



**ARIAN SILVER CORPORATION**

**Management's Discussion and Analysis**  
**of the Financial Condition and Results of Operations**

**For the Financial Year ended 31 December 2010**

## **COMPANY INFORMATION**

### **DIRECTORS**

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

### **CORPORATE SECRETARY**

Graham A. Potts

### **HEAD OFFICE**

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### **REGISTERED OFFICE**

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### **NOMINATED ADVISER**

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### **BROKER**

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### **AUDITOR**

PKF (UK) LLP  
Farringdon Place  
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### **REGISTRAR**

Computershare Investor Services Inc  
100 University Avenue  
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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)

## **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 26 April 2011 and compares its 2010 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.*

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### **MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING AND CONTROLS**

The audited Consolidated Financial Statements of the Company for the financial year ended 31 December, 2010 and the comparative amounts for 2009 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 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 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 audited Consolidated Financial Statements may contain certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis to ensure that the audited 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 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, 2010 which are also available on SEDAR at [www.sedar.com](http://www.sedar.com) or the Company’s website at [www.ariansilver.com](http://www.ariansilver.com).

The Company is engaged in silver exploration, development and production with a focus on mineral resource properties located in Zacatecas State, Mexico.

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

**OVERVIEW OF 2010 AND SUBSEQUENT EVENTS**

***Financial***

- Total assets of \$18.9 million, including intangible assets of \$1.2 million, property, plant and equipment of \$5.4 million, assets held for sale of \$2.9 million and cash of \$8.3 million, as at 31 December 2010.
- Consolidated pre-tax loss for the year was \$1.7 million.
- Working capital was \$10.2 million, as at 31 December 2010.
- During 2010 the Company’s funding increased significantly enabling the commencement of contract mining and processing of ore from the San José mine and subsequent production of silver concentrate.
- In January 2010 the final instalment of \$500,000 was paid to the vendor giving the Company 100% ownership of the San José mineral concessions.
- In October 2010, production at the San José mine commenced and the first batch of silver concentrate was delivered to the smelter at the end of December 2010. The Group reported revenue of \$184,000 and a gross profit of \$9,000 at the 31 December 2010 for this operation.
- Issue of common shares through private placements in January 2010 raising Cdn\$3.5 million and in October 2010 raising £3.9 million. In addition, Cdn\$1.8 million was raised through the exercise of share purchase warrants and £0.4 million through the exercise of share purchase options during the year.
- In February 2010, Geologix Explorations Inc (“Geologix”) made a payment of \$1.45 million, \$725,000 in cash and \$725,000 in Geologix shares for the first instalment under the option to acquire the Tepal project. The disposal of Geologix shares raised approximately Cdn\$1.17 million in cash and resulted in a gain of \$0.4 million above the initial book value, including a \$0.2 million foreign exchange gain.
- In January 2010, the Company completed the reversal and cancellation of the share exchange transactions with Grafton Resource Investments Ltd. (“Grafton”) that took place in 2009.
- During the year the Company repaid all current borrowings from new funds received.

*Post 31 December 2010*

- In February 2011, Geologix exercised the Tepal option and the final instalment of \$1.55 million was paid as to \$775,000 in cash and \$775,000 in Geologix shares.
- Further exercise of share purchase warrants and options generated Cdn\$1.7 million and £90,000.

***Operations***

- Arian’s key project is the San José property which lies 55km to the southeast of Zacatecas City and covers 11 mining concessions totalling approximately 6,300 hectares. The property has significant infrastructure, including a 4 x 4 metre main haulage ramp, which extends for nearly 3.2km 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 exist westerly along the SJV.

## Arian Silver Corporation – Management’s Discussion and Analysis

- During the year Arian paid the final instalment of \$500,000 to the vendor, to acquire the remaining 33.33% interest in the San José property mineral concessions, to give it 100% control of the San José Project.
- In September 2010 contracts were completed for a mining and milling operation at the San José Project. It was projected that the milling operation would initially handle up to 400 tpd. The Company then planned to increase the throughput with an upgraded crusher. The operation has potential to increase target production of Run Of Mine (“ROM”) material at San José from 500 tpd up to 1,500 tpd.
- Mining and production commenced at San José mine in October 2010.
- A new 10,000m drilling programme commenced in November 2010 at San José.
- The first delivery and sale of approximately 14 tonnes of silver in concentrate took place in December 2010.

### *Post 31 December 2010*

- A new dedicated laboratory facility at San José was commissioned and became operational in April 2011.
- Results to date from the drilling programme continue to confirm the presence of significant silver mineralisation and that the SJV remains completely open along strike and to depth.
- The mining operation has produced approximately 200 tonnes of silver in concentrate with a composite grade of approximately 550 ounces per tonne.
- Upgrades to the custom mill are continuing.
- An independent update of resource estimates is planned for mid-2011 following completion of current drill programme.

## REVIEW OF FINANCIAL PERFORMANCE

In the financial year ended 31 December 2010, the Company incurred a pre-tax loss of \$1.7 million (2009 - \$2.1 million) which includes expensing the fair value of share purchase options vesting of \$15,000 (2009 - \$0.4 million) and other administrative expenses of \$2.1 million (2009 - \$1.7 million). The Company commenced production at its San José mine during the last quarter of 2010 that contributed a gross profit of \$9,000. Interest income from cash resources was \$11,000 (2009 - \$nil). Investment income was \$0.4 million (2009 - \$nil), including a \$0.2 million foreign exchange gain, which relates to the profit on disposal of the Company’s holding of Geologix shares, received in connection with the grant of the Tepal option (*see Review of Operations - Tepal Project, Michoacán State and also Liquidity, Capital Resources and Working Capital*).

As at 31 December 2010 the Company had working capital of approximately \$10.2 million (31 December 2009 - \$4.0 million). See *Liquidity, Capital Resources and Working Capital* for the items of working capital. Intangible assets amounted to \$1.2 million (31 December 2009 - \$7.7 million) which relate to deferred exploration and evaluation costs in respect of the Company’s Mexican projects, excluding the San Jose and the Tepal projects. The carrying value for the San Jose project has been transferred to mine development costs, in property, plant and equipment

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as a result of the commencement of production at the San José mine. Property, plant and equipment amounted to \$5.4 million (31 December 2009 - \$0.1million); \$5.3 million of this relates to the San José mine development costs comprising a transfer of \$4.7 million of deferred exploration costs, \$0.2 million provision for mine closure costs and \$0.4 million of further commissioning and development costs capitalised. The carrying value of the Tepal project has been transferred from intangible assets and is accounted for in current assets as assets held for sale valued at \$2.9 million (31 December 2009 - \$nil) as a result of the grant of the Tepal option. The first instalment of the Tepal option consideration from Geologix, which is non-refundable, is accounted for as a deferred income item of \$1.5 million (31 December 2009 - \$nil) in current liabilities pending exercise or termination of the Tepal option. Share capital increased by \$7.2 million to \$45.4 million (31 December 2009 - \$38.2 million) largely as a result of the issue of common shares in connection with share placements, the exercise of share purchase warrants and options and the issue to Grafton of common shares for debt, offset by the redemption and cancellation of the common shares issued in 2009 by the Company to Grafton. During the period the Company repaid all current borrowings from new funds received.

### SELECTED ANNUAL INFORMATION

	2010	2009	2008
	\$'000	\$'000	\$'000
Total Revenue and income	564	-	31
Net loss before finance income	2,086	2,068	3,720
Net loss for the period	1,902	1,872	3,689
Basic and diluted loss per share	\$(0.01)	\$(0.01)	\$(0.03)
Total assets	18,876	13,876	7,551
Shareholders' equity	16,744	11,743	7,296
Cash dividend declared per share	-	-	-

Total revenues for 2008 relate to bank deposit interest. In 2010, total revenues consisted of \$0.2 million revenue from silver concentrate sold, \$0.4 million from the profit, including a \$0.2 foreign exchange gain, realised from the sale of Geologix shares and \$11,000 from bank deposit interest.

The net loss before finance income decreased from \$3.7 million to \$2.0 million from 2008 to 2009 mainly due to overhead reductions. The net loss before finance income remained at approximately the same level from 2009 to 2010. Variations year on year relate to \$0.3 million for UK national insurance contributions paid on the exercise of share purchase options, which was offset by the \$0.3 million increase in exchange rate variance.

The growth in total assets over the past three years, after adjusting for foreign exchange, is mainly due to investment in the exploration projects in Mexico funded by equity issues by the Company, loans and, for 2009, the holding of Grafton shares arising from the share exchange that took place that year. Total assets increased by \$6.3 million from \$7.6 million in 2008 to \$13.9 million in 2009, of which \$5.6 million relates to the holding of Grafton shares, classified as an available for sale asset and \$1.7 million that relates to further investment in exploration projects in Mexico. Total assets increased by \$5.0 million, from \$13.9 million in 2009 to \$18.9 million in 2010, of which \$8.1 million relates to an increase in cash, \$0.6m is an increase in receivables, relating to deposits advanced on the lease of the mill and purchase of the assay laboratory, \$0.1 million an increase in inventories and \$1.8 million of further exploration and mine development costs in respect of the San José project, offset by \$5.6 million which relates to the subsequent redemption of the holding of Grafton shares.

Shareholders' equity increased by \$4.4 million, from \$7.3 million in 2008 to \$11.7 million in 2009. This increase largely comprises a \$4.9 million increase in share capital, relating to the share exchange transactions between the Company and Grafton, a \$0.4 million increase in the share

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based payment reserve, in respect of the grant of share purchase options, and increases of \$0.5 million to the foreign exchange reserve and of \$0.5 million to the available for sale reserve. These increases were offset by a \$1.9 million loss for the year. Shareholder’s equity increased by \$5.0 million, from \$11.7 million in 2009 to \$16.7 million in 2010. This increase largely comprises a \$7.2 million increase in share capital, relating to the issue of common shares resulting from share placements and the exercise of share purchase warrants and options and a reduction of \$0.5 million to the available for sale reserve, a reduction of \$0.2 million in foreign exchange translation reserve, offset by a \$1.9 million loss for the year.

### 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 guidelines of the London Stock Exchange, and a "Qualified Person" as such term is defined in Canadian National Instrument 43-101 (“NI 43-101”), has reviewed and approved the technical information in this Review of Operations other than the mineral resource estimates referred to below.

#### San José Project, Zacatecas State

The San José property lies 55 kilometres to the southeast of Zacatecas City and covers 11 mining concessions totalling approximately 6,300ha. The property has significant infrastructure, including a 4 x 4 metre (“m”) main haulage ramp (“SJ Ramp”), which extends for nearly 3.2km 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.

During the year Arian paid the final instalment of \$500,000 to the vendor, to acquire the remaining 33.33% interest in the San José mineral concessions, to give it 100% control of the San José Project.

In September 2010, the Company announced that all necessary contracts were in place for the proposed silver production operation at the San José mine and that it was moving into production (see the Company’s press release dated 22 September 2010 entitled “Arian Silver Commences Silver Production”).

The initial operating projection for the San José mine was as follows:

- A 500 tpd contract mining operation. Mining was planned to operate 20 days per month. Total costs to mine and deliver ore to the mill were estimated at approximately \$26/tonne;
- The milling operation was forecast to initially process up to 400 tpd of ROM material with plans to increase the throughput and efficiency with an upgraded impact crusher. Mill hire is a fixed cost at MXP3.4 million (equivalent to approximately \$275,000 at 31 December

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2010) per month, subject to adjustment for any operating downtime. This includes all operating costs, maintenance and repair costs and consumables;

- At a milling rate of 400 tpd, up to 125 tonnes of concentrate was forecast to be produced per month with an anticipated silver content of between 370 and 440 ounces per tonne (“opt”);
- Based on a contained silver content of 405 opt at \$18/oz silver, a concentrate value of \$6,500/tonne, after deductions, was forecast to be achieved although the higher the silver price, which is calculated on a 30 days average spot price, the greater the return; and
- A 2% NSR (net smelter royalty) on concentrate value payable to the vendor of the San José property.

The initial mining operation is limited to the Ramal Norte/Sur, San José 75m Level Central Zone and Santa Ana resource blocks, selected by Arian, from seven delineated resource blocks, to support an initial four-year mining operation with the potential to increase the mining rate to 1,500 tpd subject to milling capacity being available.

In October 2010, mining and production at the San José mine commenced. Following the installation of various pieces of mechanised mining equipment, the main focus at first was to intercept the main SJ Ramp, via a circa 30m cross-cut, with the old Santa Ana shaft; this was to significantly increase the amount of natural ventilation without the need for additional ventilation ducting, thereby enabling the preparation and extension of the SJ Ramp in a westerly direction. A combination of payable and non-payable material was being extracted during the development work with payable ROM material being deposited on the stockpile pad outside the main SJ Ramp. The accumulation of this ROM material on the stockpile pad was designed to ensure a smooth and constant supply of material to the mill.

Milling commenced in December 2010 and the first shipment of approximately 14 tonnes of dry concentrate (zero moisture content) was produced before the year-end.

From January to the end of March 2011 approximately 120m were developed along the main westerly strike of the SJ Ramp in a combination of ROM and waste material. In addition, some 73m were developed off the main SJ Ramp, initially in a northerly direction before running parallel and with a steeper decline; this was to access deeper seated sulphide-rich material of the Santa Ana Block (less oxidation) which should further increase recoveries at the mill. Anticipated grades of silver in this area, based on diamond drilling information, are in the order of 450 g/t.

Additional mining equipment is being sourced from the mining contractor to increase daily throughput and to more rapidly access known higher grade areas.

The mill, even though rated at 400 tpd throughput, only started with a daily throughput of 120 tonnes; this was essentially due to the hardness and abrasiveness of the San José ROM material causing excessive wear and tear on the milling components. This was partially overcome with the installation of a reconditioned impact crusher in the circuit to finer grind the ROM material before the ground rock entered the flotation stage of the plant. Currently the milling throughput is in the order of 300 tpd. The Company continues to test various reagents in the flotation part of the plant with a view to further increasing recovery.

The mill and plant both require additional improvements and work is currently being undertaken on the Filter to dry the concentrate much more rapidly than natural drying. Meanwhile, an additional 200 tpd mill is currently being installed to further increase mill throughput. Discussions are progressing with the mill owner to extend the lease term for an additional two years beyond the current term that expires in June 2011.



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During March 2011 934 kg of silver in concentrate was produced and it is anticipated that this rate of production will increase going forward. To date, approximately 200 tonnes of silver in concentrate, with a composite grade of approximately 550 ounces per tonne, has been produced.

Arian’s major drill programmes from 2006 along the SJV delineated a JORC Code compliant resource estimate of approximately 33.8 million ounces of silver, 95.5 million pounds of lead and 205 million pounds of zinc in the “inferred” mineral resource category and 9.0 million ounces of silver, 24.6 million pounds of lead and 42.2 million pounds of zinc in the “indicated” mineral resource category from seven delineated resource blocks. The NI 43-101 compliant mineral resources mentioned above for these same seven blocks are summarized in the table 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<sup>3</sup>, Ag grade wireframe restricted, linear block modelling.
5. The resource was estimated using 830 drill hole samples and 1122 underground samples.
6. Resource figures were prepared by Galen White, Qualified Person and author of the August 2008 report.
7. Tonnage figures have been rounded up or down to the nearest 1000 t.
8. Ag ounces have been calculated using 31.1035 g = 1oz.
9. Pb and Zn tonnes have been calculated using 2204.622 lbs = 1 tonne.

It is important to note that the seven resource blocks that comprise these estimates represent only approximately 10% of the known strike length of the SJV within Arian’s concession area. For this reason, Arian’s Management considers the upside for material additional resources along the remaining 90% of the SJV system to be significant.

In November 2010, a new 10,000m drill programme was commenced in order to initially delineate additional areas of high grade mineralisation and to upgrade existing resources, between the Santa Ana and Guanajuatillo resource areas along the SJV. The drill programme also started to explore in detail the SJV system that lies to the west of the village of Guanajuatillo, which collectively accounts for approximately 90% of the known strike length of the SJV system. Two “Longyear 44” drilling rigs continue to operate on this latest programme. The results to date from the drilling continue to confirm the presence of significant silver and, in places lead and zinc mineralisation and that the SJV remains completely open along strike and to depth. In April 2011 the latest drilling results from the current drilling programme were released (see the Company’s press release dated 4 April 2011 entitled “Arian Silver’s continuing exploration drilling intercepts high-grade silver at San José”).

The current 10,000m phase of diamond drilling is nearing completion. It is anticipated that a resource estimation update will be completed during the summer months of 2011 and this process has already begun with the recent site visit by an independent consultant. On completion of the current drilling programme it is also proposed to immediately follow up with another drill programme, details of which will be announced in due course.

Also in November 2010, Arian contracted to purchase a semi-mobile laboratory from Stewart Group’s Geochemical & Assay Division (the “Stewart Group”). The laboratory comprises a comprehensive sample preparation facility, a fire assay laboratory and a wet chemistry laboratory

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with Atomic Absorption Spectrometry (“AAS”). The laboratory was commissioned and became operational in April 2011 and should significantly increase the turnaround times for analysis of Arian’s sampled cores. The laboratory 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 Stewart Group, headquartered in the United Kingdom, operates a network of accredited laboratories and metallurgical services to mining and exploration companies.

Arian’s overall objective is to develop additional resources on the San José property concurrently with the mining operation, complete a full feasibility study, and move to large-scale independent commercial production.

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](http://www.ariansilver.com) or on SEDAR at [www.sedar.com](http://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”
- 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 and do not have demonstrated economic viability. There is no certainty that mineral resources can be upgraded to mineral reserves through continued exploration.

Costs totalling approximately \$4.7 million relating to the property payments, drilling and assay costs that were incurred at the exploration stage of the San José project have been transferred to property, plant and equipment and categorised as mining and development costs. This transfer has taken place as a result of the commencement of mining operations at the San José property during the last quarter of 2010.

### **Calicanto Project, Zacatecas State**

Arian owns 100% of 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 and there has not been any significant project expenditure 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](http://www.ariansilver.com) or on SEDAR at [www.sedar.com](http://www.sedar.com)

### **Tepal Project, Michoacán State**

In January 2010 Arian and Geologix entered into a definitive option agreement for the sale to Geologix of the Tepal property. In February 2010, pursuant to the terms of this option agreement, Geologix paid a non-refundable first instalment of \$1.45 million. In February 2011 Geologix exercised its option, paid a second instalment of \$1.55 million and acquired the Tepal property (*see Liquidity, Capital Resources and Working Capital*).

**RESULTS OF OPERATIONS**

***Financial year ended 31 December, 2010 compared to financial year ended 31 December, 2009***

The pre-tax loss for the year was \$1.7 million (2009 - \$2.1 million). This loss includes the expensing of the fair value of share purchase options vesting of \$15,000 (2009 - \$0.4 million) and other administrative expenses of \$2.1 million (2009 - \$1.7 million). Expenditure was \$0.4 million higher than last year. This was mainly due to a \$0.3 million (2009 - \$nil) charge for employers UK national insurance contributions on the exercise of share purchase options and a \$0.1 million (2009 - \$nil) write off of deferred exploration costs. The Company commenced production at its San José mine during the last quarter of 2010 which contributed a gross profit of \$9,000. Investment income was \$0.4 million (2009 - \$nil), including a \$0.2 foreign exchange gain, which relates to the gain on the disposal of Geologix shares. Interest income was \$11,000 (2009 - \$nil).

**SUMMARY OF QUARTERLY RESULTS**

<b>Unaudited</b>	<b>2010</b>	<b>2010</b>	<b>2010</b>	<b>2010</b>
	4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter
	\$'000	\$'000	\$'000	\$'000
Total Revenue and income	325	144	91	4
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	-	-	-	-

<b>Unaudited</b>	<b>2009</b>	<b>2009</b>	<b>2009</b>	<b>2009</b>
	4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter
	\$'000	\$'000	\$'000	\$'000
Total Revenue and income	-	-	-	-
Net loss before finance income	552	588	446	482
Net loss for the period	357	588	446	481
Basic and diluted loss per share	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.00)
Total assets	13,876	14,042	12,993	8,198
Shareholders' equity	11,743	11,643	12,045	7,631
Cash dividend declared per share	-	-	-	-

***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 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 \$0.6m 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.

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### ***Third quarter 2010 vs. second quarter 2010***

Revenues of \$0.2 million were from investment income of which \$0.1 million is profit from the sale of Geologix Shares and \$0.1 million is 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 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.

### ***First quarter 2010 vs. fourth quarter 2009***

Revenues were from bank deposit interest. The net loss in the period was \$0.3 million lower than for the previous quarter mainly due to a \$0.2 million exchange rate gain on cash balances held. Cash increased by \$2.0 million to \$2.1 million largely as a result of the Placement. Intangible assets decreased by \$1.8 million mainly due to the reclassification of the Tepal project to non-current assets held for sale, partly offset by a \$0.5 million property payment made in respect of the San José property. The decrease in shareholders’ equity is largely attributable to the redemption and cancellation of common shares issued in 2009 to Grafton offset by the common shares issued in connection with a debt settlement and the Placement that took place in the period.

### ***Fourth quarter 2009 vs. third quarter 2009***

The net loss in the period was \$0.2 million lower than the previous quarter largely due to a tax adjustment relating to the available for sale asset. Cash decreased by \$0.7 million to \$0.1 million mainly due to the Tepal property payment of \$0.5 million. Intangible assets increased by \$0.4 million, of which \$0.3 million related to exchange rate fluctuations.

### ***Third quarter 2009 vs. second quarter 2009***

The net loss in the period was \$0.2 million higher than the previous quarter largely due to \$0.3 million expensing of the fair value of share purchase options offset by \$0.1 million writeback of the fair value of lapsed share purchase options in the period. Cash increased by \$0.6 million to \$0.8 million mainly due to a \$0.5 million loan from Geologix for the Tepal property payment. Intangible assets increased by \$0.4 million mainly due to an accrual made for the Tepal property payment of \$0.5 million. The decrease in shareholders’ equity is largely attributable to the loss incurred in the period.

### ***Second quarter 2009 vs. first quarter 2009***

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.

## Arian Silver Corporation – Management’s Discussion and Analysis

### LIQUIDITY, CAPITAL RESOURCES AND WORKING CAPITAL

In management’s view, the most meaningful information concerning the Group relates to its current liquidity and solvency.

During the year the Group received new funding from:-

- a private placement financing in January 2010 of units (“Units”) each consisting of one common share of the Company and one-half of a common share purchase warrant (the “Placement”). The Placement raised Cdn\$3,499,857 through the issue of 69,997,139 Units at Cdn\$0.05 per Unit. In addition 600,000 Units were issued in satisfaction of Cdn\$30,000 of finder’s fees payable in connection with the Placement. As part of the Placement, 35,298,569 “F” share purchase warrants were issued.
- a brokered and non-brokered private placement in October 2010 that raised gross proceeds of £3,888,800 and comprised the issue of 21,604,435 common shares of the Company at £0.18 per common share.
- the first instalment of \$1.45 million under the Tepal option granted to Geologix. Settlement was effected by way of a cash payment of \$725,000 and the balance through the issue of 3,434,193 Geologix shares at a price of Cdn\$0.22 per share. The Company’s holding of Geologix shares was subsequently sold in tranches at prices varying between Cdn\$0.23 and Cdn\$0.57, which generated Cdn\$1,167,000 and a book profit of \$369,000.
- the exercise of 7,475,000 share purchase options and 17,957,199 “F” share purchase warrants which generated £420,875 and Cdn\$1,795,720 respectively.

Also during the year:-

- the share exchanges in 2009 with Grafton were reversed and the Company redeemed and cancelled the 109,090,909 common shares issued to Grafton at the original issue price of Cdn\$0.055 per share in consideration for the redemption of the 128,591 Grafton participating shares issued to the Company.
- the Company issued to Grafton 15,762,000 common shares at Cdn\$0.05 per common share in settlement of \$750,000 of outstanding loans and repaid to Grafton the \$300,000 balance of the loans.
- following receipt of the first instalment under the Tepal option, the Company repaid to Geologix a loan of \$518,000.

Since the year end the Group has received further 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.
- 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 are subject to a four month hold period expiring in June 2011.

## **Arian Silver Corporation – Management’s Discussion and Analysis**

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

- 18,185,000 share purchase options with exercise prices in the range £0.055/£0.4925 or Cdn\$0.10/Cdn\$0.79 expiring on various dates up to January 2016.

### ***Working Capital – 31 December, 2010***

As at 31 December, 2010, the Company had working capital of approximately \$10.2 million (31 December, 2009 – \$4.0 million). The items of working capital and changes compared to 31 December 2009 are as follows:-

#### *Current assets*

- cash and cash equivalents \$8.3 million (2009 – \$0.1 million) – increase has largely arisen through funds from share placements, sale of Geologix shares and the exercise of share purchase warrants and options.
- investments - available for sale assets \$nil (2009 – \$5.6 million) – decrease due to the redemption of the Grafton shares.
- assets held for sale \$2.9 million (2009 – \$nil) – relates to the carrying value of the Tepal project reclassified from intangible assets as a result of the grant of the Tepal option.
- trade and other receivables - \$0.9 million (2009 – \$0.3 million) – relates to prepayments for the milling plant and the assay laboratory.
- inventories - \$0.1 million (2009 – \$nil) – relates to production at the San José mine.

#### *Current liabilities*

- current borrowings \$nil (2009 – \$1.6 million) – decrease arises from repayment of loans from Grafton and Geologix.
- deferred income \$1.5 million (2009 – \$nil) – relates to the value of the non-refundable first instalment of the Tepal option consideration pending exercise or termination of the Tepal option.
- Trade payables \$0.5 million (2009 – \$0.5 million) – remain the same year on year.

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, 2010 the Group 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 \$132,950 (2009 – \$158,746). This includes reimbursement of \$130,102 (2009 – \$123,712) 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, 2010 \$20,027 (2009 - \$44,736) was outstanding.

## **Arian Silver Corporation – Management’s Discussion and Analysis**

(b) Kopane Diamond Developments PLC (“KDD”) charged the Company a total of \$62,664 (2009 – \$91,214). This includes reimbursement of \$19,623 (2009 – \$33,688) in respect of James Cable’s remuneration paid on behalf of the Company with the balance relating to the provision of office accommodation and reimbursable expenses incurred on behalf of the Company. The Company charged KDD \$32,899 (2009 – \$34,640) 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 31 December, 2010 \$14,317 (2009 - \$40,879) was outstanding due to KDD and \$8,292 (2009 - \$nil) was outstanding due from KDD.

### ***Transactions with Grafton***

During January 2010 the relationship with Grafton, then a 42.2% shareholder of the Company, was reorganised (see *Liquidity, Capital Resources and Working Capital*)

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

### **FOURTH QUARTER**

The Group’s activities during and financial results for Q4 2010 are reported elsewhere in this MD&A.

### **PROPOSED TRANSACTIONS**

See *Liquidity, Capital Resources and Working Capital* 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.

### ***Going Concern***

The directors currently believe that the Group 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 Group’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

## **Arian Silver Corporation – Management’s Discussion and Analysis**

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 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.

## **RISKS AND UNCERTAINTIES**

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.

### ***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, 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



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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 Silver Price***

The value of the Company's resources and financial results of operations will be affected by fluctuations in the silver price over which the Company has no control. A reduction in the price of silver 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.

## **Arian Silver Corporation – Management’s Discussion and Analysis**

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.

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### ***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.

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### ***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,

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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](http://www.sedar.com) or the Company’s website on [www.ariansilver.com](http://www.ariansilver.com).

#### *Disclosure of Outstanding Share Data*

The following table sets out the outstanding securities of the Company as at 20 April, 2011:-

	<b>Number in issue</b>
Common shares of no par value	301,189,112
Share purchase options	18,185,000

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