the transfer of control or the carrying values of the associated net assets at the time of the transfer of control of Arian Silver de Mexico SA de CV as we did not have access to the necessary information to audit the result from operations or the carrying values of assets and liabilities. Consequently, we were unable to determine whether any adjustments to the amounts disclosed in note 4 were necessary.

**Opinion**

In our opinion, except for the possible effects of matters described in the basis for qualified opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of Arian Silver Corporation as at 31 December 2015 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
Chartered Accountants
London
United Kingdom

28 June 2016

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 2015

(tabulated amounts expressed in thousands of US dollars unless otherwise stated)

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Continuing operations** | | | |
| Administrative expenses | | (2,889) | (3,943) |
| **Operating loss** | 5 | **(2,889)** | **(3,943)** |
| Net investment income | 7 | 21 | 9 |
| **Loss from continuing operations** | | **(2,868)** | **(3,934)** |
| **Discontinued operations** | | | |
| Loss from discontinued operations | 4 | (12,671) | (1,980) |
| **Loss for the year attributable to equity shareholders of the parent** | | **(15,539)** | **(5,914)** |
| **Other comprehensive income** | | | |
| Foreign exchange translation differences recognised directly in equity | | 5,306 | (2,248) |
| **Other comprehensive income for the year** | | **5,306** | **(2,248)** |
| **Total comprehensive income for the year attributable to equity shareholders of the parent** | | **(10,233)** | **(8,162)** |
| Basic and diluted loss per share ($/share) | 9 | (0.46) | (0.18) |
| Basic and diluted loss per share from continuing operations ($/share) | 9 | (0.09) | (0.12) |
| Basic and diluted loss per share from discontinued operations ($/share) | 9 | (0.37) | (0.06) |

# Consolidated statement of financial position
## As at 31 December 2015

(Tabulated amounts expressed in thousands of US dollars unless otherwise stated)

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 10 | 881 | 1,038 |
| Property, plant and equipment | 11 | 5 | 28,440 |
| Total non-current assets | | **886** | 29,478 |
| | | | |
| Inventories | 12 | - | 1,498 |
| Trade and other receivables | 13 | 311 | 2,043 |
| Cash and cash equivalents | 14 | 474 | 2,846 |
| Total current assets | | 785 | 6,387 |
| **Total assets** | | **1,671** | 35,865 |
| | | | |
| **Equity attributable to equity shareholders of the parent** | | | |
| Share capital | 15 | 51,781 | 51,781 |
| Warrant reserve | 15 | 3,455 | 3,455 |
| Share-based payment reserve | 15 | 7,701 | 7,683 |
| Foreign exchange translation reserve | 15 | 2,092 | (3,214) |
| Accumulated losses | 15 | (63,886) | (48,347) |
| **Total equity** | | **1,143** | 11,358 |
| **Liabilities** | | | |
| Trade and other payables | 17 | 528 | 1,556 |
| Derivative liabilities | 18 | - | 5,233 |
| **Total current liabilities** | | **528** | 6,789 |
| | | | |
| Convertible note liabilities | 18 | - | 10,666 |
| Derivative liabilities | 18 | - | 6,206 |
| Provision for mine closure | 19 | - | 846 |
| **Total non-current liabilities** | | - | 17,718 |
| **Total liabilities** | | 528 | 24,507 |
| **Total equity and liabilities** | | **1,671** | 35,865 |

The financial statements were approved and authorised by issue by the Board of Directors on 28 June 2016 and were signed on its behalf by:

A J Williams
Executive Chairman

J T Williams
Chief Executive Officer

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

## Consolidated statement of cash flows
## For the year ended 31 December 2015

(Tabulated amounts expressed in thousands of US dollars unless otherwise stated)

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before tax from continuing operations | | (2,868) | (3,934) |
| Loss before tax from discontinued operations | | (12,671) | (1,980) |
| Add Platinum note extension fee | | - | 700 |
| Adjustments for non-cash items: | | | |
| Depreciation and amortisation | | 164 | 64 |
| Exchange difference | | 6,797 | 117 |
| Net investment loss | | (21) | (9) |
| Change in fair value of derivative liability | | (7,038) | 208 |
| Transactions costs on derivative liabilities | | - | 735 |
| Proceeds from Quintana for working capital | | (650) | - |
| Loss on discontinuing operations | | 10,494 | - |
| Equity-settled share-based payment transactions | | 18 | 14 |
| (Increase) / decrease in trade and other receivables | | (1,027) | (849) |
| Increase in trade and other payables | | 2,227 | 451 |
| (Increase)/decrease in inventories | | (211) | (627) |
| **Cash used in operating activities** | | (4,786) | (5,110) |
| | | | |
| **Cash flows from investing activities** | | | |
| Interest received | | 21 | 20 |
| Proceeds from Quintana for working capital | | 650 | - |
| Cash from discontinued operations | | (47) | - |
| Acquisition of property, plant and equipment | | (5,726) | (6,626) |
| **Cash used in investing activities** | | (5,102) | (6,606) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of share capital | | - | 267 |
| Proceeds from Base Metal Purchase Agreement | | 7,576 | 7,680 |
| Repayment of Bash Metal Purchase Agreement | | (957) | - |
| Platinum note extension fee | | - | (700) |
| **Cash from financing activities** | | 7,531 | 7,247 |
| | | | |
| **Net increase / (decrease) in cash and cash equivalents** | | (2,357) | (4,469) |
| Cash and cash equivalents at 1 January | | 2,846 | 7,241 |
| Effect of exchange rate fluctuations on cash held | | (15) | 74 |
| **Cash and cash equivalents at 31 December *** | 14 | 474 | 2,846 |

* Discontinued operations contributed $3,886k (2014: $1,591k) to cash flows from operating activities.

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

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## Consolidated statement of changes in equity
## For the year ended 31 December 2015
(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 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 warrants 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** |
| Loss for the year | - | - | - | - | (15,539) | (15,539) |
| Foreign exchange | - | - | - | (3,917) | - | (3,917) |
| Foreign exchange reclassified to discontinued operations | - | - | - | 9,222 | - | 9,222 |
| **Total comprehensive income** | **-** | **-** | **-** | **5,306** | **(15,539)** | **(10,233)** |
| Fair value of share options | - | - | 18 | - | - | 18 |
| **Balance: 31 December 2015** | **51,781** | **3,455** | **7,701** | **2,092** | **(63,886)** | **1,143** |

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 2015 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 2015 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 2015. 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 28 June 2016.

(B) Going concern

The directors regularly review cash flow forecasts to determine whether the Group has sufficient cash reserves to meet future working capital requirements and discretionary business development opportunities including exploration activities.

The Company’s financial obligations with Quintana were cancelled in the latter part of 2015 in lieu of Quintana taking over the Company’s San José project. The Company retains its San Celso, Calicanto and Los Campos projects along with all other mining concessions held at the time when the Company became public on the AIM and TSXV in 2006, such remaining concessions all comprising more than 1,600 hectares. As part of the settlement, Quintana paid $650,000 to the Company during the year ended 31 December 2015, and a further $50,000 was paid in January 2016. Details of the financing package and defined terms used in this note are set out in note 18.

In February 2016 the Company successfully raised $1.1 million before expenses (net $1 million) and in April 2016 a further $1 million before expenses (net $918k). Please refer to note 24 for further details.

The Group’s assets are at an early stage and in order to meet financing requirements for their development previously the Company has raised equity funds in several discrete share placements, which is a common practice for junior mineral exploration companies. Although the Company has been successful in the past in raising equity finance, there can be no assurance that the funding required by the Group will be made available to it when needed or, if such funding were to be available, that it would be offered on reasonable terms. The terms of such financing might not be favourable to the Group and might involve substantial dilution to existing shareholders.

The directors currently believe that the Group has adequate resources for the foreseeable future or access to such resources in order to continue to prepare the Company’s financial statements on a going concern basis. In reaching this conclusion, the directors have reviewed cash flow forecasts to the end of July 2017 and considered their ability to reduce expenditure in the event that further fundraisings are not completed within that timeframe, and have concluded they can make such savings as may be necessary in order to operate within the funds currently available to them.

(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.

**2. Basis of preparation *(continued)***

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 up to the date that control ceases.

Discontinued operations are presented in the consolidated statement of comprehensive income as a single line which comprises the post-tax profit or loss of the discontinued operation along with the post-tax gain or loss recognised on the re-measurement to fair value less costs to sell or on disposal of the assets or disposal groups constituting discontinued operations.

*(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.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

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.

**3. Significant accounting policies (*continued*)**

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

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

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

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

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

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

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

(F) Income tax expense
Income tax expense comprises current and deferred tax.

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. Deferred tax is not recognised for the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries that will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**3. Significant accounting policies (*continued*)**

(G) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the 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

*(i) 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.

*(ii) Other property, plant and equipment*

(a) 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.

(b) 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.

**3. Significant accounting policies (*continued*)**

(c) 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 initial 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 liabilities are derecognised 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) Discontinued operations

On 29 October 2015 Quintana exercised its foreclosure rights and took ownership of Arian Silver de Mexico SA de CV and the subsidiary was therefore deconsolidated from this date. As at 31 December 2014 these operations were not classified as discontinued operations, accordingly the comparative consolidated statement of comprehensive income has been represented to show the discontinued operations separately from the continuing operations in accordance with IFRS 5 Non-current assets held for sale and discontinued operations.

(O) 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.

(P) Warrants

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.

(Q) Share capital – common shares

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

(R) 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.

(tabulated amounts expressed in thousands of US dollars unless otherwise stated)

### 4. Discontinued operations

In November 2015 Quintana AGQ Holding Co. LLC exercised its foreclosure rights under the terms of the senior secured financing arrangement, and accordingly took ownership of Arian Silver de Mexico SA de CV and its assets, including the San Jose project. The impact on the Group is shown below:

| | 2015 | 2014 |
|---|---|---|
| **Net assets disposed** | | |
| Intangibles | 38 | - |
| Property, plant and equipment | 35,067 | - |
| Inventories | 1,537 | - |
| Trade and other receivables | 2,546 | - |
| Cash and cash equivalents | 47 | - |
| **Total assets** | 39,235 | - |
| Trade and other payables | (2,378) | - |
| Provisions | (880) | - |
| Derivative liability | (11,858) | - |
| Convertible note | (13,639) | - |
| Total liabilities | (28,755) | - |
| **Net assets disposed of** | **10,480** | **-** |
| Consideration received | 700 | - |
| Foreign exchange differences transferred from equity | (9,222) | - |
| **Loss on disposal** | **(19,016)** | - |
| **Results of discontinued operations** | | |
| Cost of sales | - | (441) |
| Gross loss | - | (441) |
| Administrative expenses | (676) | (585) |
| Gain/ (loss) on derivative liability | 7,038 | (208) |
| Transactions costs on derivative liabilities | - | (735) |
| **Operating loss** | 6,362 | (1,969) |
| Finance income | 17 | - |
| Finance expense | (34) | (11) |
| **Loss for the year attributable to equity shareholders of the parent** | 6,345 | (1,980) |
| **Loss on discontinued operations** | **(12,671)** | (1,980) |
| The consolidated statement of cash flows includes the following amounts related to discontinued operations | | |
| Operating activities | (4,798) | (1,591) |
| Investing activities | (5,122) | (6,626) |
| Financing activities | 7,531 | 7,680 |
| **Net cash utilised in discontinued operations** | (2,389) | (537) |

(tabulated amounts expressed in thousands of US dollars unless otherwise stated)

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## 5. Operating loss

Operating loss is stated after charging:

| | **Continuing Operations 2015** | **Discontinued Operations 2015** | **Total 2015** | Continuing Operations 2014 | Discontinued Operations 2014 | Total 2014 |
|---|---|---|---|---|---|---|
| Depreciation and amortisation | 5 | 159 | **164** | 2 | 62 | 64 |
| Operating lease | 31 | - | **31** | 102 | - | 102 |
| Convertible loan note extension fees | - | - | **-** | - | 700 | 700 |
| Finance transaction costs | - | - | **-** | - | 1,023 | 1,023 |
| Exchange (gain)/ loss | **(70)** | **55** | **(15)** | 73 | 1 | 74 |

Auditors remuneration

| | **2015** | **2014** |
|---|---|---|
| Fees payable to the Group's auditor for the audit of the annual financial statements | 41 | 73 |
| Fees payable to the Group's auditor for other services: | | |
| Taxation | 11 | 12 |
| Fees payable to other auditors | - | 20 |
| Total | 52 | 105 |

(tabulated amounts expressed in thousands of US dollars unless otherwise stated)

## 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:

| | Continuing Operations 2015 | Discontinued Operations 2015 | Total 2015 | Continuing Operations 2014 | Discontinued Operations 2014 | Total 2014 |
|---|---|---|---|---|---|---|
| Finance and administration | **10** | **6** | **16** | 9 | 7 | 16 |
| Technical | **-** | **38** | **38** | - | 52 | 52 |
| **Total staff numbers** | **10** | **44** | **54** | **9** | **59** | **68** |

The aggregate staff costs of these persons were as follows:

| | Continuing Operations 2015 | Discontinued Operations 2015 | Total 2015 | Continuing Operations 2014 | Discontinued Operations 2014 | Total 2014 |
|---|---|---|---|---|---|---|
| Wages and salaries | **1,312** | **159** | **1,471** | 1,022 | 244 | 1,266 |
| Social security costs | **149** | **-** | **149** | 116 | - | 116 |
| Share based payments | **18** | **-** | **18** | 14 | - | 14 |
| **Total staff costs** | **1,479** | **159** | **1,638** | **1,152** | **244** | **1,396** |

Remuneration of key management personnel

Key management personnel remuneration is detailed below:

| | Continuing Operations 2015 | Discontinued Operations 2015 | Total 2015 | Continuing Operations 2014 | Discontinued Operations 2014 | Total 2014 |
|---|---|---|---|---|---|---|
| | Salary/Fees | Salary/Fees | | Salary/Fees | Salary/Fees | |
| **Executive directors** | | | | | | |
| A J Williams | 138 | - | **138** | 124 | - | **124** |
| J T Williams | 336 | - | **336** | 280 | - | **280** |
| **Non-executive directors** | | | | | | |
| T A Bailey | 38 | - | **38** | 27 | - | **27** |
| J S Cable | 38 | - | **38** | 27 | - | **27** |
| J A Crombie | 38 | - | **38** | 27 | - | **27** |
| O Rodz (resigned 28.08.15) | 25 | - | **25** | 5 | - | **5** |
| D C Laing (resigned 28.08.15) | 25 | - | **25** | 5 | - | **5** |
| **Other key management** | | | | | | |
| Country manager Mexico | - | 159 | **159** | - | 133 | **133** |
| CFO (ceased 07.12.15) | 185 | - | **185** | 165 | - | **165** |
| Company Secretary | 198 | - | **198** | 170 | - | **170** |
| Total remuneration | **1,020** | **159** | **1,180** | **830** | **133** | **963** |

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 $1,345,000 (2014: $1,057,000).

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

# Notes to the consolidated financial statements
# For the year ended 31 December 2015

(tabulated amounts expressed in thousands of US dollars unless otherwise stated)

## 7. Net investment income/(loss)

| | Continuing Operations 2015 | Discontinued Operations 2015 | Total 2015 | Continuing Operations 2014 | Discontinued Operations 2014 | Total 2014 |
|---|---|---|---|---|---|---|
| Unwinding of provision for mine closure | - | (34) | **(34)** | - | (11) | **(11)** |
| Interest income | 21 | 17 | **38** | 20 | - | **20** |
| Total net investment income/(loss) | **21** | **(17)** | **4** | **20** | **(11)** | **9** |

## 8. Income tax recognised in the income statement

| | 2015 | 2014 |
|---|---|---|
| Current tax / current tax year | - | - |

Reconciliation of effective tax rate

| | 2015 | 2014 |
|---|---|---|
| Loss before tax | (15,539) | (5,914) |
| Income tax using the domestic corporation tax rate of 20.25% (2014: 21.49%) | (3,147) | (1,271) |
| Non-deductible expenses | 2,711 | (440) |
| Share options disallowed | 4 | 3 |
| Depreciation in excess of capital allowances | 1 | 7 |
| Short term timing differences not recognised in a deferred tax asset | - | (26) |
| Capitalised interest | - | (1,228) |
| Other | - | (595) |
| Tax losses carried forward | 431 | 2,721 |
| Total tax expense/(credit) | - | - |

At the year end the Group had tax losses to carry forward of approximately $32,228,998 (2014: $47,496,000). The reduction in tax losses carried forward reflects tax losses of $17,501,652 in respect of Arian Silver de Mexico SA de CV.

Under IFRS a net deferred tax asset of approximately $5,909,000 (2014: $5,909,000) 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 2015 was based on the loss attributable to common shareholders of $4,447,000 (2014: $5,914,000) and a weighted average number of common shares outstanding during the year ended 31 December 2015 of 33,907,448 (2014: 33,501,531). 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.

| | 2015 | 2014 |
|---|---|---|
| Loss from continuing operations | 2,868 | 3,934 |
| Loss from discontinued operations | 12,671 | 1,980 |
| Loss attributable to common shareholders | 15,539 | 5,914 |

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.

(tabulated amounts expressed in thousands of US dollars unless otherwise stated)

## 10. Intangible assets

| | Deferred exploration costs |
|---|---|
| **Cost** | |
| At 31 December 2013 | 1,353 |
| Foreign exchange | (130) |
| **At 31 December 2014** | **1,223** |
| Discontinued operations | (38) |
| Foreign exchange | (118) |
| **At 31 December 2015** | **1,066** |
| | |
| **Impairment losses and amortisation** | |
| At 31 December 2013 | (185) |
| At 31 December 2014 | (185) |
| **At 31 December 2015** | **(185)** |
| | |
| **Carrying amounts** | |
| At 31 December 2013 | 1,168 |
| At 31 December 2014 | 1,038 |
| **At 31 December 2015** | **881** |

Deferred exploration costs as at 31 December 2015 consisted mainly of costs relating to Calicanto $602,000 (2014: $709,000), San Celso $71,000 (2014: $83,000) and Los Campos $63,000 (2014: $75,000).

## 11. Property, plant and equipment

| | Mine development costs | Plant and equipment | Fixtures and fittings | Vehicles | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **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) | (2,440) | (3) | (11) | (1,543) |
| **At 31 December 2014** | **13,834** | **15,115** | **27** | **89** | **29,065** |
| Additions | 2,315 | 3,411 | - | - | 5,726 |
| Interest capitalised | - | 2,973 | - | - | 2,973 |
| Discontinued operations | (14,663) | (21,007) | (24) | (79) | (35,773) |
| Foreign exchange movement | (1,486) | (457) | (3) | (10) | (1,956) |
| **At 31 December 2015** | **-** | **35** | **-** | **-** | **35** |
| | | | | | |
| **Depreciation and impairment losses** | | | | | |
| **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)** |
| Depreciation and amortisation charge for the year | (137) | (25) | (2) | - | (164) |
| Discontinued operations | 517 | 91 | 20 | 78 | 706 |
| Foreign exchange movement | 28 | 11 | 3 | 11 | 53 |
| **At 31 December 2015** | **-** | **(30)** | **-** | **-** | **(30)** |
| | | | | | |
| **Carrying amounts** | | | | | |
| **At 31 December 2013** | **11,324** | **6,315** | **10** | **2** | **17,651** |
| **At 31 December 2014** | **13,426** | **15,008** | **6** | **-** | **28,440** |
| **At 31 December 2015** | **-** | **5** | **-** | **-** | **5** |

The mine development costs relate to the formerly 100% owned San José property in Zacatecas State, Mexico. This was discontinued during the year, please refer to note 4.

**11. Property, plant and equipment *(continued)***

Plant and equipment of $5,000 (2014: $15,008,000) includes $nil (2014: $14,972,000) for the La Tesosera plant, of which $2,973,000 relates to transaction costs that have been capitalised.

**12. Inventories**

| | 2015 | 2014 |
|---|---|---|
| Consumables | - | 37 |
| Stockpiled ore | - | 1,461 |
| **Total inventories** | **-** | **1,498** |

**13. Trade and other receivables**

| | 2015 | 2014 |
|---|---|---|
| Other receivables | 9 | 1,650 |
| Contingent consideration | 50 | - |
| Receivables due from related parties | 245 | 221 |
| Prepayments | 7 | 172 |
| **Total trade and receivables** | **311** | 2,043 |

Included within other receivables is $nil (2014: $1,551,000) of Mexican IVA (sales goods tax) which is recoverable from the Mexican authorities.

The contingent asset relates to deferred consideration in respect of the Settlement Deed. The full $50,000 was received in January 2016.

**14. Cash and cash equivalents**

| | 2015 | 2014 |
|---|---|---|
| Bank balances | 474 | 2,846 |
| **Cash and cash equivalents in the statement of cash flows** | **474** | 2,846 |

**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

Changes for the years ended 31 December 2015 and 2014 are detailed in the following table:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Number of shares (000s) | Amount | Number of shares (000s) | Amount |
| Opening balance 1 January | **33,907** | **51,781** | 33,366 | 51,514 |
| Shares issued for cash | - | - | 541 | 273 |
| Issue costs of share issuance | - | - | - | (6) |
| **Closing balance 31 December** | **33,907** | **51,781** | 33,907 | 51,781 |

During the years ended 31 December 2015 and 2014, 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.

*2015*

- No shares were issued during the year ended 31 December 2015.

*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.

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

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. These warrants were cancelled on 26 January 2016, Please refer to note 18 for further details.

The number and weighted average exercise price for the year ended 31 December 2015 and 2014:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Out-standing (000s) | Weighted average exercise price | Out-standing (000s) | Weighted average exercise price |
| Opening balance 1 January | 12,152 | 0.88 | 12,152 | 0.88 |
| Closing balance 31 December | 12,152 | 0.88 | 12,152 | 0.88 |

On 27 January 2016 79,787,493 common share purchase warrants were issued, exercisable at 1.5p per common share, until 27 February 2019. Please refer to note 16 for further details.

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.

| | 2015 | 2014 |
|---|---|---|
| Fair value ($ 000s) | - | 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 from the translation of the financial statements of operations that do not have a US dollars functional currency. Exchange differences arising are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the operation is disposed of.

Accumulated losses
Accumulated losses contain losses in the current and prior years.

Warrant reserve
The warrant reserve arises on the grant of warrants.

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## 16. Share-based payment transactions

The number and weighted average exercise prices of share options for the years ended 31 December 2015 and 2014 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.

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Out-standing (000s) | Weighted average exercise price ($) | Out-standing (000s) | Weighted average exercise price ($) |
| Opening balance 1 January | 2,056 | 5.08 | 2,231 | 4.54 |
| Issued | 50 | 0.67 | 50 | 0.51 |
| Lapsed | - | - | (225) | 0.96 |
| Closing balance 31 December | 2,106 | 4.61 | 2,056 | 5.08 |

Share options in issue at 31 December 2015:

| 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 |
| 50,000 | 50,000 | £0.44/C$0.79 | 5 January 2020 |

The share options outstanding at 31 December 2015 are settled by issue of equity.

The weighted average remaining contractual life of share options as at 31 December 2015 was 353 days.

Share options held by directors and senior management at 31 December 2015:

| Holder | Shares | Exercise price | Grant Date | Vesting Date | Expiry[1] |
|---|---|---|---|---|---|
| A J Williams | 200,000 | £0.70 / C$1.09123 | 30 May 2013 | 30 May 2013 | 29 May 2018 |
| | 350,000 | £4.925 / C$7.90 | 19 January 2011 | 19 April 2011 | 18 January 2016 |
| J T Williams | 200,000 | £0.70 / C$1.09123 | 30 May 2013 | 30 May 2013 | 29 May 2018 |
| | 350,000 | £4.925 / C$7.90 | 19 January 2011 | 19 April 2011 | 18 January 2016 |
| J S Cable | 25,000 | £0.70 / C$1.09123 | 30 May 2013 | 30 May 2013 | 29 May 2018 |
| | 65,000 | £4.925 / C$7.90 | 19 January 2011 | 19 April 2011 | 18 January 2016 |
| T A Bailey | 25,000 | £0.70 / C$1.09123 | 30 May 2013 | 30 May 2013 | 29 May 2018 |
| | 65,000 | £4.925 / C$7.90 | 19 January 2011 | 19 April 2011 | 18 January 2016 |
| J A Crombie | 25,000 | £0.70 / C$1.09123 | 30 May 2013 | 30 May 2013 | 29 May 2018 |
| | 65,000 | £4.925 / C$7.90 | 19 January 2011 | 19 April 2011 | 18 January 2016 |
| Senior Management | 50,000 | £0.325 / C$0.57624 | 14 January 2014 | 14 January 2014 | 13 January 2019 |
| | 250,000 | £0.70 / C$1.09123 | 30 May 2013 | 30 May 2013 | 29 May 2018 |
| | 50,000 | £2.00 / C$3.2077 | 30 May 2012 | 30 May 2012 | 29 May 2017 |
| | 120,000 | £4.925/C$7.90 | 19 January 2011 | 19 July 2011 | 18 January 2016 |

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

(tabulated amounts expressed in thousands of US dollars unless otherwise stated)

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

Changes to the number of share options held by directors and senior management in the year ended 31 December 2015:

| Holder | At 1 January 2015 | Granted | Lapsed | At 31 December 2015 |
|---|---|---|---|---|
| A J Williams | 550,000 | - | - | 550,000 |
| J T Williams | 550,000 | - | - | 550,000 |
| J S Cable | 90,000 | - | - | 90,000 |
| T A Bailey | 90,000 | - | - | 90,000 |
| J A Crombie | 90,000 | - | - | 90,000 |
| Senior Management | 470,000 | - | - | 470,000 |
| **Total** | **1,840,000** | **-** | **-** | **1,840,000** |

During the year there were no changes to share options held by senior management.

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.

| | 2015 | 2014 |
|---|---|---|
| Fair value ($) | - | 14,000 |
| Share price 31 December 2014 ($) | - | 0.35 |
| Share price 31 December 2015 ($) | - | - |
| Weighted average exercise price ($) | - | 0.53 |
| Expected volatility | - | 88% |
| Option life | - | 5 years |
| Expected dividend yield | - | - |
| Risk-free interest rate | - | 1.84% |

The expected volatility is based on the historical share price of the Company. There were 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 $18,000 (2014: $14,000) during the year ended 31 December 2015; of these expenses $nil (2014: $14,000) related to share options issued to key management personnel.

**17. Trade and other payables**

| | 2015 | 2014 |
|---|---|---|
| Payables due to related parties | 13 | 16 |
| Trade payables | 369 | 758 |
| Other payables | 146 | 782 |
| **Total trade and other payables** | **528** | **1,556** |

# Notes to the consolidated financial statements
# For the year ended 31 December 2015

(tabulated amounts expressed in thousands of US dollars unless otherwise stated)

## 18. Convertible notes and derivative liabilities

| | Convertible Notes | | Derivative Liabilities | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Platinum Note** | | | | |
| Opening balance 1 January | - | 11,170 | - | 52 |
| Change in fair value derivative liability | - | - | - | (52) |
| Unwind effective interest | - | 5,194 | - | - |
| Derecognition of Platinum Note 29 October | - | (16,364) | - | - |
| **Closing balance** | **-** | **-** | **-** | **-** |
| **Quintana Note** | | | | |
| Platinum Note derecognition | - | 16,364 | - | - |
| Interest paid 14 October to 29 October | - | 88 | - | - |
| Restructure of note 29 October | - | (16,452) | - | - |
| Opening balance 1 January | 10,666 | - | 4,118 | - |
| Fair value derivative liability on recognition | - | (3,499) | - | 3,499 |
| Transaction costs capitalised on recognition | - | (2,720) | - | - |
| Change in fair value derivative liability | - | - | (4,045) | 619 |
| Unwind effective interest | 2,973 | 433 | - | - |
| Cancellation of Quintana note dated 20 November | (13,639) | - | (73) | - |
| **Closing balance** | **-** | **10,666** | **-** | **4,118** |
| **Base metal purchase agreement** | | | | |
| Opening balance 1 January | - | - | 7,321 | |
| Fair value derivative liability on recognition | - | - | - | 7,680 |
| Proceeds from BMPA | | | 7,576 | - |
| Delivery into BMPA | | | (45) | |
| Change in fair value derivative liability | - | - | (2,994) | (359) |
| Novation of BMPA to Quintana dated 20 November | - | - | (11,858) | - |
| **Closing balance** | **-** | **-** | **-** | **7,321** |
| **Total convertible note and derivative liabilities** | **-** | **10,666** | **-** | **11,439** |
| Current | - | - | - | 5,233 |
| Non-current | - | 10,666 | - | 6,206 |
| **Total convertible note and derivative liabilities** | **-** | **10,666** | **-** | **11,439** |
| **Fair value of derivative liability through profit or loss** | | | | |
| Platinum Note | - | - | - | 52 |
| Quintana Note | - | - | - | (619) |
| Base metal purchase agreement | - | - | - | 359 |
| **(Loss)/gain on derivative liability** | **-** | **-** | **-** | **(208)** |
| **Transaction costs expensed on recognition** | **-** | **-** | **-** | **735** |

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

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.

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 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 was fair valued using a Monte Carlo simulation and was 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.

Transaction costs were 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 were expensed as they are incurred.

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 was to 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 was to be delivered to Quintana Streaming. Quintana Streaming would pay the lesser of market price or $0.25 per pound of lead or zinc (as applicable) until the delivery hurdles had 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 was to 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 had a 50 year term. The Group had 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 were to 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.

On 29 October 2015 Quintana exercised its foreclosure rights and took ownership of Arian Silver de Mexico SA de CV. Under the terms of the Settlement Deed, Quintana released Arian from its obligations under the senior secured loan arrangement as well as the BMPA and Investment Agreement dated 14 October 2014.

(tabulated amounts expressed in thousands of US dollars unless otherwise stated)

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

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.

## 19. Provision for mine closure

| | 2015 | 2014 |
|---|---|---|
| Opening balance | 846 | 187 |
| Increase in provision | - | 648 |
| Unwinding of discount | 34 | 11 |
| Discontinued operations | (880) | - |
| **Closing balance** | **-** | **846** |

## 20. Group entities

| Significant Subsidiaries | Country of incorporation and operation | Principal activity | Arian Silver Corporation effective interest 2015 | Arian Silver Corporation effective interest 2014 |
|---|---|---|---|---|
| Arian Silver (Barbados) Corporation | Barbados | Trading | 100% | 100% |
| Arian Silver (Netherlands) BV | Netherlands | Trading | 100% | 100% |
| Arian Silver de Mexico S.A. de C.V. | Mexico | Silver exploration & production | - | 100% |
| Compañía Minera Estrella de Plata S.A. de C.V. | Mexico | Silver exploration & production | 100% | - |
| Arian Silver Corporation (UK) Ltd | England and Wales | Holding | 100% | 100% |
| Arian Silver (Holdings) Limited | England and Wales | Holding | 100% | - |

## 21. Financial instruments and financial risk management

| Categories of financial instruments | Loans and receivables 2015 | Loans and receivables 2014 | Financial liabilities measured at amortised cost 2015 | Financial liabilities measured at amortised cost 2014 | Financial liabilities at fair value through profit or loss 2015 | Financial liabilities at fair value through profit or loss 2014 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | **474** | 2,846 | - | - | - | - |
| Trade and other receivables | **311** | 333 | - | - | - | - |
| Convertible note liability | **-** | - | - | 10,666 | - | - |
| Derivative liabilities: convertible note | **-** | - | - | - | - | 4,118 |
| Derivative liabilities: BMPA | **-** | - | - | - | - | 7,321 |
| Trade and other payables | **-** | - | 528 | 1,556 | - | - |

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.

<u>Fair Value Hierarchy</u>

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.

(tabulated amounts expressed in thousands of US dollars unless otherwise stated)

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

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 cash flow 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 cash flows 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:

| | **2015** | 2014 |
|---|---|---|
| Opening balance | **7,321** | - |
| Proceeds from BMPA | **7,756** | - |
| Delivery into BMPA | **(45)** | - |
| Fair value of derivative liability on initial recognition | **-** | 7,680 |
| Change in fair value derivative liability | **(2,994)** | (359) |
| Novation of BMPA | **(11,858)** | - |
| **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.

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.

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.

| | **2015** | **2014** |
|---|---|---|
| Pounds sterling | 44 | 52 |
| United States dollars | 426 | 957 |
| Canadian dollars | 3 | 14 |
| Mexican pesos | - | 1,823 |
| **Total cash held** | **473** | **2,846** |

(tabulated amounts expressed in thousands of US dollars unless otherwise stated)

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

Interest rate risk

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

Liquidity risk

The Group's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at 31 December 2015, the Group had cash of $474,000 to settle accounts payable of $532,000. 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 Group successfully negotiated deferred payment plans with the majority of creditors spreading outstanding balances over a six-month period. In February 2016 the Group were successful in an equity placing and subscription generating net proceeds of $1,030,500, and in April a further placing generated net proceeds of $933,887, please refer to note 24 for further details.

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 | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| held constant – increase/(decrease) | (4) | (5) | (4) | (5) |
| If there was a 10% strengthening of pounds sterling against US dollar with all other variables held constant – increase/(decrease) | 4 | 5 | 4 | 5 |

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

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

(tabulated amounts expressed in thousands of US dollars unless otherwise stated)

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

Exposure to commodity price risk sensitivity analysis:

| | Profit/loss | | Equity | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **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 | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Payable in less than one year | 31 | 102 | 31 | 102 |

### 23. Related parties

Control of the Company

In the opinion of the Board, at 31 December 2015 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 2015 the Directors of the Company and their immediate relatives controlled approximately 3.3% (2014: 2.5%) of the voting shares of the Company.

Directors' interests in the common shares of the Company as at 31 December 2015 and 2014 are set out below.

| | **2015** | 2014 |
|---|---|---|
| A J Williams | **-** | 220,000 |
| J T Williams | **980,000** | 480,000 |
| J A Crombie | **150,000** | 150,000 |

Transactions with key management personnel

During the year ended 31 December 2015 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 2015 Arian held the following balances in relation to the Quintana Financing; convertible note $nil (2014: $11,602,023), and derivative liabilities $nil (2014: $10,073,000). Interest of $1,414,000 (2014: $471,284) was capitalised as part of the plant during the year ended 31 December 2015 and was subsequently written off as part of the Quintana foreclosure.

Oliver Rodz was appointed as a director of the Company subsequent to the Quintana Financing and resigned on 28th August 2015. Mr Rodz is the President of Quintana and Quintana Streaming.

During the year ended 31 December 2015, $25,537 (2014: $nil) was paid to Quintana Resources Holdings LP in respect of the non-executive director fees payable relating to services provided by Oliver Rodz and David Laing.

**23. Related parties *(continued)***

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 2015 amounts to $20,000 (2014: $20,000). As at 31 December 2015, $245,000 (2014: $225,000) 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 $154,851 (2014: $134,003). 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 2015, $12,498 (2014: $15,742) 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.

*JS Cable consulting fees*

During the period JS Cable charged the Company a total of $16,000 (2014: $nil) in respect of consulting fees. There was no outstanding balance at 31 December 2015 (2014: nil).

*TA Bailey consulting fees*

During the period TA Bailey charged the Company a total of $28,000 (2014: nil) in respect of consulting fees, of which $19,482 was outstanding at 31 December 2015 (2014: nil).

**24. Post balance sheet events**

January 2016 brokered placing and subscription for shares

On 26 January 2016 the Company issued 75 million common shares at 1p each raising £750,000 ($1,069,170 at the £:$ exchange rate of 1.42556). Total costs associated with the placing were £75,000 ($106,925). In addition, directors and employees of the company subscribed to 4,787,493 common shares at 1p each to raise £47,875 ($68,249 at the £:$ exchange rate of 1.42556).

For every common share issued a warrant entitling the holder to subscribe to one new common share in the Company at 1.5p. The 79,787,493 warrants issued and expire on 27 February 2019.

April 2016 brokered placing of shares

On 28 April 2016 the Company issued 70 million units of 1p each raising £700,000 ($1,019,970 at the £:$ exchange rate of 1.4571). Total costs associated with the placing were £70,000 ($101,997). Each Unit comprises one new common share and one-half new share warrant, which entitles the holder to subscribe for one new common share at 1.5p. The expiry date of each warrant is 28 April 2019.

# Other information

## Directors

The following individuals served as directors to the Company during the year ended 31 December 2015:

Anthony Joseph Williams
James Thomas Williams
Thomas Anstey Bailey
James Seymour Cable
James Arnott Crombie
David Charles Laing (resigned 28 August 2015)
Oliver Rodz (resigned 28 August 2015)

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