



ARIAN SILVER CORPORATION

Management's Discussion and Analysis

of the Financial Condition and Results of Operations

For the three months and nine months ended 30 September 2012

COMPANY INFORMATION

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Anthony (Tony) J. Williams, *Chairman*
James (Jim) T. Williams, *Chief Executive Officer*
Thomas A. Bailey *Non-executive*
James S. Cable *Non-executive*
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STOCK EXCHANGES

AIM Market of the London Stock Exchange
TSX Venture Exchange
Frankfurt Stock Exchange

TRADING SYMBOLS

AIM: AGQ (stock is quoted in Pounds Sterling)
TSX-V: AGQ (stock is quoted in Canadian Dollars)
Frankfurt: I3A (stock is quoted in Euros)

Arian Silver Corporation – Management’s Discussion and Analysis

This Management’s Discussion and Analysis (“MD&A”) has been prepared based on information available to Arian Silver Corporation (“Arian” or the “Company”) as at 31 October 2012 and compares its financial results for the third quarter ended 30 September 2012 with the equivalent period of the previous year. This MD&A should be read in conjunction with the Company’s 30 September 2012 unaudited Consolidated Financial Statements and the related notes. The unaudited Consolidated Financial Statements and the related notes have been prepared in accordance with International Financial Reporting Standards. All dollar amounts referred to in this MD&A are expressed in United States Dollars, unless specifically stated otherwise.

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING AND CONTROLS

The unaudited Consolidated Financial Statements of the Company for the nine months ended 30 September 2012, and the comparative information for 2011, have been prepared by management of the Company (“Management”) in accordance with International Financial Reporting Standards (“IFRS”) and have been approved by the Company’s Board of Directors (the “Board”). The integrity and objectivity of these unaudited Consolidated Financial Statements are the responsibility of Management. In addition, Management is responsible for ensuring that the information contained in this MD&A is consistent, where appropriate, with the information contained in the unaudited Consolidated Financial Statements.

In support of this responsibility, Management maintains a system of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable and accurate, and that the Company’s assets are appropriately accounted for and adequately safeguarded. When alternative accounting methods exist, Management has chosen those methods it deems most appropriate in the circumstances. The unaudited Consolidated Financial Statements may contain certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis to ensure that the unaudited Consolidated Financial Statements are presented fairly in all material respects.

The Board is responsible for ensuring that Management fulfils its responsibilities for financial reporting and internal controls. The Board carries out this responsibility principally through its audit committee. The audit committee is appointed by the Board and its members are not involved in the Company’s daily operations. The audit committee meets periodically with Management and the external auditor to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities.

INTRODUCTION

The following discussion is Management’s assessment and analysis of the results and financial condition of the Company and should be read in conjunction with the accompanying unaudited Consolidated Financial Statements and the Company’s 2011 Annual Report, both of which can be accessed on SEDAR at www.sedar.com or the Company’s website at www.ariansilver.com.

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

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

The Company’s common shares are listed for trading on the AIM Market of the London Stock Exchange, on the TSX Venture Exchange, and on the Frankfurt Stock Exchange. The Company’s headquarters are in Berkeley Square, London.

OVERVIEW OF THIRD QUARTER AND NINE MONTHS OF 2012 AND SUBSEQUENT EVENTS

Financial

- Year-to-date revenue decreased by \$0.5 million from \$5.1 million in Q3 2011 to \$4.6 million in Q3 2012.
- Year-to-date gross loss of \$0.5 million compared to a gross profit of \$0.4 million in Q3 2011.
- Year-to-date consolidated pre-tax loss has decreased by \$9.3 million from \$10.5 million in Q3 2011 to \$1.2 million in Q3 2012.
- Working capital decreased by \$3.7 million from \$5.9 million at end of Q4 2011 to \$2.2 million at end of Q3 2012.
- Total assets decreased by \$1.9 million from \$16.3 million at end of Q4 2011 to \$14.4 million in Q3 2012, which includes intangible assets of \$1.2 million, property, plant and equipment of \$10.2 million, trade and other receivables of \$1.2 million, inventories of \$0.7 million, financial assets of \$0.3 million and cash of \$0.9 million.

Operations

- San José production Q3 2012
 - 4,072 tonnes mined representing a decrease of 88% from Q3 2011
 - No tonnes milled representing a decrease of 100% from Q3 2011 as a result of the suspension of production at the plant owned by Contracuña SA de CV (“Contracuña”)
 - No silver ounces produced representing a decrease of 100% from Q3 2011
 - 32 silver concentrate tonnes sold representing a decrease of 86% from Q3 2011
 - 8,937 silver ounces sold representing a decrease of 88% from Q3 2011
- San José production nine months 2012
 - 51,893 tonnes mined representing a decrease of 32% from 2011
 - 53,297 tonnes milled representing a decrease of 13% from 2011
 - 600 silver concentrate tonnes produced representing an increase of 21% from 2011
 - 165,304 silver ounces produced representing a decrease of 4% from 2011
 - 648 silver concentrate tonnes sold representing an increase of 40% from 2011
 - 177,960 silver ounces sold representing an increase of 12% from 2011
- On 16 July 2012 Arian announced a dispute between its wholly owned subsidiary Arian Silver de Mexico SA de CV (“Arian Mexico”) and Contracuña, from whom the mill was contracted. This dispute resulted in the suspension of milling operations.
- On 9 August 2012 Arian announced that it had signed a letter of intent, which reflects the Company’s intent to negotiate a definitive contract for the exclusive hire of a newly refurbished and soon to be re-commissioned 500 tpd mill.

Post 30 September 2012

- On 1 October 2012 Arian announced its findings from the metallurgical testing run of mine (“ROM”) that stated recoveries in the order of 80% were achieved using a “Leach-Ox” process (direct leaching of the run of mine material). The report further suggested there is significant upside potential to improve the recoveries of silver with the addition of flotation within the mill circuit to process the deeper seated, less oxidised / more sulphide rich material.

Arian Silver Corporation – Management’s Discussion and Analysis

THE STRATEGY

Arian’s overall objective is to develop additional resources on the San José property concurrent with the existing contract mining and (presently suspended) milling operations, and complete an independent detailed metallurgical and mill study with a view to building our own bespoke mill for larger-scale and envisaged more-efficient production.

REVIEW OF FINANCIAL PERFORMANCE

In the nine months ended 30 September 2012, the Company made a pre-tax loss of \$1.2 million (30 September 2011: \$10.5 million) which comprised a gross loss for the San José mine of \$0.5 million (30 September 2011: \$0.4 million), recognising the fair value non-cash expense of share purchase options vesting of \$0.2 million (30 September 2011: \$8.3 million), a credit of \$1.7 million (30 September 2011: \$nil) for the reversal of the fair value of share purchase options vesting that lapsed in the period, other administrative expenses of \$2.1 million (30 September 2011: \$2.2 million) and investment loss of \$11,000 (30 September 2011: \$0.4 million).

As at 30 September 2012, the Company had working capital of approximately \$2.2 million (31 December 2011: \$5.9 million). See *Liquidity, Capital Resources and Working Capital* for the items of working capital. Intangible assets amounted to \$1.2 million (31 December 2011: \$1.1 million) which relate to deferred exploration and evaluation costs in respect of the Company’s Mexican projects. Property, plant and equipment amounted to \$10.2 million (31 December 2011: \$8.1 million); \$10.1 million of this relates to the San José mine development costs. Share capital increased by \$0.1 million to \$47.4 million (31 December 2011: \$47.3 million) as a result of the issue of common shares in connection with the exercise of share options.

REVIEW OF OPERATIONS

The Company currently owns 31 mineral concessions in Mexico totalling 7,900 hectares as set out below.

Property Summary

Project Name	No. of Concessions	Area in hectares (“ha”)
San José	11	6,279.5
Calicanto	7	84.0
Others	13	1,536.5

Qualified Person

Mr. Jim Williams, Eur Ing, Eur Geol, BSc, MSc, DIC, FIMMM, the Chief Executive Officer of Arian, a "Qualified Person" as defined in the AIM guidelines of the London Stock Exchange, and a "Qualified Person" as such term is defined in Canadian National Instrument 43-101 (“NI 43-101”), has reviewed and approved the technical information in this Review of Operations other than the mineral resource estimates referred to below.

San José Project, Zacatecas State

The 100%-owned San José property is located approximately 55 kilometres (“km”) to the southeast of Zacatecas City and comprises 11 mining concessions totalling approximately 6,300ha. The property has significant infrastructure, including a 4.5 x 5 metre (“m”) main haulage ramp extending more than 4.0km along the San José vein (“SJV”) system, and a 350m deep, 500 tonne per day (“tpd”) vertical shaft with operational hoist. In addition, a number of shallower vertical shafts are located along the SJV.

Arian Silver Corporation – Management’s Discussion and Analysis

Production Information

Production information summary for San José mine is as follows:

	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Head grade (mill) - Ag grams per tonne (g/t)	-	181	173	201	199	178	178
Tonnes mined	4,072	26,268	21,553	24,433	33,941	22,387	19,462
Tonnes milled	-	28,903	24,394	22,971	21,512	18,348	21,128
Ag concentrate tonnes produced	-	298	302	256	204	144	146
Recovery %	-	58.74	49.01	51.68	47.76	56.66	38.08
Ag ounces produced	-	98,616	66,688	76,618	65,804	59,568	46,236
Ag ounces per concentrate tonne produced	-	331	221	300	323	412	316
Ag ounces sold	8,937	93,112	75,911	77,738	77,587	41,868	38,772
Ag concentrate tonnes sold	32	286	330	242	221	117	126
<i>Quarter end inventory balances</i>							
Mined tonnes stockpile	18,204	15,003	17,637	20,478	19,016	9,972	2,549
Ag concentrate inventory tonnes	-	36	24	52	39	57	29
Ag ounces included in concentrate inventory	-	11,276	5,772	14,995	14,118	23,075	10,195

Tonnes mined

The decrease in tonnes mined from Q3 2011 to Q3 2012 of 29,869 tonnes (88%) and decrease in tonnes mined from Q2 2012 to Q3 2012 of 22,196 tonnes (84%) was due to the suspension of processing at the Contracuña plant.

The continuation of mining at the San José mine enabled the mine to remain fully operational and ready to re-commence at significant increased tonnages when milling resumes.

Tonnes milled

No tonnes were milled in the quarter due to the suspension of production.

Mined tonnes stockpile

The stockpile of mined ore is 18,204 tonnes at the end of Q3 2012 compared to 20,478 tonnes at the end of Q4 2011. This stockpile will be processed upon the resumption of milling.

Ag concentrate inventory tonnes

The silver concentrate inventory balance at the end of Q3 2012 was nil compared to 52 tonnes at the end of Q4 2011. This follows the suspension of processing at the Contracuña plant and the subsequent sale of all silver concentrate held.

Mining Operations

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

Arian continued preparing and exploring mining blocks to verify continuity of mineralisation to ensure production to the plant, ready for the increase in milling capacity due to the operation of the 4th ball mill which commenced operation in May 2012. In particular, in Q1 2012 Arian developed 429m which includes 98m on the ramp, 179m preparation, 32m on raises and 120m exploration; in Q2 2012 Arian developed 545.41m which includes 242.17m on the ramp, 150.59m

Arian Silver Corporation – Management’s Discussion and Analysis

preparation, 31.41m on raises and 121.24m exploration and in Q3 2012 Arian developed 121.6m which includes 68.1m on the ramp, 8.3m preparation, 33.2m on raises and 12m exploration.

Ramp development in the Santa Ana area provided access to blocks indicated by diamond drilling on level 70, enabling further verification of resource for further exploitation and extraction below this level. The ramp continues development below level 120 to explore continuity of blocks as there is evidence of mineralisation at 300m depth.

Contract mining was reduced to reflect the suspension of processing and to avoid excessive stockpiling. Whilst there is no processing mining costs are approximately \$40/tonne. Should Arian successfully negotiate a new milling contract and recommence processing, mining costs are estimated at \$30/tonne including transport between the mine and mill.

Milling Operations

During Q1 and Q2 2012 Arian contracted its milling operations on a fixed monthly fee basis.

On 16 July 2012 Arian announced a dispute had arisen between Arian Mexico and Contracuña I SA de CV (“Contracuña”), from whom the mill was contracted. This dispute resulted in the suspension of milling operations, and on 9 August 2012, Arian announced that Arian Mexico would be implementing the necessary procedures against Contracuña to recover all losses and damages resulting from an alleged illegal termination, and breaches of contract, which led to the suspension of milling.

It should be noted that this contracted mill had a maximum rating of 400 tpd but it was not designed for the hardness and abrasiveness of the San José ROM material. Significant improvement had been made to this mill that allowed it to increase to over 400 tpd during May 2012, partly as a result of the installation of the 4th in-line ball mill and other modifications.

On 9 August 2012 Arian announced that it had signed a letter of intent, which reflects the Company’s intent to negotiate a definitive contract for the exclusive hire of a newly refurbished and soon to be re-commissioned 500 tpd mill. This mill, which is located nearby on the outskirts of the city of Zacatecas, is currently expected to become operational during Q4 2012.

Arian believes that this new re-commissioned mill will enable the continuation of its trial milling operation, which forms part of the requisite set of studies necessary to design a fully bespoke and optimised mill.

Based on a contained silver content of 300 ounces per tonne (“opt”) at a spot price of \$28/oz silver, a concentrate value of \$7,300/tonne, after deductions, is forecast.

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

Exploration Drilling

In January 2012, Arian released interim drill results relating to the Phase 4 drilling programme which indicated continuity of the vein thickness, silver mineralisation and grade along the SJV. Also announced were the results of the geophysical Induced Polarisation (“IP”) survey which identified the areas of probable vein displacements and provided targets for some of the last holes to be drilled in the Phase 4 drilling programme (see the Company’s press release dated 16 January 2012 entitled “Arian Silver Reports Further Encouraging Exploration Progress at San José”).

On 12 March 2012 the Company announced the conclusions of an independent resource update by CSA Global (UK) Limited which took into account all the Phase 1, 2, 3 and 4 drilling programmes; the Technical Report is available on the Company’s website and was filed on SEDAR on 25 April 2012 at www.sedar.com.

Arian Silver Corporation – Management’s Discussion and Analysis

Mineral Resource

On 12 March 2012, Arian reported a significant resource estimate upgrade (see the Company’s press release entitled “Arian Silver Increases Contained Silver at San José by 32% to More Than 117 Million Ounces in Updated Mineral Resource Estimate”).

The highlights of this announcement were:

- 29% increase in resource tonnage along the SJV from the July 2011 mineral resource estimate;
 - Contained ounces of silver increased by 32%;
 - Contained pounds of lead increased by 29%; and
 - Contained pounds of zinc increased by 30%;
- Mineralisation remains open along the western and eastern strikes of the SJV and to depth; and
- Further drilling is planned to infill the current resources, step out along the remaining SJV structure in both directions, and to drill at depth on the SJV.

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

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

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

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

- a) Report dated 22 September 2009 and entitled “Preliminary Economic Assessment Report (PEAR) on the San José Silver-Lead-Zinc Deposit, Zacatecas, Mexico”; and
- b) Report dated 15 August 2008 and entitled “Resource Estimation Update for the San José Silver-Lead-Zinc Deposit, Zacatecas, Mexico”.

Arian Silver Corporation – Management’s Discussion and Analysis

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

Laboratory

Arian has an independently operated sample preparation and analytical laboratory on site at San José which has been operational since April 2011; it is operated by the Stewart Group which is now a subsidiary of the ALS Chemex Group. This is a valuable asset for Arian because it allows for the rapid turnaround of samples and provides vital information to our operational personnel to ensure that decisions are made at the operation in a timely manner. In addition the laboratory provides an invaluable tool during drilling programmes which again has significantly decreased the turnaround times for analysis of Arian’s drill samples.

The laboratory comprises a comprehensive sample preparation facility, wet chemistry facility, and Atomic Absorption Spectrometry (“AAS”) and fire-assay (“FA”) in use for final determinations of silver, lead and zinc. It is operated under the sole control and management of professional personnel from the Stewart Group who ensure the results are fully compliant with Arian’s quality assurance and quality control (QA/QC) programme.

Calicanto Project, Zacatecas State

Arian owns 100% of the Calicanto Project which consists of seven adjacent mining concessions totalling 75ha, namely: Calicanto, Vicochea I, Vicochea II, Misie 1 and Misie 2, and Missie 1 and Missie 2 properties, collectively known as the “Calicanto Group”. The concessions are located in the historic mining district of Zacatecas. The Calicanto Group of concessions comprises at least four main mineralised vein systems.

There has been no significant expenditure on the Calicanto Project during the past two years.

Additional information in respect of the Calicanto Project is contained in a technical report prepared by A.C.A. Howe International Limited dated 20 March 2006 and entitled “Technical Report on the Calicanto and San Celso Projects, Zacatecas, Mexico”. A copy of this report is available on the Company’s website www.ariansilver.com or on SEDAR at www.sedar.com.

RESULTS OF OPERATIONS

Three months ended 30 September 2012 compared to three months ended 30 September 2011

The pre-tax loss for the quarter was \$1.0 million (2011: \$0.6 million). This included a gross loss of \$0.3 million (2011: gross profit \$0.5 million) generated by the San José mining operation, the expensing of the fair value of share purchase options vesting of \$nil (2011: \$0.3 million), and other administrative expenses of \$0.7 million (2011: \$0.7 million), net investment income of \$0.1 million (2011: net investment loss of \$0.1 million) which included interest income of \$1,000 (2011: \$11,000), and a fair value adjustment loss for Geologix shares held of \$0.1 million (2011: \$0.2 million).

Nine months ended 30 September 2012 compared to nine months ended 30 September 2011

The pre-tax loss for the period was \$1.2 million (2011: \$10.5 million). This loss included a gross loss of \$0.5 million (2011: \$0.4 million profit) generated by the San José mining operation, the expensing of the fair value of share purchase options vesting of \$0.2 million (2011: \$8.3 million), a credit of \$1.7 million (2011: \$nil) for the reversal of the fair value of share purchase options vesting that have lapsed in the period, and other administrative expenses of \$2.1 million (2011: \$2.25 million), net investment income of \$11,000 (2011: net investment loss of \$0.4 million) which included interest income of \$11,000 (2011: \$35,000), offset mainly by a fair value adjustment loss for the Geologix shares held of \$nil (2011: \$0.5 million).

SUMMARY OF QUARTERLY RESULTS

	Q3	Q2	Q1	Q4
Unaudited	2012	2012	2012	2011
	\$'000	\$'000	\$'000	\$'000
Revenue from sale of silver Concentrate	136	2,104	2,314	2,367
Cost of sales	475	2,242	2,379	1,921
Gross profit / (loss)	(339)	(138)	(65)	446
Net profit/(loss) before finance revenue/costs	(1,025)	(1,006)	866	(411)
Finance revenue	1	4	6	9
Net profit/(loss) for the period	(968)	(1,133)	947	(443)
Basic and diluted loss per share	\$0.00	\$0.00	\$0.00	\$0.00
Total assets	14,409	15,021	16,732	16,250
Shareholders' equity	13,464	13,647	15,370	14,909
Cash dividend declared per share	-	-	-	-

	Q3	Q2	Q1	Q4
Unaudited	2011	2011	2011	2010
	\$'000	\$'000	\$'000	\$'000
Revenue from sale of silver concentrate	2,434	1,529	1,137	184
Cost of sales	1,914	1,470	1,350	175
Gross profit /(loss)	520	59	(213)	9
Net profit/(loss) before finance revenue/costs	(484)	(1,358)	(8,275)	936
Finance revenue	11	13	11	141
Net profit/(loss) for the period	(602)	(1,535)	(8,390)	991
Basic and diluted loss per share	\$0.00	\$(0.01)	\$(0.03)	\$(0.01)
Total assets	16,894	18,843	19,631	18,876
Shareholders' equity	15,806	17,764	18,342	16,744
Cash dividend declared per share	-	-	-	-

Arian Silver Corporation – Management’s Discussion and Analysis

Third quarter 2012 vs. second quarter 2012

A gross loss of \$0.3 million was reported in the third quarter \$0.2 million higher than the second quarter mainly as a result of the suspension of processing of mined ore as a result of a dispute with the mill owner. The net loss in the period was \$0.1 million higher than for the previous quarter due to the increase in value of the Geologix shares held received as partial payment for the disposal of the Tepal property. Cash decreased by \$0.5 million to \$0.9 million largely as a result of investment in the development of the San José mine. The decrease in shareholders’ equity was largely attributable to the movement in the foreign exchange reserve and the loss for the period.

LIQUIDITY, CAPITAL RESOURCES AND WORKING CAPITAL

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

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

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

During the period, the Company received new funding from:

- the exercise of 525,000 share purchase options which generated £61,375.

The following share purchase options are currently outstanding, each entitling the holder to acquire one common share of the Company:

- 15,960,000 share purchase options with exercise prices ranging from £0.055 to £0.4925 (Cdn\$0.10 to Cdn\$0.79) and expiring on various dates up to May 2017.

Working Capital – 30 September 2012

As at 30 September 2012, the Company had working capital of approximately \$2.2 million (31 December, 2011: \$5.9 million). The items of working capital and changes compared to 31 December 2011 are as follows:

Current assets

- cash and cash equivalents of \$0.9 million (31 December 2011: \$4.0 million);
- trade and other receivables of \$1.2 million (31 December 2011: \$1.9 million) – the outstanding balance relates to the IVA debtor owed to Arian which is in the process of being recouped;
- inventories of \$0.7 million (31 December 2011: \$0.9 million) – relates to stockpile held at cost relating to production at the San José mine; and
- financial assets held at fair value through profit or loss of \$0.3 million (31 December 2011: \$0.3 million) – relates to the Geologix shares received as part consideration for the final instalment for the sale of the Tepal project.

Current liabilities

- trade payables of \$0.8 million (31 December 2011: \$1.2 million).

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During the nine months ended 30 September 2012 the group entered into the following transactions involving related parties:

Transactions with key management personnel

The Dragon Group Ltd charged the Company a total of \$91,904 (30 September 2011: \$94,048) which relates to the reimbursement of Tony Williams’ remuneration paid on behalf of the Company. Tony Williams, Chairman and a director of the Company, beneficially owns the Dragon Group. At 30 September 2012 \$10,462 (30 September 2011: \$10,114) was outstanding.

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

FUTURE OUTLOOK

Management anticipates, subject to the successful negotiation of a new milling contract the profitability of the operations would increase to a sustainable level generating cash flow to be used for further mining exploration and development programmes. This is based on the assumption that silver prices will remain at least around \$28 per ounce, although some price volatility is expected. The preliminary results of the detailed mill and metallurgical studies are expected to be received during the fourth quarter. It is anticipated these studies will eventually enable greater efficiencies with milling and ultimately reduce Arian’s silver production cost per ounce.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires the Company to select from possible alternative accounting principles and to make estimates and assumptions that determine the reported amount of assets and liabilities at the balance sheet date and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained and are subject to change. The Company’s accounting policies are considered appropriate in the circumstances, but are subject to judgements and uncertainties inherent in the financial reporting process.

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

Going Concern

Since the Company is still at a relatively early stage of development with trial mining, it will require additional funding for projects which may comprise debt, equity or a combination of the two. Arian has an equity facility with Yorkville which enables Arian to draw down up to £5 million if or when required.

The directors of the Company currently believe it appropriate to prepare the Company’s financial statements on a going concern basis.

Resource Properties, Deferred Exploration and Development Costs

All costs related to the exploration of mineral properties are capitalised until either the properties are brought into production, at which time they are amortised over the estimated life of the project, or until the properties are sold, or title rights allowed to lapse, or are abandoned or determined not to be commercially viable, at which time they are charged to the income statement.

The amounts capitalised at any time represent costs to be charged to operations in future and do not necessarily reflect the present or future values of particular properties. The recoverability of the carrying values of exploration properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete

Arian Silver Corporation – Management’s Discussion and Analysis

development and future profitable production therefrom, or alternatively, upon the Company’s ability to dispose of its interests on an advantageous basis.

Management is of the view that the current policy is appropriate for the Company at this time and is consistent with many other public mineral exploration and development companies in the UK and Canada. Shareholders are advised that carrying values are not necessarily indicative of present or future values. The Company assesses whether impairment exists in any of its exploration projects and writes down that project to its estimated recoverable value when such impairment is found to exist. Any write-down is recorded as an expense in the Company’s income statement in the financial statements for the relevant period.

Share-based Payments

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

Revenue Recognition

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

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

Inventories

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

FINANCIAL RISK FACTORS

Market Risk

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

Price Risk

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

Currency Risk

The Company’s exploration expenditure is made in Mexico in Mexican Peso and head office expenses are predominantly made in the UK in Pounds Sterling, United States Dollars and

Arian Silver Corporation – Management’s Discussion and Analysis

Canadian dollars. The Company is therefore exposed to the movement in exchange rates for these currencies. The Company does not currently hedge foreign exchange risk.

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

In addition, any movements in Pound Sterling or Mexican Peso would affect the presentation of the consolidated statement of financial position when the net assets of the Mexican subsidiary and parent company in the UK are translated from their functional currencies into United States Dollars.

Liquidity Risk

The Company’s approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at 30 September 2012, the Company had cash of \$868,000, financial assets of \$282,000, and receivables of \$1,183,000 to settle accounts payable of \$770,000. The Company’s accounts payable have contractual maturities of less than 30 days and are subject to normal trade terms.

Credit Risk

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

OTHER RISK FACTORS

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

The Company is subject to a number of risk factors due to the nature of the mining business in which it is engaged, not least are adverse movements in commodity prices, which are impossible to forecast. The Company seeks to counter this risk, as far as possible, by selecting exploration areas on the basis of their recognised geological potential to host economic deposits.

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

Mining concessions and Title

In relation to mining concessions over which the Company holds legal rights, if the Company fails to fulfil the specific terms of any of its concessions or operates in the concession areas in a manner that violates Mexican law, regulators may impose fines, suspend or revoke the concessions, any of which could have a material adverse effect on the Company’s operations and proposed operations.

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

Nature of Mineral Exploration and Mining

Any exploration programme entails risks relating to the location of economic ore bodies, the development of appropriate metallurgical processes, the receipt of necessary governmental permits

Arian Silver Corporation – Management’s Discussion and Analysis

and the construction of mining and processing facilities. Save in respect of the San José project, the Company's projects are not in production and no assurance can be given that any exploration programme will result in any new commercial mining operation or in the discovery of new resources.

The exploration and development of mineral deposits involves significant financial risks over a prolonged period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. While discovery of a mineral structure may result in substantial rewards, few concessions which are explored are ultimately developed into producing mines. Major expenditures may be required to establish reserves by drilling and to construct mining and processing facilities at a site. It is impossible to ensure that preliminary feasibility studies or full feasibility studies on the Company's projects or the current or proposed exploration programmes on any of the concessions in which the Company has rights or is negotiating rights will result in a profitable commercial mining operation.

The Company's operations are subject to all of the hazards and risks normally incidental to exploration, development and the production of minerals. These could result in damage to or destruction of the Company's facilities, damage to life or property, environmental damage or pollution and possibly legal liability for any or all damage which could have a material adverse impact on the business, operations and financial performance of the Company. The Company's activities may be subject to prolonged disruptions due to weather conditions depending on the location of operations in which the Company has interests. Hazards, such as unusual or unexpected geological formations, rock falls, flooding or other climatic conditions may be encountered in the drilling and removal of material. Although precautions to minimise risk will be taken, even a combination of careful evaluation, experience and knowledge may not eliminate all of the hazards and risks.

Whether a mineral deposit will be or will continue to be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as its size and grade, proximity to infrastructure, financing costs and governmental regulations, including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting of silver, changes in the silver price, and environmental protection. The effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

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

Volatility of Metal Prices

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

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

Requirement of Additional Financing

The exploration and development of the Company's concessions, including continuing exploration projects, and the construction of larger scale mining facilities and commencement of larger scale mining operations, will require substantial additional financing. However, if the required funding is not forthcoming on a timely basis the Company may not be able to meet its on-going working capital and project expenditure requirements. No assurance can be given that the Company will be able to raise the additional financing necessary to continue its production activities or to explore and/or develop its concessions. Failure to obtain sufficient financing for any projects will result in a delay or indefinite postponement of exploration, development or production on properties covered by the

Arian Silver Corporation – Management’s Discussion and Analysis

Company's concessions or even the loss of a concession. The only sources of funds currently available to the Company are through the sale of product from production activities, the issue of equity capital, the sale of concessions or other assets, royalty interests or the entering into of joint ventures. In addition, the Company's ability to obtain further financing will depend in part on the price of silver and the industry's perception of its future price and other factors outside the Company's control. Additional financing may not be available when needed, or if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to shareholders. In the absence of adequate funding the Company may not be able to continue as a going concern in which event the carrying value of the Company's projects would be required to be reviewed.

Limited Operating History

The Company has a limited history of producing revenue and its ultimate success will depend on its ability to generate cash flow from its concessions in the future. The Company has not earned any material profits to date and there is no assurance that it will do so in the future. A major portion of the Company's activities will be directed to the development of the SJV as well as the search for and the development of new silver deposits. Significant capital investment will be required for exploration at the concessions and to achieve commercial production from the Company's existing projects and from successful exploration efforts. There is no assurance that the Company will be able to raise the required funds to continue these activities.

Mineral Resource Estimates

The mineral resource figures disclosed in this MD&A are estimates and no assurances can be given that the indicated levels of minerals will be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource estimates included in this MD&A are well established, by their nature resource estimates are imprecise and depend, to a certain extent, upon statistical inferences, which may ultimately prove unreliable. If such estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company.

Mineral resources are not mineral reserves and do not have demonstrated economic viability. There is no certainty that mineral resources can be upgraded to mineral reserves through continued exploration.

No Reserves

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

Insurance and Uninsured Risks

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

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

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

Arian Silver Corporation – Management’s Discussion and Analysis

Reliance on Contractors in Mexico

The Company relies on contractors to implement the Company's exploration and development programmes as well as its current mining operation at the San José project. The failure of a contractor to perform properly its services to the Company could delay or inconvenience the Company's operations, and have a materially adverse effect on the Company.

Key Personnel

The Company's business is dependent on retaining the services of a small number of key personnel of the appropriate calibre as the business develops. The Company has entered into employment agreements with certain key managers. The success of the Company is, and will continue to be to a significant extent, dependent on the expertise and experience of the directors and senior management. The loss of one or more of these individuals could have a materially adverse effect on the Company. The Company does not currently have any insurance in place with respect to key personnel.

Environmental Factors

The Company's operations are subject to environmental regulation in the jurisdictions in which the Company operates. Such regulation covers a wide variety of matters, including, without limitation, prevention of waste, pollution and protection of the environment, labour regulations and health and safety. The Company may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances, which may exist on or under any of the properties covered by its concessions, or which may be produced as a result of its operations.

If the Company does not comply with environmental regulations or does not file environmental impact statements in relation to each of its concessions, it may be subject to penalties, its operations may be suspended, closed and/or its concessions may be revoked.

Environmental legislation and permit requirements are likely to evolve in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors and employees.

Political Risk

The Company is conducting its exploration activities in the Republic of Mexico. The Company may be adversely affected by changes in economic, political, judicial, administrative or other regulatory factors such as taxation in the Republic of Mexico, where the Company will operate and holds its major assets. The Republic of Mexico may have a more volatile political environment and/or more challenging trading conditions than in some other parts of the world. The Directors believe the government of Mexico supports the development of natural resources by foreign operators. There is no assurance that future political and economic conditions in Mexico will not result in the government of Mexico adopting different policies in respect of foreign development and ownership of mineral resources. Any such changes in policy may result in changes in laws affecting ownership of assets, taxation, rates of exchange, environmental protection, labour relations, and repatriation of income and return of capital. These changes may affect both the Company's ability to undertake exploration and development activities in respect of future properties in the manner currently contemplated, as well as its ability to continue to explore and develop those properties, in respect of which it has obtained exploration and development rights to date.

Payment Obligations

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

Regulatory Approvals

The operations of the Company require approvals, licenses and permits from various regulatory authorities, governmental and otherwise. The Board believes that the Company holds or will obtain

Arian Silver Corporation – Management’s Discussion and Analysis

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

Competition

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

Conflicts of Interest

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

Other risks and uncertainties have been detailed in the Company’s 2011 Annual MD&A which can be accessed on SEDAR at www.sedar.com or the Company’s website at www.ariansilver.com. Such risks have not changed materially during the reporting period to 30 September 2012.

Forward-Looking Statements

This MD&A contains certain "forward-looking statements". All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements relating to the mineral resource estimates, statements regarding the contract mining and milling operation at the San José Project (the "SJ Mining Operation"), the ability of the Company to achieve, maintain and possibly increase planned levels of production from the SJ Mining Operation, the ability of the Company to generate positive cash flow from the SJ Mining Operation, the ability to continue or implement proposed drilling programmes on the SJV system and the Company's exploration, development and production plans and objectives) are forward-looking statements. These forward-looking statements reflect the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking statements are subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements, and even if such actual results are realised or substantially realised, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, the performance of the contractors and plant and equipment engaged in relation to the SJ Mining Operation, failure to achieve anticipated production levels and mineral grades for ore from the SJ Mining Operation, failure to establish estimated mineral reserves, the possibility that future exploration results will not be consistent with the Company's expectations, uncertainties relating to the availability and costs of financing needed in the future, changes in the silver commodity price, changes in equity markets, political developments in Mexico, changes to regulations affecting the Company's activities, delays in obtaining or failures to obtain required regulatory approvals, the uncertainties involved in interpreting exploration results and other geological data, and the other risks involved in the mineral exploration and development industry. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking

Arian Silver Corporation – Management’s Discussion and Analysis

statements are reasonable, forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements due to the inherent uncertainty therein.

The mineral resource figures disclosed in this MD&A are estimates and no assurances can be given that the indicated levels of minerals will be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource estimates included in this MD&A are well established, by their nature resource estimates are imprecise and depend, to a certain extent, upon statistical inferences, which may ultimately prove unreliable. If such estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company.

OTHER INFORMATION

Additional Information

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

Disclosure of Outstanding Share Data

The following table sets out the outstanding securities of the Company as at 31 October, 2012:-

	Number in issue
Common shares of no par value	301,714,112
Share purchase options	15,960,000

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