ARIAN SILVER CORPORATION

Management's Discussion and Analysis

of the Financial Condition and Results of Operations

For the Three Months and Six Months ended 30 June, 2009
(In thousands of U.S. dollars)

COMPANY INFORMATION

DIRECTORS	Anthony (Tony) J. Williams, *Chairman* James (Jim) T. Williams, *Chief Executive Officer* Thomas A. Bailey James S. Cable David C. Cather James A. Crombie
COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER	Graham A. Potts
HEAD OFFICE	Carlyle House 235-237 Vauxhall Bridge Road London, SW1V 1EJ United Kingdom Tel: +44 (0)20 7963 8670 Fax: +44 (0)20 7963 8674
REGISTERED OFFICE	Palm Grove House P.O. Box 3190 Road Town, Tortola British Virgin Islands
NOMINATED ADVISER	Grant Thornton UK LLP 30 Finsbury Square London, EC2P 2YU
BROKER	Haywood Securities (UK) Ltd Ryder Court 14 Ryder Street London, SW1Y 6QB
AUDITORS	PKF (UK) LLP Farringdon Place 20 Farringdon Road London, EC1M 3AP
REGISTRAR	Computershare Investor Services 100 University Avenue Toronto, Ontario, M5J 2Y1 Canada
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 25 August 2009 and compares its first quarter 2009 financial results with the equivalent period of the previous year. This MD&A should be read in conjunction with the Company's 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 discussion and analysis 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 three and six months ended 30 June, 2009 and the comparative amounts for 2008 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 judgments. 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 Company's 2008 Annual MD&A contained information available to the Company as at 27 April 2009 and can be accessed on SEDAR at www.sedar.com or the Company's website at www.ariansilver.com.

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 for the three and six months ended 30 June, 2009 which are also available on SEDAR or on the Company's website.

The Company is engaged in the acquisition and exploration of mineral resource properties in Mexico.

OVERALL FINANCIAL PERFORMANCE

In the six months to 30 June, 2009, the Company incurred a loss of $0.9 million (2008 - $1.6 million) which loss includes expensing the fair value of options vesting of $26,000 (2008 - $0.2 million), and other administrative expenses of $0.9 million (2008 - $1.4 million). There was no income other than interest of $8,000 (2008 - $20,000) from short term cash deposits. During the period the Company continued to reduce costs in relation to its Mexican operations and corporate overheads where possible in order to preserve cash resources.

As at 30 June, 2009, the Company had a working capital deficit of approximately $0.2 million (31 December, 2008 - $1.1 million surplus). Cash balances amounted to approximately $0.2 million (31 December, 2008 - $0.8 million) and short term loans from Grafton Resource Investments Ltd ("Grafton") totalled $0.6 million (31 December, 2008 - $nil). Intangible assets amounted to $6.9 million (31 December, 2008 - $6.0 million) which relate to deferred exploration and evaluation costs in respect of the Company's Mexican projects.

As part of the share exchange transaction with Grafton, during the second quarter of 2009, the Company issued a further 82,993,679 common shares to Grafton, increasing its interest in the Company to 109,090,909 common shares (42.2%). Grafton issued a further 102,269 participating shares to the Company, bringing its total shareholding in Grafton to 128,591 participating shares (the "Grafton Shares"). The value of the Grafton Shares is shown as an available for sale asset of $5.2 million as it is intended to dispose of this investment to generate funding for the Company (See ***Liquidity, Capital Resources and Going Concern***).

REVIEW OF OPERATIONS

The Company owns, or has rights or options to purchase, 39 mineral concessions in Mexico totalling 21,691 hectares ("Ha"). Table 1 below shows the current property portfolio of the Company.

TABLE 1
Property Summary

Project Name	No. Concessions	Size (Ha)
San José	11	6,279.5
Tepal	6	13,843.2
Calicanto	7	75.5
Others	15	1,492.8

During the period under review exploration operations in respect of the Company's three principal projects in Mexico were largely deferred in order to preserve the Company's cash resources pending receipt of new funding.

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 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 information extracted from the PEA and the mineral resource estimates referred to below.

San José Project, Ojocaliente District, Zacatecas State

Following the renegotiation in March 2009 of the terms of the original option agreement, Arian will own, subject to completion of certain legal and registration formalities in Mexico, a 66.67% controlling interest in the San José Project mineral concessions. Arian has the right to take 100% ownership of the San José Project mineral concessions on payment of the final instalment of

$500,000 which is due in December 2009. A 2% net smelter return ("NSR") will be payable to the vendor which can be purchased by the Company for $1.5 million up to December 2009.

The property lies 55 kilometres to the South-East of Zacatecas and covers 11 mining concessions totalling approximately 6,300Ha. The property has significant infrastructure, including a 4 x 4 metre ramp, which extends for nearly 3km along the footwall of the San José Vein system, and a 350m deep, 500 tonne per day, vertical shaft with hoist.

In June 2009, the Company announced the results of a Preliminary Economic Assessment ("PEA") for the San José Project undertaken by A.C.A. Howe International Limited (see the Company's press release dated 23 June 2009). The PEA reviewed the economics of entering into contract mining and toll milling on three silver blocks with lead and zinc credits over a four year life of mine. The limiting of the PEA to just three mining blocks over a four year mine life was stipulated by the Company, as the intention is to develop concurrently, during this mining period, a full feasibility study for moving to full scale independent commercial production by the Company. Highlights from the PEA are as follows:

- The PEA concluded that Arian's approach and mining plan is achievable and realistic;
- Up to four years of contracted mechanized mining, with concurrent exploration and development on the rest of the property;
- Operating 250 days per year at 500 tonnes per day ("tpd") will produce an average of approximately 125,000 tonnes per year ("tpy") using three selected mining blocks;
- Sub-level open stoping and full mechanization, accessible via either the San José West or East ramp;
- Mining and milling of approximately 500,000 tonnes of resources estimated to recover approximately 2.15 million ozs of silver, 1,800 tonnes of lead and 3,100 tonnes of zinc;
- Operating cash costs of $32.00 per tonne;
- Project net present value ("NPV") of $13.44 million based on an 8% discount rate and a maximum four year mine life using contract mining and milling; and
- Project internal rate of return ("IRR") of 159%.

The Company's initial in-house study of San José's NI 43-101 resource areas identified seven blocks of silver ("Ag"), lead ("Pb") and zinc ("Zn") mineralization with the potential to support mining production rates of around 500 tpd. Of these seven blocks, three blocks were chosen for the PEA to satisfy the required time frame of the proposed initial mining operation. A summary of these block resource tonnages is presented in the Table below.

Block Resource Tonnages

		Category	Tonnes(1)	Ag (g/t)	Pb (%)	Zn (%)
Block 1	Ramal Norte	Indicated	82,461	209.70	0.14	0.30
		Inferred	24,523	161.90	0.10	0.31
		Total	106,984	198.80	0.13	0.30
Block 2	San José 75m Central	Indicated	65,542	155.90	1.20	2.05
		Inferred	7,290	110.10	0.40	0.66
		Total	72,832	151.30	1.12	1.91
Block 3	Santa Ana	Indicated	208,332	192.30	0.80	1.31
		Inferred	63,380	180.40	0.30	0.62
		Total	271,712	189.50	0.68	1.15

(1) Undiluted tonnes

(2) Diluted tonnes – Ramal Norte – 117,682 tonnes; San José 75m Central – 80,115 tonnes and Santa Ana – 298,883 tonnes

Arian's mine plan, based on NI 43-101 Indicated and Inferred Mineral Resources delineated to date and contained in the Technical Report referred to below, has been validated by the PEA as realistic and achievable. The three blocks are of sufficient grade and thickness to be suitable for sub-level open stoping and full mechanization mining. The underground workings are all partially developed, or will be readily accessible via either the San José West or East ramp.

Based upon the assumptions contained within the PEA, the exploitation of three identified remnant mining blocks utilizing contract mining and toll milling is projected to be viable at production rates of 500 tpd, and returning undiscounted cumulative cash flows of approximately $17.0 million.

The operating assumptions utilized in the assessment of the viability of the various identified potential mining blocks are presented in the Table below and are based on the principle that the mining contractor would provide all necessary mining and mining support equipment. On this basis, the total capital requirement to initiate contract mining at San José, based upon a production rate of 500 tpd, is estimated to be approximately $0.8 million, which includes a 50% contingency factor.

Operating Assumptions

Item	Units		Comments
Days of operation	days/week	5	
	Days/year	250	
Production rate	Tpd	500	
	Tpy	125,000	
Metal prices	Ag US$/oz	15.18	
	Pb US$/lb	0.65	
	Zn US$/lb	0.65	
Process recoveries	Ag	75%	
	Pb	65%	
	Zn	65%	
Operating costs/t	Stoping	7.00	Quote (2008) from Arian
	Transport	7.00	Quote (2008) from Arian
	Milling	15.00	Estimate from Arian
	Overheads	3.00	Estimate by Howe
	Total	32.00	

As previously reported, the share exchange transaction with Grafton was intended to provide new funding for the Company to enable it to bring the San Jose Project to production in Q4 of 2009 through a contract mining and milling operation. However, the delay in the disposal of the Grafton Shares and consequent lack of project funding means that the Company is unlikely to achieve this original target for initial production. Once the required funding is in place the Company will be in a position to determine a revised schedule for initial production at San Jose.

The "Qualified Person", as such term is defined in NI 43-101, who prepared the PEA in respect of the San José Project, is Mr. Julian Bennett who is an associate employee of A.C.A. Howe International Limited.

A copy of the PEA prepared by A.C.A. Howe International Limited dated 22 June, 2009 and entitled "Preliminary Economic Assessment Report (PEAR) on the San José Silver-Lead-Zinc Deposit, Zacatecas, Mexico" is available on the Company's website www.ariansilver.com or on SEDAR at www.sedar.com

The current NI 43-101 Resources at San José are set out below:

Resource Category	Tonnes	Grade			Contained Metal		
		Ag	Pb	Zn	Ag	Pb	Zn
		g/t	%	%	(Moz)	(t)	(t)
Indicated	2,196,000	127.7	0.51	0.88	9.02	11,200	19,200
Inferred	11,190,000	93.8	0.39	0.83	33.76	43,400	93,200

1. *Geological characteristics and +30 ppm grade envelopes used to define resource volumes*
2. *The mineral resource estimates are in accordance with CIM and JORC standards*
3. *The effective date of the mineral resource estimates is 15 August, 2008*
4. *The estimates are based on geostatistical data assessment and computerised IDW^3, Ag grade wireframe restricted, linear block modelling.*

The "Qualified Person" as such term is defined in NI 43-101 who prepared the above mineral resource estimates is Mr. Galen R White. Mr White was at the time these estimates were prepared an employee of A.C.A. Howe International Limited.

Additional information in respect of the San José Project is contained in a technical report (the "Technical Report") prepared by A.C.A. Howe International Limited dated 15 August, 2008 and entitled "Resource Estimation Update for the San José Silver-Lead-Zinc Deposit, Zacatecas, Mexico". A copy of this report is available on the Company's website www.ariansilver.com or on SEDAR at www.sedar.com

During the Q2 of 2009 activity at the San José Project was largely curtailed pending receipt of new funding.

The following schedule shows project expenditure during the periods:

	3 months ended 30 June		6 months ended 30 June	
	2009	**2008**	**2009**	**2008**
San José	**$'000**	**$'000**	**$'000**	**$'000**
Mining & option rights	**-**	66	**273**	450
Drilling & exploration	**-**	405	**2**	780
Geology – logging & sampling	**-**	64	**1**	135
Administration	**18**	75	**19**	130
Total	**18**	610	**295**	1,495

The above expenditure has been capitalised as an intangible asset.

Tepal Project; Michoacán State

The Company has an exclusive option over 100% of the Tepal polymetallic porphyry project in Michoacán State, Mexico. The option agreement is for a five-year term through to June 2011. Assuming the option is exercised in full the Company will pay the vendor, Minera Tepal, $5 million in instalments. In addition, the Company will grant the vendor a NSR of 2.5% with a right of first refusal to buy out the NSR for an unspecified amount.

In June 2009 the Company renegotiated the terms of the option agreement such that $450,000 of the $500,000 option instalment due that month has been deferred to September 2009. The balance of the instalment amounting to $50,000 was paid in July 2009.

The Tepal landholding is approximately 14,000Ha covering six exploitation concessions that contain Au-Cu porphyry style mineralisation that have been explored in the past by Inco, Teck and Hecla. Initial investigations by Arian indicated that the Tepal Project consists of four gossanous polymetallic mineral deposits containing copper, gold and silver with potential for additional areas of mineralisation.

The current NI 43-101 Resources at Tepal are set out below:

		Grade			Contained Metal		
	Tonnes	Au	Cu	AuEq	Au	Cu	Au Eq
	('000)	g/t	%	g/t	(oz x 000's)	(Mlbs)	(oz x 000's)
Indicated	24,995	0.54	0.27	1.2	440	147.1	938
Inferred	54,964	0.41	0.22	0.9	720	265.4	1,612

1 *Au = Gold. Cu = Copper. AuEq = Gold Equivalent*
2 *Arian has an exclusive option agreement to purchase 100% of the Tepal properties*
3 *Gold Equivalent Grades (g/t) were calculated using metal prices of US$600/oz Au, US$2/lb Cu and assuming 100% recoveries*
4 *The mineral resource estimates are in accordance with CIM and JORC standards*
5 *The effective date of the mineral resource estimates is 24 September, 2008*
6 *The estimates are based on geostatistical data assessment and computerised IDW^3, 0.18 g/t Au grade wireframe envelope restricted, linear block modelling*

The "Qualified Person", as such term is defined in NI 43-101, who prepared the above mineral resource estimates, is Mr. Galen White. Mr. White was at the time these estimates were prepared an employee of A.C.A. Howe International Limited.

Additional information in respect of the Tepal Project is contained in a technical report prepared by A.C.A. Howe International Limited dated 24 September, 2008 and entitled "Resource Estimation Update for the Tepal Gold-Copper Prospect, Michoacon, Mexico". A copy of this report is available on the Company's website www.ariansilver.com or on SEDAR at www.sedar.com

During the period under review there was no material operational activity in relation to this project.

The following schedule shows project expenditure during the periods:

	3 months ended 30 June		6 months ended 30 June	
	2009	**2008**	**2009**	**2008**
Tepal	**$'000**	**$'000**	**$'000**	**$'000**
Mining & option rights	**-**	500	**-**	509
Drilling & exploration	**-**	169	**-**	466
Geology – logging & sampling	**-**	112	**-**	180
Administration	**1**	26	**1**	52
Total	**1**	807	**1**	1,207

The above expenditure has been capitalised as an intangible asset.

Calicanto Project, Zacatecas District, Zacatecas State

Arian owns the Calicanto Project which consists of seven adjacent mining concessions totalling 75.5Ha, 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.

During the period under review there was no material operational activity in relation to this project.

The following schedule shows project expenditure during the periods:

	3 months ended 30 June		6 months ended 30 June	
	2009	**2008**	**2009**	**2008**
Calicanto Group: Zacatecas	**$'000**	**$'000**	**$'000**	**$'000**
Mining & option rights	**-**	209	**-**	210
Drilling & exploration	**-**	-	**-**	17
Geology – logging & sampling	**-**	3	**3**	8
Administration	**4**	-	**10**	10
Total	**4**	212	**13**	245

The above expenditure has been capitalised as an intangible asset.

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

Exploration and development commitments as at 30 June, 2009

The Company does not have any exploration and development expenditure commitments in respect of its projects. However, the following refer to the material payments that will become due under the agreements relating to the San José and Tepal properties:

(a) In relation to the San José Project as at 30 June, 2009, $1 million had been paid. The final instalment of $500,000 is due in December, 2009.

(b) In relation to the Tepal Project the Company is required to pay the vendor $5 million in instalments through to June 2011. At 30 June, 2009, $1,300,000 had been paid. In July 2009 a further $50,000 was paid and the next instalment of $450,000 is due in September 2009.

The Company is able to decline to pay future instalments due under the agreements relating to San José and Tepal without financial penalty. However, in the case of Tepal, in the event of failure to pay any future instalment the Company would forfeit all rights to the property.

The outstanding expenditures described above are discretionary and not yet committed as they are dependent on timing and availability of funds.

RESULTS OF OPERATIONS

The Company has not generated any operating revenues and losses have continued to be incurred throughout the period.

Three months ended 30 June, 2009 compared to three months ended 30 June, 2008

The loss for the quarter was $0.4 million (2008 - $0.6 million). This loss includes the expensing of the fair value of share options vesting of $10,000 (2008 - $0.1 million) and other administrative expenses of $0.4 million (2008 - $0.5 million). Expenditure in the quarter has significantly reduced compared to the equivalent quarter last year. The main reductions are in the following areas;

salaries and associated overheads, travel and entertainment, investor relations, consultancy fees and advertising.

Six months ended 30 June, 2009 compared to six months ended 30 June, 2008

The loss for the period was $0.9 million (2008 - $1.6 million). This loss includes the expensing of the fair value of share options vesting of $26,000 (2008 - $0.2 million) and other administrative expenses of $0.9 million (2008 - $1.4 million). Expenditure in the quarter has significantly reduced compared to the equivalent quarter last year. The main reductions are in the following areas; salaries and associated overheads, travel and entertainment, investor relations, consultancy fees and advertising. However, legal fees and other professional fees were higher compared to last year largely as a result of a share exchange transaction with Grafton (see ***Liquidity, Capital Resources and Going Concern***).

SUMMARY OF QUARTERLY RESULTS

Unaudited	**2009** 2nd Quarter $'000	**2009** 1st Quarter $'000	**2008** 4th Quarter $'000	**2008** 3rd Quarter $'000
Total Revenues	7	1	11	-
Net loss before exceptional items	446	482	399	1,757
Basic and diluted loss per share	$(0.00)	$(0.00)	$(0.02)	$(0.01)
Net loss for the period	439	481	388	1,757
Basic and diluted loss per share	$(0.00)	$(0.00)	$(0.02)	$(0.01)
Total assets	12,993	8,198	7,551	8,829
Shareholders' equity	12,045	7,631	7,296	8,192
Cash dividend declared per share	-	-	-	-

Unaudited	**2008** 2nd Quarter $'000	**2008** 1st Quarter $'000	**2007** 4th Quarter $'000	**2007** 3rd Quarter $'000
Total Revenues	2	18	18	16
Net loss before exceptional items	643	921	1,240	1,119
Basic and diluted loss per share	$(0.01)	$(0.01)	$(0.01)	$(0.01)
Net loss for the period	641	903	1,178	1,119
Basic and diluted loss per share	$(0.01)	$(0.01)	$(0.01)	$(0.01)
Total assets	9,750	7,615	8,436	5,937
Shareholders' equity	9,567	7,249	8,100	5,757
Cash dividend declared per share	-	-	-	-

Second quarter 2009 vs. first quarter 2009
Revenues were from bank deposit interest. The net loss in the period was $0.1 million lower than the previous quarter largely due to a reduction in legal fees which in the first quarter were higher due to the Grafton transaction. Cash remained at $0.2 million. Intangible assets increased by $0.7 million, with $0.5 million of this increase a result of exchange rate fluctuations. The increase in shareholders' equity is largely attributable to the increased share capital as a result of completion of the second part of the share exchange transaction with Grafton that took place in the period.
First quarter 2009 vs. fourth quarter 2008
Revenues were from bank deposit interest. The net loss in the period was $0.1 million higher than for the previous quarter due to increased legal fees in respect of the Grafton transaction. Cash

decreased by $0.6 million to $0.2 million and intangible assets increased by $0.2 million mainly due to a property payment made on the San Jose property. The increase in shareholders' equity is largely attributable to the increased share capital as a result of the share exchange transaction with Grafton that took place in the period.

Fourth quarter 2008 vs. third quarter 2008
Revenues were from bank deposit interest. The net loss in the period was $1.4 million lower than for the previous quarter due to a reversal of a $0.6 million foreign exchange charge and a $0.2 million reduction in expenditure due to a reduction in corporate overheads. Cash increased by £0.6 million to £0.8 million and intangible assets decreased by $1.4 million. This reduction is due to $1.6 million foreign exchange adjustment and a change of $0.1 million in respect of exploration expenses, offset by $0.3 million incurred in respect of exploration work undertaken in Mexico. The decrease in shareholders' equity is largely attributable to the loss incurred for the period.

Third quarter 2008 vs. second quarter 2008
Revenues were from bank deposit interest. The net loss in the period was $1.1 million higher than for the previous quarter. This was largely due to a $0.9 million foreign exchange difference (Q3 foreign exchange charge of $0.6 million compared to a foreign exchange credit of $0.3 million in Q2) and $0.2 million for expensing the fair value of share options vesting (Q3 expense of $0.3 million compared to an expense of $0.1 million in Q2). Cash decreased by £0.7 million to £0.2 million and intangible assets increased by $0.3 million in respect of exploration work undertaken in Mexico. The decrease in shareholders' equity is largely attributable to the loss incurred for the period.

Second quarter 2008 vs. first quarter 2008
Revenues were from bank deposit interest. The net loss in the period was lower than for the previous quarter largely due to a reduction in the corporate overheads. Cash increased by $50k to $900k as a result of the Cdn$3 million share placement that was completed in the second quarter. Intangible assets increased by $1.8m due to continued expenditure on exploration work undertaken in Mexico which expenditure included approximately $1.1m in property option payments. The increase in shareholders' equity is largely attributable to the increased share capital as a result of the share placement referred to above.

First quarter 2008 vs. fourth quarter 2007
Revenues were from bank deposit interest. The net loss in the period was lower than for the previous quarter largely due to lower corporate overheads. Cash decreased by $2.3 million and intangible assets increased by $1.3 million due to expenditure in exploration work undertaken in Mexico. The decrease in shareholders' equity was largely attributable to the loss incurred for the period.

Fourth quarter 2007 vs. third quarter 2007
Revenues were from bank deposit interest. The net loss in the period is broadly similar to the previous quarter and results from incurring costs related to corporate overheads and administration of the Company's projects in Mexico. Intangible assets, representing the cost of exploration in Mexico increased by $1.2 million compared to $0.7 million in the third quarter and $1.0 million in the second quarter. Shareholders' equity increased by $2.3 million in the fourth quarter due to share issues from warrant exercises offset by project and administration expenditure.

LIQUIDITY, CAPITAL RESOURCES AND GOING CONCERN

In management's view, the most meaningful information concerning the Company relates to its current liquidity and solvency since it is not currently generating any income from its mineral projects.

Since the Company is at an early stage of development it does not generate any cash flows from its operations. The Company will require additional funding in the future in order to progress exploration programmes on its mineral projects, to meet property payments, for development and for general working capital requirements. Although the Company has been successful in the past in raising equity finance, there can be no assurance that the funding required by the Company will be made available to it when needed or, if such funding were to be available, that it would be offered on reasonable terms. The terms of such financing might not be favourable to the Company and might involve substantial dilution to existing shareholders.

During the period to 30 June 2009, the Company completed share exchange transactions (the "Share Exchange") with Grafton intended to provide new funding for the Company. As a result of the Share Exchange, Grafton became a 42.2% shareholder of the Company having acquired 109,090,909 new common shares in the Company in exchange for the issue to the Company of 128,591 Grafton participating shares (the "Grafton Shares"). The intention is for Grafton and its associates to place the Grafton Shares for cash on behalf of the Company to provide new funding for the Company. Whilst the principals of Grafton and their associates have experience in providing funding for junior mining and exploration companies using this type of transaction the Company is reliant on them being able to replicate this experience. However, the disposal of the Grafton Shares is experiencing delays and the anticipated funding has not, so far, been forthcoming. In view of the delay, Grafton has been providing loans to the Company, to fund its operating overheads, which currently total $800,000. The loans are interest free and whilst they have a repayment date of 31 October 2009 it is intended that they will be repaid from the proceeds from disposal of the Grafton Shares.

At 30 June 2009 the Grafton Shares, which are shown as an available for sale asset, were valued at $5.2 million. However, this value is not necessarily indicative of the realisable value of the Grafton Shares.

Grafton has confirmed that it remains optimistic about disposing of the Grafton Shares in due time and will continue to pursue that process. The Company is also considering a number of options to assist the fund raising process.

The proceeds of the disposal of the Grafton Shares are intended to be used by the Company to progress the San Jose Project to initial production as well as for general corporate purposes. The delay in the disposal of the Grafton Shares and consequent lack of project funding means that the Company is unlikely to achieve its original target of initial production at San Jose in Q4 of 2009. Once the required funding is in place the Company will be in a position to determine a revised schedule for initial production at San Jose.

The Company has recoverable IVA (sales tax) on past exploration expenditure in Mexico which amounted to $488,000 at 30 June, 2009. IVA is generally repaid in instalments by the Mexican tax authorities. However, there is no certainty as to the timing of future repayments of this IVA receivable.

The directors of the Company currently believe it appropriate to prepare the Company's financial statements on a going concern basis. However, if funding from the disposal of the Grafton Shares or other sources is not forthcoming on a timely basis the Company may not be able to meet its ongoing working capital and project expenditure requirements. If these circumstances arose then there would be significant doubt on the Company's ability to continue as a going concern and the carrying value of the Group's exploration projects would be impaired.

See ***Risks and Uncertainties*** below as well as ***Risks and Uncertainties – Requirement of Additional Financing – Transaction with Grafton Resource Investments Ltd*** in the Company's 2008 Annual MD&A for details of additional risks associated with future funding of the Company.

Working Capital – six months ended 30 June, 2009

As at 30 June, 2009, the Company had a working capital deficit of approximately $0.2 million (31 December, 2008 – $1.1 million surplus). The decrease in working capital during the period is a result of expenditure on project costs and administrative expenses.

Cash balances amounted to approximately $0.2 million (31 December, 2008 - $0.8 million) and receivables were $0.5 million (31 December, 2008 – $0.6 million). Receivables largely relates to recoverable IVA (sales tax) on past exploration expenditure in Mexico. Payables were $0.3 million (31 December, 2008 – $0.3 million) and short term loans totalled $0.6 million (31 December, 2008 - $nil). The short terms loans were provided by Grafton to fund the Company's operating overheads pending receipt of funding from the disposal of the Grafton Shares.

Since 30 June, 2009 Grafton has made a further short term loan to the Company of $250,000 bringing the total advanced to $800,000. These advances are interest free and whilst they have a repayment date of 31 October 2009 it is intended that they will be repaid from the proceeds from disposal of the Grafton Shares.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During the six months ended 30 June, 2009 and 2008 the Company entered into the following transactions involving related parties:

Transactions with key management personnel

(a) Companies in the Dragon Group charged the Company a total of $93,401 (2008 – $425,534). This includes reimbursement of $57,998 (2008 – $77,479) in respect of Tony Williams' remuneration paid on behalf of the Company with the balance relating to the provision of support services, office accommodation and other reimbursable expenses incurred on behalf of the Company. Tony Williams, Chairman and a director of the Company, beneficially owns the Dragon Group. At 30 June, 2009 $25,013 (2008 - $75,593) was outstanding.

(b) Kopane Diamond Developments PLC ("KDD") charged the Company a total of $44,676 (2008 – $16,879). This includes reimbursement of $18,952 (2008 – $16,879) in respect of James Cable's remuneration paid on behalf of the Company with the balance relating to the provision of office accommodation and other reimbursable expenses incurred on behalf of the Company. The Company charged KDD $18,149 (2008 – $nil) for the provision of accounting support services. James Cable and Tony Williams are Directors of the Company. James Cable is a Director of KDD and Tony Williams is a former Director of KDD. At 30 June, 2009 $29,662 (2008 - $8,439) was outstanding and due to KDD and $20,075 (2008 - $nil) was outstanding and due from KDD.

Transactions with subsidiaries

The Company made loans to Arian Silver de Mexico S.A. de C.V. of $375,237 (2008-$3,108,142).

Transactions with Grafton

Grafton is a 42.2% shareholder of the Company having acquired, during the period to 30 June, 2009, 109,090,909 new common shares in the Company in exchange for the issue to the Company of the Grafton Shares in a transaction intended to provide new funding for the Company.

During the period to 30 June, 2009 Grafton made two advances to the Company totalling $550,000 (2008 - $nil) to fund the Company's operating overheads pending disposal of the Grafton Shares.

Since 30 June, 2009 Grafton has made a further short term loan to the Company of $250,000 bringing the total advanced to $800,000. These advances are interest free and whilst they have a repayment date of 31 October 2009 it is intended that they will be repaid from the proceeds from disposal of the Grafton Shares.

All transactions have been recorded at the exchange amount which is the consideration established and agreed to between the related parties.

PROPOSED TRANSACTIONS

See ***Liquidity, Capital Resources and Going Concern*** for details of proposed transactions.

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.

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 depleted on a unit of production basis, 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 Group directors, officers, employees and consultants to acquire shares of the Company. The fair value of options granted is recognised as an expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the period until the options vest unconditionally. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the

options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except if the change is due to market based conditions not being satisfied.

RISKS AND UNCERTAINTIES

The operations of the Company are speculative due to the high-risk nature of its business, which is the acquisition, financing, exploration and development of mining properties. The risks below are not the only ones facing the Company. Additional risks not currently known to the Company, or that the Company currently deems trivial, may also impair the Company's operations. If any of the following risks actually incur, the Company's business, financial condition and operating results could be adversely affected.

No assurance can be given that additional capital will be available at all or available on terms acceptable to the Company

The Company will require additional financing for working capital and for any future exploration of its projects. Failure to obtain such financing may result in a suspension of, or delay or reduction in, the exploration and development of the Company's projects and/or even a loss of one or more property interests. The only sources of funds currently available to the Company are through the issue of equity capital, the sale of its interests in one or more of its projects, or by way of joint ventures or business combinations.

There can be no assurance that the funding required by the Company will be made available to it when needed or, if such funding were to be available, that it would be offered on reasonable terms. The terms of such financing might not be favourable to the Company and might involve substantial dilution to existing shareholders. If the Company is unable to raise such financing, it may not be able to meet its ongoing working-capital and other capital and/or exploration expenditure commitments, which may have a material adverse effect on the Company.

Risk factors, including those regarding resources, reserves, production, requirement of additional financing and currency risks have been detailed in the Company's 2008 Annual MD&A. Such risks have not changed during the reporting period of 2009.

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 adverse are 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.

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, funding from the disposal of the Grafton shares or from other sources, the mineral resource estimates contained in this MD&A, statements regarding exploration results, potential mineralisation, potential mineral resources, future production and the Company's exploration and development 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, 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, the possibility

that the placing of the Grafton shares held by the Company will not be sold on a timely basis and/or that such placement will not generate sufficient funds for the Company to meet its ongoing obligations, changes in commodity prices, 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 forth information concerning the outstanding securities of the Company as at 25 August, 2009:

	Number in issue
Common shares of no par value	258,142,878
Share options	16,300,000
Share purchase warrants	4,386,625

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