ARIAN SILVER CORPORATION

Management's Discussion and Analysis

of the Financial Condition and Results of Operations

For the three months ended 31 March 2012

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	David H. Taylor
HEAD OFFICE	Berkeley Square House Berkeley Square London, W1J 6BD United Kingdom Tel: +44 (0)20 7887 6599 Fax: +44 (0)20 7887 6598
REGISTERED OFFICE	Craigmuir Chambers P.O. Box 71 Road Town, Tortola British Virgin Islands
NOMINATED ADVISER	Grant Thornton UK LLP 30 Finsbury Square London, EC2P 2YU
BROKER	XCAP Securities PLC 24 Cornhill London, EC3V 3ND
FINANCIAL PR	Yellow Jersey PR Limited South Building, Upper Farm Wootton St. Lawrence Basingstoke Hants, RG23 8PE
AUDITOR	PKF (UK) LLP Farringdon Place 20 Farringdon Road London, EC1M 3AP
REGISTRAR	Computershare Investor Services Inc 100 University Avenue Toronto, Ontario, M5J 2Y1 Canada
STOCK EXCHANGES	AIM Market of the London Stock Exchange TSX Venture Exchange Frankfurt Stock Exchange
TRADING SYMBOLS	AIM: AGQ (stock is quoted in Pounds Sterling) TSX-V: AGQ (stock is quoted in Canadian Dollars) Frankfurt: I3A (stock is quoted in Euros)

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 May 2012 and compares its financial results for the first quarter ended 31 March 2012 with the equivalent period of the previous year. This MD&A should be read in conjunction with the Company's 31 March 2012 unaudited Consolidated Financial Statements and the related notes. The unaudited Consolidated Financial Statements and the related notes have been prepared in accordance with International Financial Reporting Standards. All dollar amounts referred to in this MD&A are expressed in United States dollars, unless specifically stated otherwise.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING AND CONTROLS

The unaudited Consolidated Financial Statements of the Company for the three months ended 31 March 2012, and the comparative information for 2011, have been prepared by management of the Company ("Management") in accordance with International Financial Reporting Standards ("IFRS") and have been approved by the Company's Board of Directors (the "Board"). The integrity and objectivity of these unaudited Consolidated Financial Statements are the responsibility of Management. In addition, Management is responsible for ensuring that the information contained in this MD&A is consistent, where appropriate, with the information contained in the unaudited Consolidated Financial Statements.

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

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

INTRODUCTION

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

Arian Silver is a publicly quoted silver exploration, development and production company, operating in one of the richest silver-bearing districts in the world, Zacatecas State, Mexico. The Company is committed to mining existing silver areas, and to exploring new opportunities. Arian's current main project is in San José, Zacatecas State. As part of the Company's strategy for future development, Arian will aim to use large scale mechanised mining techniques over wider 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, and on the Frankfurt Stock Exchange. The company's headquarters are in Berkeley Square, London.

OVERVIEW OF FIRST QUARTER OF 2012 AND SUBSEQUENT EVENTS

Financial

- Revenue increased 102% to $2.3 million compared to Q1 2011
- Gross loss improved by $0.1 million from a gross loss of $0.2 million in Q1 2011 to $0.1 million gross loss for Q1 2012.
- Consolidated pre-tax profit has increased by $9.3 million from a loss of $8.4 million in Q1 2011(including a non-cash employees share options expense of $7.3 million for options vesting) to $0.9 million (including the reversal of a non-cash employee share options expense of $1.7 million for options lapsed).
- Working capital decreased from $5.9 million in Q4 2011 to $5.1 million in Q1 2012.
- Total assets increased from $16.3 million in Q4 2011 to $16.7 million. Q1 2012 includes intangible assets of $1.2 million, property, plant and equipment of $9.3 million, trade and other receivables of $2.3 million, inventories $0.9 million, financial assets $0.3 million and cash of $2.8 million.

Operations

- San José production Q1 2012
    - 21,553 tonnes mined representing an increase of 11% from Q1 2011
    - 24,394 tonnes milled representing an increase of 15% from Q1 2011
    - 302 silver concentrate tonnes produced representing an increase of 107% from Q1 2011
    - 66,688 silver ounces produced representing an increase of 44% from Q1 2011
    - 330 silver concentrate tonnes sold representing an increase of 162% from Q1 2011
    - 75,911 silver ounces sold representing an increase of 96% from Q1 2011

- San José exploration
    - Phase 4 drilling programme complete
    - Independent resource estimate updated by CSA Global (UK) Limited announced 12 March 2012:
        - 29% increase in resource tonnage along the San José Vein ("SJV") from the July 2011 mineral resource estimate;
            - Contained ounces of silver are increased by 32%;
            - Contained pounds of lead are increased by 29%; and
            - Contained pounds of zinc are increased by 30%;
        - Mineralisation remains open along the western and eastern strikes of the SJV and to depth; and
        - Further drilling is planned to infill the current resources, step out along the remaining SJV structure in both directions, and to drill at depth on the SJV.

Post 31 March 2012

- Mill processing currently 400 tpd, this is primarily a result of the installation and operation of the fourth in-line ball mill.

THE STRATEGY

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

REVIEW OF FINANCIAL PERFORMANCE

In the three months ended 31 March 2012, the Company earned a pre-tax profit of $0.9 million (31 March 2011: $8.4 million) which includes a gross loss for the San José mine of $0.1 million (31 March 2011: $0.2 million), recognising the fair value non-cash expense of share purchase options vesting of $0.1 million (31 March 2011: $7.3 million), a credit of $1.7 million (31 March 2011: $nil) for the reversal of the fair value of share purchase options vesting that lapsed in the period and other administrative expenses of $0.8 million (31 March 2011: $0.8 million). Interest income from cash resources was $6,000 (31 March 2011: $11,000). Finance income was $0.1 million (31 March 2011: $0.1 million).

As at 31 March 2012, the Company had working capital of approximately $5.1 million (31 December 2011: $5.9 million). See *Liquidity, Capital Resources and Working Capital* for the items of working capital. Intangible assets amounted to $1.2 million (31 December 2011: $1.1 million) which relate to deferred exploration and evaluation costs in respect of the Company's Mexican projects. Property, plant and equipment amounted to $9.3 million (31 December 2011: $8.1 million); $9.2 million of this relates to the San José mine development costs. Share capital increased by $0.1 million to $47.4 million (31 December 2011: $47.3 million) as a result of the issue of common shares in connection with the exercise of share options.

REVIEW OF OPERATIONS

The Company currently owns 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 is located approximately 55 kilometres to the southeast of Zacatecas City and comprises 11 mining concessions totalling approximately 6,300ha. The property has significant infrastructure, including a 4 x 5 metre ("m") main haulage ramp ("SJ Ramp") extending more than 4.0km along the footwall of the San José vein ("SJV") system, and a 350m deep, 500 tonne per day ("tpd") vertical shaft with operational hoist. In addition, a number of shallower vertical shafts are located along the SJV.

Production Information

Production information summary for San José mine is as follows:

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

Head grade

The decrease in head grade from Q4 2011 to Q1 2012 by 14% was a result of optimising the total number of tonnes extracted in one of the Santa Ana blocks. The initial grade was calculated as being much higher but with significantly less tonnes. Arian optimised the increase of recoverable ore tonnes whilst still achieving significantly more than the mining grade cut off with the net result forecast to produce more silver ounces.

Tonnes mined

The increase in tonnes mined from Q1 2011 to Q1 2012 of 2,091 tonnes (11%) was a result of increased mining efficiencies including underground haulage.

The decrease in tonnes mined from Q4 2011 to Q1 2012 of 2,880 tonnes (12%) was a result of increased development in non-payable rock to access new stoping areas and to concurrently decrease the size of the stockpile.

Tonnes milled

The increase in tonnes milled from Q1 2011 to Q1 2012 of 3,266 tonnes (15%) and tonnes milled from Q4 2011 to Q1 2012 of 1,423 tonnes (6%) were largely a result of an increase in efficiency as a result of production improvements made at the mill.

Ag concentrate tonnes produced

The increase in concentrate tonnes produced from Q1 2011 to Q1 2012 of 156 tonnes (107%) and in concentrate tonnes produced from Q4 2011 to Q1 2012 of 46 tonnes (18%) were a result of improvements in throughput and efficiencies made at the mill.

% Recovery

The increase in recovery of 11 percentage points which represents a 29% increase from 38.08% in Q1 2011 to 49.01% in Q1 2012, was a result of further improvements to the mill; an exercise that is on-going.

Ag ounces produced

The increase in ounces produced from Q1 2011 to Q1 2012 of 20,452 ounces (44%) was a result of a combination of changes and improvements in the milling circuit, including increases in throughput, recovery and overall general improvements.

The decrease in ounces produced from Q4 2011 to Q1 2012 of 9,930 ounces (13%) was primarily a result of a result of the decrease in the head grade.

Mining Operations

The initial mining operation focussed on the Ramal Norte/Sur, San José 75 m 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.

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

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

Contract mining expectations remained unchanged at up to 500tpd. Mining was planned to operate 20 days per month. Total costs to mine and deliver ore to the mill are estimated at approximately $30/tonne.

Milling Operations

Although the mill has a maximum rating of 400tpd, it is not designed for the hardness and abrasiveness of the San José run of mine ("ROM") material. When Arian commenced operations daily throughput of 120 tonnes was achieved, however it is currently milling approximately 400 tpd. This is a result of the installation of a reconditioned impact crusher which grinds the ROM material more finely before it is milled; the successful commissioning of the fourth in-line ball mill which commenced operating in May 2012; and the continuity of general improvements made to the mill.

The mill lease is a fixed cost of MXN 6 million ($0.46 million) per month. It is expected with the throughput of 400tpd approximately 125 tonnes of concentrate will be produced with an anticipated silver content of between 370 and 440 ounces per tonne ("opt").

This continuing phase of pilot-scale milling allows Arian to review all key data providing Arian unique data to build an optimised/bespoke plant should it decide to pursue this route. 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 370 opt at a spot price of $30/oz silver, a concentrate value of $9,700/tonne, after deductions, is forecast.

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

Exploration Drilling

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

On 12 March 2012 an independent resource update which took into account all the phase 1, 2, 3 and 4 drilling programmes was published see section heading *Mineral Resource*.

Mineral Resource

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

The highlights of this announcement were:

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

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

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

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

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

a) Report dated 22 June 2009 and entitled "Preliminary Economic Assessment Report (PEAR) on the San José Silver-Lead-Zinc Deposit, Zacatecas, Mexico"; and

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

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

Laboratory

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

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

Calicanto Project, Zacatecas State

Arian owns 100% of the Calicanto Project which consists of seven adjacent mining concessions totalling 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.

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.

RESULTS OF OPERATIONS

Three months ended 31 March 2012 compared to three months ended 31 March 2011

The pre-tax loss for the quarter was $0.9 million (2011: $8.4 million). This includes a gross loss of $0.1 million (2011: $0.2 million) generated from the San José mining operation, the expensing of the fair value of share purchase options vesting of $0.1 million (2011: $7.3 million), a credit of $1.7 million (2011: $nil) for the reversal of the fair value expense of share options that have lapsed in the period and other administrative expenses of $0.7 million (2011: $0.8 million). Finance loss of $0.1 million (2011: $0.1 million), includes interest income of $6,000 (2011: $11,000), and a fair value adjustment loss for Geologix shares held of $0.1 million (2011: $0.1 million).

SUMMARY OF QUARTERLY RESULTS

Unaudited	**2012** 1st Quarter $'000	**2011** 4th Quarter $'000	**2011** 3rd Quarter $'000	**2011** 2nd Quarter $'000
Revenue from sale of silver concentrate	2,314	2,367	2,434	1,529
Cost of sales	2,379	1,921	1,914	1,470
Gross profit / (loss)	(65)	446	520	59
Net profit/(loss) before finance revenue/costs	866	(411)	(484)	(1,358)
Finance revenue	6	9	11	13
Net profit/(loss) for the period	947	(443)	(602)	(1,535)
Basic and diluted (loss) per share	$0.00	$0.00	$0.00	$(0.01)
Total assets	16,732	16,250	16,894	18,843
Shareholders' equity	15,370	14,909	15,806	17,764
Cash dividend declared per share	-	-	-	-

Unaudited	**2011** 1st Quarter $'000	**2010** 4th Quarter $'000	**2010** 3rd Quarter $'000	**2010** 2nd Quarter $'000
Revenue from sale of silver concentrate	1,137	184	-	91
Cost of sales	1,350	175	-	-
Gross profit / (loss)	(213)	9	-	-
Net loss before finance revenue/costs	8,275	936	411	469
Finance revenue	11	141	144	91
Net loss for the period	8,390	991	267	273
Basic and diluted loss per share	$(0.03)	$(0.01)	$0.00	$(0.00)
Total assets	19,631	18,876	12,362	11,393
Shareholders' equity	18,342	16,744	10,099	9,490
Cash dividend declared per share	-	-	-	-

First quarter 2012 vs. fourth quarter 2011

Revenue was in line with the fourth quarter despite a significant increase of concentrate tonnes sold; 330 tonnes of concentrate were sold during the quarter. The cost of sales were $0.5million higher mainly due to $0.6 million additional cost of increased tonnes sold in the period, offset by a $0.1 million benefit from a reduction in the cost per tonne sold. The net profit in the period was $1.7 million higher than for the previous quarter mainly due to a credit of $1.4 million for the reversal of the fair value of share purchase options vesting that have lapsed in the period. Cash decreased by $1.1 million to $2.8 million largely as a result of investment in the development of the San José mine. Property, plant and equipment increased by $1.1 million as a result of the development of the San José mine. The increase in shareholders' equity was largely attributable to the movement in the foreign exchange reserve.

LIQUIDITY, CAPITAL RESOURCES AND WORKING CAPITAL

During the period, the Company received new funding from:

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

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

- 14,960,000 share purchase options with exercise prices ranging from £0.055 to £0.4925 (Cdn$0.10/Cdn$0.79) and expiring on various dates up to June 2016.

Working Capital – 31 March 2012

As at 31 March 2012, the Company had working capital of approximately $5.1 million (31 December, 2011: $5.9 million). The items of working capital and changes compared to 31 December 2011 are as follows:

Current assets

- cash and cash equivalents - $2.8 million (31 December 2011: $4.0 million);
- trade and other receivables - $2.3 million (31 December 2011: $1.9 million) – increase due to the trade debtor for the sale of silver concentrate from the San José mining operation;
- inventories - $0.9 million (31 December 2011: $0.9 million) – relates to stockpile held at cost relating to production at the San José mine; and
- financial assets held at fair value through profit or loss - $0.4 million (31 December 2011: $0.3 million) – relates to the Geologix shares received as part consideration for the final instalment for the sale of the Tepal project.

Current liabilities

- trade payables - $1.2 million (31 December 2011: $1.2 million)

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During the three months ended 31 March 2012 the group entered into the following transactions involving related parties:

Transactions with key management personnel

The Dragon Group charged the Company a total of $30,495 (31 December 2011: $31,081) which relates to the reimbursement of Tony Williams' remuneration paid on behalf of the Company. Tony Williams, Chairman and a director of the Company, beneficially owns the Dragon Group. At 31 March 2012 $10,378 (31 December 2011: $10,002) was outstanding.

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

FUTURE OUTLOOK

Management anticipates that the remainder of 2012 will show an improvement to revenues and production figures, based on the assumptions that silver prices will remain strong, although some volatility is expected, and further efficiencies should be realised at the mill. The preliminary results of the on-going mill and metallurgical studies are expected to be received during the second quarter. It is anticipated these studies will provide a platform which is expected to significantly increase efficiencies with milling and ultimately reduce Arian's silver production cost per ounce.

CRITICAL ACCOUNTING ESTIMATES

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

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

Going Concern

Since the Company is still at a relatively early stage of development with trial mining and milling, it will probably require additional funding for projects which may comprise debt, equity or a combination of the two. Although the Company has been successful in the past in raising equity finance, there can be no assurance that the funding required by the Company will be made available to it when needed or, if such funding were to be available, that it would be offered on reasonable terms. The terms of such financing might not be favourable to the Company and might involve substantial dilution to existing shareholders.

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

Resource Properties, Deferred Exploration and Development Costs

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

The amounts capitalised at any time represent costs to be charged to operations in future and do not necessarily reflect the present or future values of particular properties. The recoverability of the carrying values of exploration properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete development and future profitable production therefrom, or alternatively, upon the Company's ability to dispose of its interests on an advantageous basis.

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

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

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

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

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

FINANCIAL RISK FACTORS

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

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

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

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

Canadian dollar would, however, result in a reduction in expenses in Canadian dollar terms and preserve the Company's cash resources.

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

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at 31 March 2012, the Company had cash of $2,753,000 to settle accounts payable of $1,191,000. The Company's accounts payable have contractual maturities of less than 30 days and are subject to normal trade terms. Management expects that the Company will generate sufficient cash from the sale of concentrates to settle operating accounts payable.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligations. The Company's credit risk is attributable to cash and trade receivables. The credit risk on cash is limited because the Company invests its cash in deposits with well capitalised financial institutions with strong credit ratings. Credit risk attributable to trade receivables is managed in offtake agreements. The Company receives advances of 70% of the estimated value of the concentrate shipped the previous month and the remainder within three months of delivery.

OTHER RISK FACTORS

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

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

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

Mining concessions and Title

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

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

Nature of Mineral Exploration and Mining

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

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

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

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

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

Volatility of Metal Prices

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

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

Requirement of Additional Financing

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

Limited Operating History

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

Mineral Resource Estimates

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

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

No Reserves

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

Insurance and uninsured risks

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

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

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

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, and repatriation of income and return of capital. These changes may affect both the Company's ability to undertake exploration and development activities in respect of future properties in the manner currently contemplated, as well as its ability to continue to explore and develop those properties, in respect of which it has obtained exploration and development rights to date.

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

Regulatory Approvals

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

Competition

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

Conflicts of Interest

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

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

Forward Looking Statements

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

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

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

OTHER INFORMATION

Additional Information

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

Disclosure of Outstanding Share Data

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

	Number in issue
Common shares of no par value	301,714,112
Share purchase options	14,960,000

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