



ARIAN SILVER CORPORATION

Management's Discussion and Analysis

of the Financial Condition and Results of Operations

For the three and nine months ended 30 September 2011

COMPANY INFORMATION

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James (Jim) T. Williams, *Chief Executive Officer*
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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 28 October 2011 and compares its financial results for the third quarter ended 30 September, 2011 with the equivalent period of the previous year. This MD&A should be read in conjunction with the Company’s 30 September, 2011 unaudited Consolidated Financial Statements and the related notes. The unaudited Consolidated Financial Statements and the related notes have been prepared in accordance with International Financial Reporting Standards. All dollar amounts referred to in this MD&A are expressed in United States dollars, unless specifically stated otherwise.

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING AND CONTROLS

The unaudited Consolidated Financial Statements of the Company for the nine months ended 30 September 2011, and the comparative amounts for 2010, have been prepared by management of the Company (“Management”) in accordance with International Financial Reporting Standards (“IFRS”) and have been approved by the Company’s Board of Directors (the “Board”). The integrity and objectivity of these unaudited Consolidated Financial Statements are the responsibility of Management. In addition, Management is responsible for ensuring that the information contained in this MD&A is consistent, where appropriate, with the information contained in the unaudited Consolidated Financial Statements.

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

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

INTRODUCTION

The following discussion is Management’s assessment and analysis of the results and financial condition of the Company and should be read in conjunction with the accompanying unaudited Consolidated Financial Statements and the Company’s 2010 Annual Report, both of which can be accessed on SEDAR at www.sedar.com or the Company’s website at www.ariansilver.com.

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

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

The Company’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. The company’s headquarters are in Berkeley Square, London.

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OVERVIEW OF THIRD QUARTER OF 2011 AND SUBSEQUENT EVENTS

Financial

- \$0.5 million gross profit and \$2.4 million revenue for the three months ended 30 September 2011.
- \$0.4 million gross profit and \$5.1 million revenue for the nine months ended 30 September 2011.
- Working capital was \$7.5 million, as at 30 September 2011.
- Total assets of \$16.9 million, including intangible assets of \$2.1 million, property, plant and equipment of \$6.4 million, trade and other receivables of \$1.9 million and cash of \$5.5 million, as at 30 September 2011.
- Consolidated pre-tax loss for the nine months ended 30 September 2011 was \$10.5 million including a non-cash employee share options expense of \$8.3 million.

Operations

- San José production Q3
 - 33,941 tonnes mined
 - 21,512 tonnes milled
 - 204 silver concentrate tonnes produced
 - 65,804 silver ounces produced
 - 221 silver concentrate tonnes sold
 - 77,587 silver ounces sold
- San José exploration
 - Phase-4 drilling programme continues
 - Extended the mill and plant lease for up to two years
 - Independent resource estimate updated by CSA Global (UK) Limited announced 20 July 2011:
 - 88.45 million contained silver ounces, an increase of 105%
 - 30.03 million ounces in the “indicated” resource category
 - 58.42 million ounces in the “inferred” resource category
 - Plus lead and zinc

Post 30 September 2011

- As at the end of October 2011 Phase-4 drilling programme has drilled approximately 7,000 metres.
- On 24 October 2011 interim drill results were published showing continuity of vein thickness, silver mineralisation and grade.

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THE STRATEGY

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

REVIEW OF FINANCIAL PERFORMANCE

In the nine months ended 30 September 2011, the Company incurred a pre-tax loss of \$10.5 million (2010: \$1.2 million) which includes a gross profit for the San José mine of \$0.4 million (2010: \$nil), recognising the fair value non-cash expense of share purchase options vesting of \$8.3 million (2010: \$14,000) and other administrative expenses of \$2.2 million (2010: \$0.7 million). Interest income from cash resources was \$35,000 (2010: \$4,000). Finance loss was \$0.4 million (2010: \$0.2 million profit).

As at 30 September 2011, the Company had working capital of approximately \$7.4 million (31 December 2010: \$10.2 million). See *Liquidity, Capital Resources and Working Capital* for the items of working capital. Intangible assets amounted to \$2.1 million (31 December 2010: \$1.2 million) which relate to deferred exploration and evaluation costs in respect of the Company’s Mexican projects. Property, plant and equipment amounted to \$6.4 million (31 December 2010: \$5.4million); \$6.3 million of this relates to the San José mine development costs. Share capital increased by \$1.9 million to \$47.3 million (31 December 2010: \$45.4 million) as a result of the issue of common shares in connection with the exercise of share options and share purchase warrants.

REVIEW OF OPERATIONS

The Company currently owns 32 mineral concessions in Mexico totalling 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 100%-owned San José property lies 55 kilometres to the southeast of Zacatecas City and covers 11 mining concessions totalling 6,300 ha. The property has significant infrastructure, including a 4 x 5 metre (“m”) main haulage ramp (“SJ Ramp”) extending nearly 3.2km along the footwall of the San José Vein (“SJV”) system, and a 350 m 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.

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Production Information

Production information summary for San José mine is as follows:

	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Head grade - Ag grams per tonne	199	178	178	154
Tonnes mined	33,941	22,387	19,462	7,600
Tonnes milled	21,512	18,348	21,128	3,385
Ag concentrate tonnes produced	204	144	146	22
Recovery %	47.76	56.66	38.08	56.31
Ag ounces produced	65,804	59,568	46,236	9,462
Ag ounces per concentrate tonne produced	323	412	316	439
Ag ounces sold	77,587	41,868	38,772	6,730
Ag concentrate tonnes sold	221	117	126	13

Mining Operations

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

From January to the end of September 2011, 227m have been developed along the main westerly strike of the SJ Ramp, in a combination of Run-Of-Mine (“ROM”) and waste material. A substantial amount of ore has been intersected within the ramp, which is advancing in a westerly direction, and a new parallel, but steeper, decline ramp is being developed in largely waste material to ensure the maximum amount of sulphide-rich ore is extracted from the current blocks; this sulphide-rich ore is located, according to drilling information, deeper in the Santa Ana Block.

Contract mining expectations remained unchanged at up to 500 tpd. Mining was planned to operate 20 days per month. Total costs to mine and deliver ore to the mill are estimated at approximately \$26/tonne.

Milling Operations

The lease with the custom/toll mill and plant owner was signed in July for a period of up to two years at a cost of MXP 6 million (approx. US\$ 0.5 million)/month. There is an early break provision in favour of the owner of the plant in the event that an option to purchase the plant held by a third party is exercised on 31 October 2011. However, if this option is exercised, Arian currently believes it could negotiate its continued use with the new owner. The lease also has an early break provision in favour of Arian giving it the right to terminate the lease after twelve months.

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

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

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

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

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

Exploration Drilling

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

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

In June 2011, the Phase 4 drilling programme, commenced and at the end of September 2011, drilled 6,000 m. The purpose of this drilling phase is to drill the entire SJV, combining infill and step-out drilling with the objectives to: (1) Potentially increase inferred resources by step-out drilling in a westerly direction and, (2) To upgrade existing inferred resources into the Indicated category.

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

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Exploration Resource

On 20 July 2011, Arian reported a significant resource estimate upgrade (see the Company’s press release entitled “Arian Silver Announces Significant Increase in Mineral Resources at San José”). The highlights of this announcement were:

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

Arian’s resource estimate includes all drill programmes from 2006 along the SJV which has a delineated NI 43-101 and a JORC-compliant resource estimate of approximately 30.03 million ounces of silver, 69.9 million pounds of lead and 126.6 million pounds of zinc in the “indicated” mineral resource category, and 58.42 million ounces of silver, 140.1 million pounds of lead and 291.1 million pounds of zinc in the “inferred” mineral resource category. These NI 43-101 and JORC-compliant mineral resources are summarised in the table below:

Resource Category	Gross Tonnes Contained Metal	Average Grade			Contained Metal		
		Ag	Pb	Zn	Ag	Pb	Zn
		(g/t)	%	%	(Moz)	(t)	(t)
Indicated	8,000,000	117	0.40	0.72	30.03	31,706	57,425
Inferred	17,000,000	107	0.37	0.78	58.42	63,548	132,041

1. Geological characteristics and +30 ppm grade envelopes used to define resource volumes.
2. Each mineral resource estimate is in accordance with CIM standards.
3. The effective date of each mineral resource estimate is 15th July 2011.
4. The estimates are based on geological, statistical and geostatistical data assessment and computerised IDW², Ag grade wireframe restricted, linear block modelling.
5. The resource was estimated using 152 drill holes and more than 28,000 metres.
6. Resource figures were prepared under the supervision of Malcolm Titley who is a Qualified Person (as defined in Canadian National Instrument 43-101).
7. Tonnage figures have been rounded to reflect this as an estimate.
8. Ag (silver) ounces have been calculated using 31.1035 g = 1oz.
9. Pb (lead) and Zn(zinc) tonnes have been calculated using 2204.622 lbs = 1 tonne.
10. The mineral resource is 100% owned by Arian.

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

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

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

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Laboratory Update

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

Calicanto Project, Zacatecas State

Arian owns 100% of the Calicanto Project which consists of seven adjacent mining concessions 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, dewatering of the Calicanto shaft on the Calicanto Vein commenced; this was not at Arian’s cost but at the cost of another mine operator adjacent to the property as the miner requires this water for their ongoing plant operation. Arian will commence further underground evaluation of the deeper levels of the Calicanto Vein once the water has receded to the appropriate level; this will include but not be limited to, mapping and underground sampling and subsequent analyses. There has been no significant expenditure on the Calicanto Project during the past two years.

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

Tepal Project, Michoacán State

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

RESULTS OF OPERATIONS

Three months ended 30 September, 2011 compared to three months ended 30 September, 2010

The pre-tax loss for the quarter was \$0.6 million (2010: \$0.3 million). This includes a gross profit of \$0.5 million (2010: \$nil) generated from the San José mining operation, the expensing of the fair value of share purchase options vesting of \$0.3 million (2010: \$7,000) and other administrative expenses of \$0.7 million (2010: \$0.4 million). Other administration expenditure was \$0.3 million higher than last year mainly due to \$0.3 million foreign exchange loss movement as a result of cash balances held. Finance loss of \$0.1 million (2010: \$0.1 million profit), includes interest income of \$11,000 (2010: \$nil), offset mainly by a fair value adjustment loss for Geologix shares held of \$0.2 million (2010: \$0.1 million profit).

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Nine months ended 30 September, 2011 compared to nine months ended 30 September, 2010

The pre-tax loss for the period was \$10.5 million (2010: \$0.9 million). This loss includes the expensing of the fair value of share purchase options vesting of \$8.3 million (2010: \$14,000) and other administrative expenses of \$2.2 million (2010: \$1.2 million). Other administration expenditure was \$1.0 million higher than last year mainly due to \$0.3 million foreign exchange loss as a result of cash balances held and \$0.7 million as a result of increased expenditure in the following areas: investor relations, share register, other professional fees, travel, amortisation, rent, salaries and employers national insurance contributions relating to exercise of share options. The San José mining operation realised a gross profit of \$0.4 million (2010: \$nil). Finance losses of \$0.4 million (2010: \$0.2 million profit), includes interest income of \$35,000 (2010: \$4,000), offset mainly by a fair value adjustment loss for the Geologix shares held of \$0.5 million (2010: \$0.2 million profit).

SUMMARY OF QUARTERLY RESULTS

Unaudited	2011	2011	2011	2010
	3 rd Quarter \$'000	2 nd Quarter \$'000	1 st Quarter \$'000	4 th Quarter \$'000
Total revenue and finance revenue	2,445	1,542	1,148	325
Gross profit / (loss)	520	59	(213)	9
Net loss before finance revenue/costs	484	1,358	8,275	936
Net loss for the period	602	1,535	8,390	991
Basic and diluted (loss) per share	\$0.00	\$(0.01)	\$(0.03)	\$(0.01)
Total assets	16,894	18,843	19,631	18,876
Shareholders' equity	15,806	17,764	18,342	16,744
Cash dividend declared per share	-	-	-	-

Unaudited	2010	2010	2010	2009
	3 rd Quarter \$'000	2 nd Quarter \$'000	1 st Quarter \$'000	4 th Quarter \$'000
Total revenue and finance revenue	144	91	4	-
Net loss before finance revenue/costs	411	469	270	552
Net loss for the period	267	273	371	357
Basic and diluted loss per share	\$0.00	\$(0.00)	\$(0.01)	\$(0.00)
Total assets	12,362	11,393	11,932	13,876
Shareholders' equity	10,099	9,490	10,010	11,743
Cash dividend declared per share	-	-	-	-

Third quarter 2011 vs. second quarter 2011

Revenues increased by \$0.9 to \$2.4 million comprising \$2.4 million from the final and provisional sales of silver concentrate from the San José mining operation, and \$25,000 interest income. The net loss in the period was \$0.9 million lower than for the previous quarter: \$0.3 million of this difference relates to the expensing of the fair value of options, \$0.5 million relates to the increased profitability of the San José mine, and \$0.1 million to the investment loss on the Geologix shares. Total assets decreased by \$1.9 million; cash decreased by \$1.7 million to \$5.5 million, and financial assets valued at fair value relating to the Geologix shares decreased by \$0.2 million. This was offset by investment in the San José property, additions of \$1.4 million in intangible assets and additions of \$1.1 million increase in property, plant and equipment, as well as a \$0.1 million increase in trade and other receivables and \$0.1 million increase in inventories. The decrease in shareholders' equity is largely attributable to the loss incurred in the period.

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Second quarter 2011 vs. first quarter 2011

Revenues of \$1.5 million comprise \$1.5 million from the sale of silver concentrate from the San José mining operation and \$13,000 interest income. The net loss in the period was \$6.9 million lower than for the previous quarter: \$6.7 million of this difference relates to the expensing of the fair value of options and \$0.2 million relates to the increased profitability of the San José mine. Total assets decreased by \$0.8 million; cash decreased by \$1.7 million to \$7.2 million and financial assets valued at fair value relating to the Geologix shares decreased by \$0.3 million. This was offset by investment in the San José property, an increase of \$0.2 million in intangible assets and \$0.5 million increase in property, plant and equipment, as well as a \$0.2 million increase in trade and other receivables and \$0.2 million increase in inventories. The decrease in shareholders’ equity is largely attributable to the loss incurred in the period.

First quarter 2011 vs. fourth quarter 2010

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

Fourth quarter 2010 vs. third quarter 2010

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

Third quarter 2010 vs. second quarter 2010

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

Second quarter 2010 vs. first quarter 2010

Revenues were from investment income as a result of financial gain on the Geologix shares held as part consideration for the sale of Tepal. The net loss 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.

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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 was 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.

LIQUIDITY, CAPITAL RESOURCES AND WORKING CAPITAL

During the period, the Group received new funding from:

- the exercise of 1,400,000 share purchase options and 17,342,000 “F” share purchase warrants which generated £90,000 and Cdn\$1,734,200 respectively; and
- the exercise of the Tepal option by Geologix which resulted in the receipt of a final instalment of \$1.55 million, satisfied as to \$775,000 in cash and the issue to the Company of 1,089,318 common shares of Geologix at a price of approximately Cdn\$0.70 each.

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

- 18,485,000 share purchase options with exercise prices in the range £0.055/£0.4925 (Cdn\$0.10/Cdn\$0.79) expiring on various dates up to June 2016.

Working Capital – 30 September, 2011

As at 30 September 2011, the Company had working capital of approximately \$7.5 million (31 December, 2010: \$10.2 million). The items of working capital and changes compared to 31 December 2010 are as follows:

Current assets

- cash and cash equivalents - \$5.5 million (2010: \$8.3 million);
- assets held for sale - \$nil (2010: \$2.9 million) – relates to the carrying value of the Tepal project reclassified from intangible assets as a result of the grant of the Tepal option. This asset was realised on exercise of the option from Geologix during the period;
- trade and other receivables - \$1.9 million (2010: \$0.9 million) – increase due to the trade debtor for the sale of silver concentrate from the San José mining operation;
- inventories - \$0.7 million (2010: \$0.1 million) – relates to stockpile held at cost relating to production at the San José mine; and
- other financial assets at fair value through profit and loss - \$0.3 million (2010: \$nil) – relates to the Geologix shares received as part consideration for the final instalment for the sale of the Tepal project.

Current liabilities

- deferred income - \$nil (2010: \$1.5 million) – related to the value of the non-refundable first instalment of the Tepal option consideration pending exercise or termination of the Tepal option. This was recognised in Q1 2011 as part of the Tepal option exercise; and
- trade payables - \$0.9 million (2010: \$0.5 million) – the increase relates to invoices outstanding relating to the production and exploration costs at the San José project.

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Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During the nine months ended 30 September, 2011 the group entered into the following transactions involving related parties:

Transactions with key management personnel

The Dragon Group charged the Company a total of \$94,048 (2010: \$102,679). This comprised \$94,048 (2010: \$89,738) which related to the reimbursement of Tony Williams’ remuneration paid on behalf of the Company. The balance in 2010 related 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 September, 2011 \$10,114 (2010: \$20,465) was outstanding.

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

Transactions with subsidiaries

The Company made loans to Arian Silver de Mexico S.A. de C.V. of \$2,612,249 (2010: \$131,736). Total amounts owed at 30 September 2011 by Arian Silver de Mexico S.A. de C.V. and the parent company is \$15,639,273. (2010: \$11,150,631).

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 Board currently believes that the Company has adequate financial resources or access to such resources in order to continue in operational existence for the foreseeable future and to meet its currently projected working capital and project expenditure requirements for the next 12 months. They therefore believe it appropriate to prepare the 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 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.

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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 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 referred to 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 were to occur, the Company’s business, financial condition and operating results could be adversely affected.

Nature of Mineral Exploration and Mining

Any exploration programme entails risks relating to the location of economic ore bodies, the development of appropriate metallurgical processes, the receipt of necessary governmental permits and the construction of mining and processing facilities. The Company has commenced an initial mining operation at the San José project but no assurance can be given that any exploration programme will result in any new commercial mining operation or in the discovery of new resources.

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

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

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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 larger scale mining facilities and commencement of larger scale mining operations, will require substantial additional financing. The Company currently has sufficient funds to finance its projected working capital and current project expenditures for at least the next 12 months but may require further funding in the future to continue to explore and develop its concessions and to maintain its interest in all its projects. No assurance can be given that the Company will be able to raise the additional financing necessary to continue its production activities or to explore and/or develop its concessions. Failure to obtain sufficient financing for any projects will result in a delay or indefinite postponement of exploration, development or production on properties covered by the Company's concessions or even the loss of a concession. The only sources of funds currently available to the Company are through the sale of product from production activities, the issue of equity capital, the sale of concessions or other assets, royalty interests or the entering into of joint ventures. In addition, the Company's ability to obtain further financing will depend in part on the price of silver and the industry's perception of its future price and other factors outside the Company's control. Additional financing may not be available when needed, or if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to shareholders. In the absence of adequate funding the Company may not be able to continue as a going concern in which event the carrying value of the Company’s projects would be impaired.

Limited Operating History

The Company has a limited history of producing revenue and its ultimate success will depend on its ability to generate cash flow from its concessions in the future. 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.

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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.

Other risks and uncertainties have been detailed in the Company’s 2010 Annual MD&A which can be accessed on SEDAR at www.sedar.com or the Company’s website at www.ariansilver.com. Such risks have not changed materially during the reporting period of 2011.

Forward Looking Statements

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

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

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

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OTHER INFORMATION

Additional Information

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

Disclosure of Outstanding Share Data

The following table sets out the outstanding securities of the Company as at 28 October, 2011:-

	Number in issue
Common shares of no par value	301,189,112
Share purchase options	18,485,000

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