ARIAN SILVER CORPORATION

Management's Discussion and Analysis

of the Financial Condition and Results of Operations

For the Financial Year ended 31 December 2011

COMPANY INFORMATION

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STOCK EXCHANGES	AIM Market of the London Stock Exchange TSX Venture Exchange Frankfurt Stock Exchange London's PLUS Market
TRADING SYMBOLS	AIM/PLUS: AGQ (stock is quoted in Pounds Sterling) TSX-V: AGQ (stock is quoted in Canadian Dollars) Frankfurt: I3A (stock is quoted in Euros)

This Management's Discussion and Analysis ("MD&A") has been prepared based on information available to Arian Silver Corporation ("Arian" or the "Company") as at 28 February 2012 and compares its consolidated 2011 financial results with the previous year. This MD&A should be read in conjunction with the Company's audited Consolidated Financial Statements and the related notes. The audited Consolidated Financial Statements and related notes have been prepared in accordance with International Financial Reporting Standards. All dollar amounts referred to in this discussion are expressed in United States dollars, unless specifically stated otherwise.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING AND CONTROLS

The audited Consolidated Financial Statements of the Company for the financial year ended 31 December, 2011 and the comparative amounts for 2010 have been prepared by the senior managers 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 audited 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 audited Consolidated Financial Statements.

In support of this responsibility, Management maintain 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 have chosen those methods they deem most appropriate in the circumstances. The audited Consolidated Financial Statements may contain certain amounts based on estimates and judgements. Management have determined such amounts on a reasonable basis to ensure that the audited Consolidated Financial Statements are presented fairly in all material respects.

The Board is responsible for ensuring that Management fulfil their 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, and to review the audited Consolidated Financial Statements with the external auditors.

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 audited Consolidated Financial Statements for the financial year ended 31 December, 2011 which are also available on SEDAR at www.sedar.com or the Company's website at www.ariansilver.com.

Arian is a publicly quoted silver exploration, development and production company, operating in one of the richest silver-bearing districts in the world, Zacatecas State, Mexico. The Company is 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 mineralized 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 is incorporated in the British Virgin Islands and its common shares are listed for trading on the TSX Venture Exchange and depository receipts are traded on the London Stock Exchange's AIM market, on the Frankfurt Stock Exchange and on London's PLUS Market. The Company's headquarters are on Berkeley Square, London.

THE STRATEGY

Arian's overall objective is to develop additional resources on the San José property concurrent with the existing contract mining and toll milling operation, complete a feasibility study, and move to large-scale independent commercial production.

OVERVIEW OF 2011

Financial

- Revenue: $7.5 million for the year ended 31 December 2011
- Gross profit: $0.8 million for the year ended 31 December 2011
- Total assets: $16.3 million as at 31 December 2011
- Working capital: $5.9 million as at 31 December 2011

Operation

- Independent laboratory commenced operation in April 2011
- Phase 3 drill campaign completed in June 2011
- Lease of mill extended up to July 2013

Production

	Year 2011	Q4 2011
Tonnes mined	100,223	24,433
Tonnes milled	83,959	22,971
Silver concentrate tonnes produced	750	256
Silver ounces produced	248,226	76,618
Silver ounces per concentrate tonne produced	331	300
Silver ounces sold	235,965	77,738
Silver concentrate tonnes sold	706	242

Exploration

- Updated independent resource estimate published in July 2011, confirming:
  - 88.45 million contained silver ounces, an increase of 105%
  - 30.03 million ounces in the "indicated" resource category, an increase of 233%
  - 58.42 million ounces in the "inferred" resource category, an increase of 74%
  - plus lead and zinc credits

- Phase 4 drilling programme 94% complete at 31 December 2011

Geologix Explorations, Inc.

In February 2011 Geologix Explorations, Inc. ("Geologix") exercised the Tepal option and the final instalment of $1.55 million was paid $775,000 in cash and $775,000 in Geologix shares.

Subsequent events

- Interim drilling and geophysical IP survey results published in January 2012, evidencing the continuity of vein thickness, silver mineralisation and grade, and providing details of drill hole targets

- Phase 4 drilling completed in February 2012

REVIEW OF FINANCIAL PERFORMANCE

In the financial year ended 31 December 2011, the Company incurred a pre-tax loss of $11.0 million (2010: $1.7 million) primarily on account of the IFRS accounting requirement for the recognition of the fair value non-cash expense of vesting share purchase options of $8.5 million (2010: $15,000) and other administrative expenses of $2.8 million (2010: $2.1 million).

The San José operation generated gross profit of $812,000 (2010: $9,000), which reflects the increase in the mining and milling operations.

As at 31 December 2011, the Company had working capital of approximately $5.9 million (31 December 2010: $10.2 million). See *Liquidity, Capital Resources and Working Capital* for further detail on the Company's working capital.

Intangible assets amounted to $1.1 million (31 December 2010: $1.2 million) which relate to deferred exploration and evaluation costs in respect of the Company's Mexican projects.

During 2011, Arian invested some $2.7 million on the phase 3 and 4 drill programmes and $0.8 million on mining development to provide access to further stopes.

The exercise of share options and warrants during 2011 increased share capital by $1.9 million to $47.3 million (31 December 2010: $45.4 million).

Investment income was $0.4 million loss (2010: $0.4 million profit).

Interest income was $44,000 (2010: $11,000).

SELECTED ANNUAL FINANCIAL INFORMATION

	2011 $'000	**2010** $'000	**2009** $'000
Total Revenue and income	7,511	564	-
Gross profit	812	9	-
Net loss before finance income	10,510	2,086	2,068
Net loss for the period	10,970	1,902	1,872
Basic and diluted loss per share	$0.04	$0.01	$0.01
Total assets	16,250	18,876	13,876
Shareholders' equity	14,909	16,744	11,743
Cash dividend declared per share	-	-	-

Total Revenue and Income

Total revenues for 2011 of $7.5 million mainly comprised revenue from the sale of silver concentrate representing Arian's first full year of production.

Total revenues for 2010 of $0.6 million comprised primarily of $0.2 million revenue from silver concentrate receipts and $0.4 million upon the sale of part of Arian's stake in Geologix that had been acquired as part of the consideration for the disposal by Arian of the Tepal project.

Gross Profit

Trial production continued during 2011, delivering strong growth in gross profit, which increased to over $0.8 million for the year

Arian commenced trial production in the fourth quarter of 2010, which gave rise to a small gross profit for the year ended 31 December 2010.

Net loss

The net loss attributable to equity shareholders increased in 2011 by approximately $9.1 million as a consequence primarily, of the IFRS accounting treatment of share purchase options of some $8.5 million and exchange rate fluctuation of $0.6 million.

The net loss attributable to equity shareholders remained at approximately the same level from 2009 to 2010 of $1.9 million. $0.3 million UK national insurance contributions paid on the exercise of share purchase options was offset by a $0.3 million income from exchange rate fluctuation.

Total assets
The overall growth in total assets over the past three years, after making adjustments for foreign exchange movements, was mainly due to Arian's investment in the exploration projects in Mexico and was primarily funded by issuing equity; from the second half of 2011 it was also funded by revenues generated by the trial mining operation.

During 2011 total assets decreased by $2.6 million. This overall movement primarily consisted of the following items: increase in receivables and inventory of $1.0 million and $0.8 respectively relating to the increase in working capital as a result of an increase in operations; an increase of $2.7 million in tangible and intangible assets (comprises $3.5 million of further investment in the San Jose mine offset by depreciation of $0.2 million and adverse foreign exchange movements of $0.6 million); an increase of $0.3 million in other financial assets held at fair value, related to the Geologix shares received as part payment for the sale of Tepal; a decrease in cash of $4.3 million, and decrease in the assets held for sale of $2.9 million, which related to the sale of Tepal following the completion of the sale in February 2011.

The increase in total assets between 2009 and 2010 related mostly to an $8.1 million increase in cash held following a placing and a further $1.8 million investment by Arian in the San José project. These gains were offset following the reversal of the $5.6 million Grafton share exchange transaction.

Shareholders' Equity
During 2011, shareholders' equity decreased by $1.8 million to $15.0 million. This comprised the loss for the year of $11.0 million and an increase to the exchange translation reserve of $1.3 million; these were offset by $1.9 million and $8.5 million, from the exercise of share options and warrants, and the IFRS expense for the vesting of share options respectively.

During 2010, shareholders' equity increased by $5.0 million, to $16.7 million. This included the cancellation of shares in respect of the unwinding of an arrangement with Grafton Resource Investments Ltd, a private placement of shares, and the exercise of share options and warrants.

REVIEW OF OPERATIONS
The Company currently owns 32 mineral concessions in Mexico totalling approximately 8,038 hectares as set out below.

Property Summary

Project Name	No. of Concessions	Area in hectares ("ha")
San José	11	6,279.5
Calicanto	7	75.5
Others	14	1,683.4

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

San José Project, Zacatecas State
The 100%-owned San José property lies 55 kilometres to the southeast of Zacatecas City and covers 11 mining concessions totalling approximately 6,300 ha. The property has significant infrastructure, including a 4x5 metre ("m") main haulage ramp ("SJ Ramp") extending nearly 4.0km along the footwall of 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 in a westerly direction along the SJV.

Production Information

Production information summary for San José mine is as follows:

	Year 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Head grade - Ag grams per tonne	**190**	**201**	199	178	178
Tonnes mined	**100,223**	**24,433**	33,941	22,387	19,462
Tonnes milled	**83,959**	**22,971**	21,512	18,348	21,128
Ag concentrate tonnes produced	**750**	**256**	204	144	146
Recovery %	**48.43**	**51.68**	47.76	56.66	38.08
Ag ounces produced	**248,226**	**76,618**	65,804	59,568	46,236
Ag ounces per concentrate tonne	**331**	**300**	323	412	316
Ag ounces sold	**235,965**	**77,738**	77,587	41,868	38,772
Ag concentrate tonnes sold	**706**	**242**	221	117	126

	Year 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Head grade - Ag grams per tonne	**154**	154	-	-	-
Tonnes mined	**7,600**	7,600	-	-	-
Tonnes milled	**3,385**	3,385	-	-	-
Ag concentrate tonnes produced	**22**	22	-	-	-
Recovery %	**56.31**	56.31	-	-	-
Ag ounces produced	**9,462**	9,462	-	-	-
Ag ounces per concentrate tonne produced	**439**	439	-	-	-
Ag ounces sold	**6,730**	6,730	-	-	-
Ag concentrate tonnes sold	**13**	13	-	-	-

Mining Operations

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

From January to end December 2011, approximately 400m have been developed along the main westerly strike of the SJ Ramp, in a combination of Run-Of-Mine ("ROM") and waste material. A substantial amount of ore has been intersected within the ramp, which continues to advance in a westerly direction, and a new parallel, but steeper, decline ramp was being developed in largely waste material to maximise the amount of sulphide-rich ore that could be extracted from the resource blocks. The drilling information indicated the sulphide-rich ore is located deeper within the Santa Ana resource block.

Contract mining expectations are unchanged at up to 500 tpd. Mining is planned to operate 20 days per month.

Total costs to mine and deliver ore to the mill are estimated at approximately $26/tonne.

Milling Operations

Although the mill has a maximum rating of 400 tpd, it is not designed for the hardness and abrasiveness of the San José ROM material. Arian therefore started with a daily throughput of just 120 tonnes but has now increased this to around 250 following on-going fine-tuning of the operation. A reconditioned impact crusher was installed within the circuit to partly mitigate this issue by grinding the ROM material more finely before it enters the flotation stage of the plant.

This continuing phase of pilot-scale milling has, and continues, to allow Arian to review all key data providing Arian essential information to potentially build an optimised/bespoke plant, should it decide to pursue this route after all the test work and economic parameters have been evaluated. Arian is also currently reviewing other alternatives as well as continuing to work to improve the current mill design and recoveries.

The lease with the mill and plant owner was extended in July 2011 for a period of up to two years at a cost of MXP 6 million (approx. US$ 0.45 million) per month. There is an early break provision in favour of Arian giving it the right to terminate the lease after twelve months.

The increase in the new lease cost is due to the installation and operation of an additional in-line 200 tpd ball mill which, when commissioned, should allow Arian to meet its expected milling target of 400 tpd (for 30 days) with up to 125 tonnes of concentrate to be produced per month and with an anticipated silver content of between 370 and 440 ounces per tonne ("opt").

Based on a contained silver content of 405 opt at a spot price of $30/oz silver, a concentrate value of $11,000/tonne, after deductions, is forecast. Although, the higher the silver price, calculated on a quotation period paying the average of the second month after delivery, the greater the return.

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

Plant/Mill Study

Arian has engaged an independent metallurgical and mill consultant to conduct a study for a bespoke milling plant for the San José project. The study will evaluate, amongst other things, the viability of such a plant with proposed future mining operations. Such a plant is expected to significantly increase efficiencies, including recoveries, of silver, lead and zinc at a significantly reduced cost.

Exploration Drilling

In May 2011, Arian completed the Phase 3 10,000m diamond/core drilling programme, which commenced in November 2010. The purpose of the drill programme was to delineate additional areas of mineralisation and to upgrade existing resources, between the Santa Ana and Guanajuatillo resource areas along the SJV. The drill programme had also started to explore in detail the SJV system that lies to the west of the village of Guanajuatillo. The results of Phase 3, which met expectations, are included in the resource table below, under the heading 'Exploration Resource'.

In April and June 2011, the drill results from the Phase 3 drilling programme were released (see the Company's press releases dated 4 April 2011 entitled "Arian Silver's Continuing Exploration Drilling Intercepts High-Grade Silver at San José" and 27 June 2011 entitled "Arian Silver Reports Wide High-Grade Silver and Base Metal Intercepts").

In June 2011, the Phase 4 drilling programme, commenced and at the end of December 2011, 9,400 m had been drilled. The purpose of that drilling phase was to drill a large proportion of the SJV, combining both infill and step-out drilling with the objectives to: (1) increase inferred resources by step-out drilling in a westerly and easterly direction and, (2) upgrade existing inferred resources into the Indicated category.

On 20 July 2011 an Independent Resource Update which took into account all the Phase 1, 2 and 3 drilling programmes was released, refer under section heading *Exploration Resource*.

In October 2011, Arian released interim drill results relating to the Phase 4 drilling programme. These show the continuity of the vein thickness, silver mineralisation and grade along the SJV (see the Company's press release dated 24 October 2011 entitled "Arian Silver Reports Encouraging Progress on Phase 4 Drilling at San José").

In January 2012, Arian released further interim drill results relating to the Phase 4 drilling programme which continues to show continuity of the vein thickness, silver mineralisation and grade along the SJV. Also announced were the results of the Geophysical IP survey which successfully identified the areas of vein displacements which provided targets for the last holes to be drilled in the Phase 4 Drill programme (see the Company's press release dated 16 January 2012 entitled "Arian Silver Reports Further Encouraging Exploration Progress at San José").

Exploration Resource

On 20 July 2011, Arian reported a significant resource estimate upgrade conducted by CSA Global (UK) Ltd (see the Company's press release entitled "Arian Silver Announces Significant Increase in Mineral Resources at San José"). The highlights of this announcement were:

- 86% increase in resource tonnage along the SJV over the August 2008 mineral resource estimate
  - 10% higher average silver grade;
  - 105% increase in contained silver; and
  - 34% of gross silver mineral content now in the "indicated" category.
- Mineral resource estimates based on all Phase 1, 2 and 3 drill holes (152 drill holes totalling over 28,000 m); and
- Mineralisation remained completely open along the western strike and to depth.

Arian's resource estimate included all drill programmes from 2006 along the SJV which has a delineated NI 43-101 and a JORC-compliant resource estimate of approximately 30.03 million ounces of silver, 69.9 million pounds of lead and 126.6 million pounds of zinc in the "indicated" mineral resource category, and 58.42 million ounces of silver, 140.1 million pounds of lead and 291.1 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**
		(g/t)	%	%	(Moz)	(t)	(t)
Indicated	8,000,000	117	0.40	0.72	30.03	31,706	57,425
Inferred	17,000,000	107	0.37	0.78	58.42	63,548	132,041

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 15th July 2011.*
4. *The estimates are based on geological, statistical and geostatistical data assessment and computerised IDW^3, Ag grade wireframe restricted, linear block modelling.*
5. *The resource was estimated using 152 drill holes and more than 28,000 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 = 1oz.*
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 June, 2009 and entitled "Preliminary Economic Assessment Report (PEAR) on the San José Silver-Lead-Zinc Deposit, Zacatecas, Mexico"; and

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

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

Laboratory Update

The mobile laboratory, purchased in November 2010 from Stewart Group's Geochemical & Assay Division ("Stewart Group"), became fully operational in April 2011. It comprises a comprehensive sample preparation facility and fire assay and wet chemistry facilities with Atomic Absorption Spectrometry ("AAS"). It is operated under the sole control and management of professional personnel from the Stewart Group in order that results are fully compliant with Arian's quality assurance and quality control (QA/QC) programme. The laboratory has significantly increased the turnaround times for analysis of Arian's sampled drill cores. During Q3 2011, the "Stewart Group" was acquired by the ALS Group; at the time of reporting there has been no change in (or with) our on-site laboratory personnel.

Calicanto Project, Zacatecas State

Arian owns 100% of the Calicanto Project which consists of seven adjacent mining concessions and at least four main mineralised vein systems, over a 75.5ha area, namely: Calicanto, Vicochea I, Vicochea II, Misie 1 and Misie 2, and Missie 1 and Missie 2 properties, collectively known as the "Calicanto Group". These concessions are located in the historic mining district of Zacatecas.

Arian will commence further underground evaluation of the deeper levels of the Calicanto Vein once the water has receded to the appropriate level; this will include but not be limited to, mapping and underground sampling and subsequent analyses. There has been no significant expenditure on the Calicanto Project during the past two years.

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

Tepal Project, Michoacán State

In February 2011, Geologix Explorations, Inc. ("Geologix") exercised the option granted to it by Arian in January 2010, paid a second instalment of $1.55 million and acquired 100% of the Tepal property *(see Liquidity, Capital Resources and Working Capital)*.

SUMMARY OF QUARTERLY RESULTS

Unaudited	**2011** 4th Quarter $'000	**2011** 3rd Quarter $'000	**2011** 2nd Quarter $'000	**2011** 1st Quarter $'000
Total Revenue and income	2,376	2,445	1,542	1,148
Gross Profit/ (loss)	446	520	59	(213)
Net loss before finance income	411	484	1,358	8,275
Net loss for the period	443	602	1,535	8,390
Basic and diluted loss per share	$0.00	$0.00	$0.01	$0.03
Total assets	16,250	16,894	18,843	19,631
Shareholders' equity	14,909	15,806	17,764	18,342
Cash dividend declared per share	-	-	-	-

Unaudited	**2010** 4th Quarter $'000	**2010** 3rd Quarter $'000	**2010** 2nd Quarter $'000	**2010** 1st Quarter $'000
Total Revenue and income	325	144	91	4
Gross Profit	9	-	-	-
Net loss before finance income	936	411	469	270
Net loss for the period	991	267	273	371
Basic and diluted loss per share	$0.01	$0.00	$0.00	$0.01
Total assets	18,876	12,362	11,393	11,932
Shareholders' equity	16,744	10,099	9,490	10,010
Cash dividend declared per share	-	-	-	-

Fourth quarter 2011 vs. third quarter 2011
Revenues of $2.4 million mainly comprise revenues from the sale of silver concentrate from the San José mining operation. The net loss in the period was $0.1 million lower than the previous quarter, largely due to a $0.2 million gain on Geologix shares, $0.2 million foreign exchange gain, offset by a $0.1 million decrease in gross profit.. Total assets decreased by $0.6 million to $16.3 million; cash decreased by $1.5 million to $4.0 million, this was offset by an increase of $0.7 million investment in development of the San José mine. Inventories increased by $0.2 million; $0.1 million increase in stockpiled ore and $0.1 million increase in silver concentrate produced in relation to the San José mine. The decrease in shareholders' equity is largely attributable to the increase in foreign exchange translation reserves and the loss incurred in the period.

Third quarter 2011 vs. second quarter 2011
Revenues increased by $0.9 to $2.4 million comprising $2.4 million from the final and provisional sales of silver concentrate from the San José mining operation, and $25,000 interest income. The net loss in the period was $0.9 million lower than for the previous quarter: $0.3 million of this difference relates to the expensing of the fair value of options, $0.5 million relates to the increased profitability of the San José mine, and $0.1 million to the investment loss on the Geologix shares. Total assets decreased by $1.9 million; cash decreased by $1.7 million to $5.5 million, and financial assets valued at fair value relating to the Geologix shares decreased by $0.2 million. This was offset by investment in the San José property of $2.5 million, as well as a $0.1 million increase in trade and other receivables and $0.1 million increase in inventories. The decrease in shareholders' equity is largely attributable to the loss incurred in the period.

Second quarter 2011 vs. first quarter 2011
Revenues of $1.5 million comprise $1.5 million from the sale of silver concentrate from the San José mining operation and $13,000 interest income. The net loss in the period was $6.9 million lower than for the previous quarter: $6.7 million of this difference relates to the expensing of the fair value of options and $0.2 million relates to the increased profitability of the San José mine. Total assets decreased by $0.8 million; cash decreased by $1.7 million to $7.2 million and financial assets valued at fair value relating to the Geologix shares decreased by $0.3 million. This was offset by investment in the San José property of $0.7 million, as well as a $0.2 million increase in trade and other receivables and $0.2 million increase in inventories. The decrease in shareholders' equity is largely attributable to the loss incurred in the period.

First quarter 2011 vs. fourth quarter 2010
Revenues of $1.1 million comprise $1.1 million from the sale of silver concentrate from the San José mining operation and $11,000 interest income. The net loss in the period was $7.4 million higher than the previous quarter, largely due to $7.3 million for the fair value of options vested. Total assets increased by $1.9 million; non-current assets increased by $1.4million due to investment in mine development and exploration costs at the San José mine. Trade and receivables increased by $0.6 million: $1.0 million relates to the sales receipts outstanding for the sale of concentrate from the San José mining operation, offset by the transfer to non-current assets of the deposit paid on the purchase of the assay laboratory for the San José mine. The increase in shareholders' equity is largely attributable to the fair value of the share options issued, the exercise of share purchase warrants and options offset by the loss incurred in the period.

Fourth quarter 2010 vs. third quarter 2010
Revenues of $0.3 million comprise $0.2 million from the sale of silver concentrate from the San José mining operation and $0.1 million of investment income from the sale of Geologix shares. The net loss before finance income in the period was $0.5 million higher than the previous quarter, largely due to a $0.3 million charge for employers UK national insurance contributions on the exercise of share purchase options and a $0.1 million write off of deferred exploration expenses. Total assets increased by $6.5 million; cash increased by $5.8 million to $8.3 million as a result of a share placement and the exercise of share options and purchase warrants. Non-current assets increased by $0.6 million due to investment in mine development costs at the San José mine. Trade and receivables increased by $0.3 million as a result of the deposit paid on the assay laboratory for the San José mine. The increase in shareholders' equity is largely attributable to a share placement the exercise of share purchase warrants and options offset by the loss incurred in the period.

Third quarter 2010 vs. second quarter 2010
Revenues of $0.2 million were from investment income of which $0.1 million was profit from the sale of Geologix Shares and $0.1 million was the fair value adjustment gain on the Geologix Shares held at 30 September 2010. The net loss in the period was broadly the same as the loss for the previous quarter. Cash increased by $0.9 million to $2.4 million. Intangible assets increased by $0.3 million in the period due to fluctuating exchange rates. The increase in shareholders' equity is largely attributable to the exercise of share purchase warrants and options offset by the loss incurred in the period.

Second quarter 2010 vs. first quarter 2010
Revenues were from investment income as a result of financial gain on the Geologix shares held as part consideration for the sale of Tepal. The net loss before finance income in the period was $0.2 million higher than for the previous quarter mainly due to a $0.2 million exchange rate gain on cash balances held in the first quarter. Cash decreased by $0.6 million to $1.5 million. Intangible assets decreased by $0.2 million in the period due to fluctuating exchange rates. The decrease in shareholders' equity is largely attributable to the loss incurred in the period.

LIQUIDITY, CAPITAL RESOURCES AND WORKING CAPITAL
In management's view, the most meaningful information concerning the Company relates to its current liquidity and solvency.

During the year the Company received new funding from:-

- the exercise of 1,400,000 share purchase options and 17,342,000 "F" share purchase warrants which generated £90,000 and Cdn$1,734,200 respectively, and
- the exercise of the Tepal option by Geologix which resulted in the receipt of a final instalment of $1.55 million, satisfied as to $775,000 in cash and the issue of to the Company of 1,089,318 common shares of Geologix at a price of approximately Cdn$0.70. The Geologix shares were subject to a four month hold period which expired in June 2011.

Since the year end the Company has received further funding from:-

- the exercise of 500,000 share purchase options which generated £60,000.

Since the year end 3,000,000 share purchase options have lapsed.

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

- 14,985,000 share purchase options with exercise prices in the range £0.055/£0.12/£0.30/£0.4925 or Cdn$0.10/Cdn$0.25/Cdn$0.48/Cdn$0.79 expiring on various dates up to July 2016.

Working Capital – 31 December, 2011

As at 31 December, 2011, the Company had working capital of approximately $5.9 million (31 December, 2010: $10.2 million). The items of working capital and changes compared to 31 December 2010 are as follows:-

Current assets

- cash and cash equivalents $4.0 million (2010: $8.3 million) – decrease has largely arisen due to investment in the development of and working capital requirements of the San José mine, offset by funds from the exercise of share purchase warrants and options and funds received from the second part of the sale of Tepal
- trade and other receivables $1.9 million (2010: $0.9 million) – this increase of $1.0 million is due to $1.0 million increase in monies owed for the sale of silver concentrate, $0.3 million increase for monies owed for IVA (Mexican good sales tax), offset by $0.3 million for deposit for assay laboratory which has been acquired during 2011
- inventories $0.9 million (2010: $0.1 million) – relates to production at the San José mine
- other financial assets held at fair value through the profit and loss account $0.3 million – (2010: $nil) – relates to the Geologix shares held, received as part payment for the final instalment for the sale of the Tepal project. Geologix shares received for the first instalment in the year ended 31 December 2010 were all disposed of during the 2010.
- non-current assets held for sale $nil – (2010: $2.9 million) – relate to intangible assets identified as relating to the Tepal project, the sale of which although highly probable at 31 December 2010, was not completed until February 2011.

Current liabilities

- deferred income $nil (2010: $1.5 million) – the reduction of $1.5 million relates to the value of the non-refundable first instalment of the Tepal option consideration which was exercised in February 2011
- trade payables $1.2 million (2010: $0.5 million) – the increase of $0.7 million relates to an increase in monies owed for operating costs at the San José mine

In relation to funding the Company's future operations, it is currently anticipated that this will be largely financed from existing working capital as well as from cash flow from the mining operation at the San José project.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During the year ended 31 December, 2011 the Company entered into the following transactions involving related parties:

Transactions with key management personnel

Companies in the Dragon Group charged the Company a total of $124,574 (2010: $132,950). This included reimbursement of $124,574 (2010: $130,102) in respect of Tony Williams' remuneration paid on behalf of the Company with the balance relating to reimbursable expenses incurred on behalf of the Company. Tony Williams, Chairman and a director of the Company, beneficially owns the Dragon Group. At 31 December, 2011 $10,002 (2010: $20,027) was outstanding.

FUTURE COMMITMENTS

The following table discloses the contractual obligations for the Company as at 31 December 2011.

	Less than 1 year	1 – 2 years	Total
	2011 $'000	2010 $'000	2011 $'000
Milling contract	5,153	2,147	7,300
Building lease	167	14	181
Total	**5,320**	**2,161**	**7,481**

FUTURE OUTLOOK

Management anticipates that 2012 will result in improvements to earnings and production figures, based on the assumptions that silver prices will remain strong, and further efficiencies would be realised at the mill. Cash flows generated from concentrate sales and working capital levels are expected to be sufficient to finance exploration activities on the SJV. Total asset value is expected to be enhanced through another independent technical NI 43-101 compliant report on the San José resource in March 2012. The results of the on-going mill study are expected to be received during the year. It is anticipated this study will provide a platform which is expected to significantly reduce Arian's silver production cost per ounce. Arian Silver Corporation's outlook for 2012 is very positive.

CRITICAL ACCOUNTING ESTIMATES

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

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

Going Concern

The directors regularly review cash flow forecasts to determine whether the Company has sufficient cash reserves to meet future working capital requirements and to fund future exploration projects and business opportunities. In particular the directors believe the cash flows from the sale of concentrate will be adequate to cover operational cash flow expenditure.

The Company is at an early stage of development. In the past the Company has been successful at raising equity funds, however there can be no assurance that the Company will be able to raise funds for future development.

The directors currently believe that the Company has adequate financial resources or access to such resources in order to continue in operational existence for the foreseeable future and to meet its currently projected working capital and project expenditure requirements for the next 12 months. They therefore 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 development and future profitable production therefrom, or alternatively, upon the Company's ability to dispose of its interests on an advantageous basis.

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

Share based payments

The share option programme allows Company directors, officers, employees and consultants to acquire shares of the Company. The fair value of 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. As at 31 December 2011, the Company has amounts that had only been provisionally priced relating to the sale of silver concentrate. A 25% fluctuation in silver prices would affect trade receivables and profit by approximately $463,000. The Company does not use derivatives to manage its exposure to price risk. As at 31 December 2011, the Company held other financial assets at fair value of $272,000 (2010 – nil) relating to the Geologix shares, a fluctuation of 50% would affect other financial assets at fair value through profit and loss and profit by $143,000.

Currency risk

The Company's exploration expenditure is made in Mexico in Mexican Peso and head office expenses are predominantly made in the UK in Pounds Sterling, United States dollars and Canadian dollars. The Company is therefore exposed to the movement in exchange rates for these currencies. The Company does not currently hedge foreign exchange risk.

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

In addition, any movements in Pounds Sterling or Mexican Peso would affect the presentation of the consolidated statement of financial position when the net assets of the Mexican subsidiary and parent company in the UK are translated from their functional currencies into 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 31 December 2011, the Company had cash of $3,991,000 to settle accounts payable of $1,171,000. The Company's accounts payable have contractual maturities of less than 30 days and are subject to normal trade terms. management expects that the Company will generate sufficient cash from the sale of concentrates to settle operating accounts payable.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligations. The Company's credit risk is attributable to cash and trade receivables. The credit risk on cash is limited because the Company invests its cash in deposits with well capitalised financial institutions with strong credit ratings. Credit risk attributable to trade receivables is managed in offtake agreements. The Company receives advances of 70% of the estimated value of the concentrate shipped the previous month. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position which at the year end amounted to $5,780,000 (2010 - $11,925,000).

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

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

The Company's operations are subject to all of the hazards and risks normally incidental to exploration, development and the production of minerals. These could result in damage to or destruction of the Company's facilities, damage to life or property, environmental damage or pollution and possibly legal liability for any or all damage which could have a material adverse impact on the business, operations and financial performance of the Company. The Company's activities 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 mining facilities and commencement of mining operations, will require substantial additional financing. The Company currently has sufficient funds to finance its projected working capital and project expenditures for the next 12 months but may require further funding in the future to continue to explore and develop its concessions and to maintain its interest in all its projects. No assurance can be given that the Company will be able to raise the additional financing necessary to continue its production activities or to explore and/or develop its concessions. Failure to obtain sufficient financing for any projects will result in a delay or indefinite postponement of exploration, development or production on properties covered by the Company's concessions or even the loss of a concession. The only sources of funds currently available to the Company are through the sale of product from production activities, the issue of equity capital, the sale of concessions or other assets, royalty interests or the entering into of joint ventures. 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 impaired.

Limited Operating History

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

Mineral Resource Estimates

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

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

No Reserves

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

Insurance and uninsured risks

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

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

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

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

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

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

Forward Looking Statements
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 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.

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.

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 on www.ariansilver.com.

Disclosure of Outstanding Share Data

The following table sets out the outstanding securities of the Company as at 28 February, 2012:-

	Number in issue
Common shares of no par value	301,689,112
Share purchase options	14,985,000

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