ARIAN SILVER CORPORATION

Management's Discussion and Analysis

of the Financial Condition and Results of Operations

For the three months ended 31 March 2011

COMPANY INFORMATION

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

This Management's Discussion and Analysis ("MD&A") has been prepared based on information available to Arian Silver Corporation ("Arian" or the "Company") as at 27 May 2011 and compares its financial results for the first quarter ended 31 March, 2011 with the equivalent period of the previous year. This MD&A should be read in conjunction with the Company's 31 March, 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 three months ended 31 March, 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.

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

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

OVERVIEW OF FIRST QUARTER OF 2011 AND SUBSEQUENT EVENTS

Financial

- Total assets of $19.6 million, including intangible assets of $2.2 million, property, plant and equipment of $5.9 million, trade and other receivables of $1.6 million and cash of $8.9 million, as at 31 March 2011.
- Consolidated pre-tax loss for the quarter was $8.4 million including a non-cash share options expense of $7.3 million.
- Working capital was $10.5 million, as at 31 March 2011.
- Revenue of $1.1 million and a gross loss of $213,000 for the quarter ended 31 March 2011 for the San José mining operation.
- Geologix Explorations Inc ("Geologix") exercised the Tepal option and the final instalment of $1.55 million was paid as to $775,000 in cash and $775,000 in Geologix shares. A loss of $52,000 was reported on the sale, due to foreign exchange.
- Further exercise of share purchase warrants and options generated Cdn$1.7 million and £66,000 in the quarter.

Operations

- San José production
    - Mining production 19,462 tonnes and milling production 21,128 tonnes.
    - Concentrate tonnes produced 146 and silver ounces produced 46,136.
- San José exploration
    - Phase 3 drilling complete and awaiting final assays.

Post 31 March 2011

- A new dedicated laboratory facility at San José was commissioned and became operational in April 2011.
- Results to date from the drilling programme continue to confirm the presence of significant silver mineralisation and that the SJV remains completely open along strike and to depth.
- Upgrades to the custom mill are continuing.
- An independent update of resource estimates is planned for the near future following completion of current drill programme.
- Decisive action taken at the plant to increase recoveries.

REVIEW OF FINANCIAL PERFORMANCE

In the quarter ended 31 March 2011, the Company incurred a pre-tax loss of $8.4 million (2010 - $0.4 million) which includes recognising the fair value expense of share purchase options vesting of $7.3 million (2010 - $8,000) and other administrative expenses of $0.8 million (2010 - $0.3 million). Interest income from cash resources was $11,000 (2010 - $4,000). Investment loss was $0.1 million (2010 - $0.1 million).

As at 31 March 2011, the Company had working capital of approximately $10.5 million (31 December 2010 - $10.2 million). See *Liquidity, Capital Resources and Working Capital* for the items of working capital. Intangible assets amounted to $2.2 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 $5.9 million (31 December 2010 - $5.4million); $5.8 million of this relates to the San José mine development costs. Share capital increased by $1.9 million to $47.2 million (31 December 2010 - $45.4 million) as a result of the issue of common shares in connection with the exercise of share purchase warrants and options.

REVIEW OF OPERATIONS

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

Property Summary

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

Qualified Person

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

San José Project, Zacatecas State

The San José property lies 55 kilometres to the southeast of Zacatecas City and covers 11 mining concessions totalling approximately 6,300ha. The property has significant infrastructure, including a 4 x 4 metre ("m") main haulage ramp ("SJ Ramp"), which extends for nearly 3.2km along the footwall of the San José Vein ("SJV") system, and a 350m deep, 500 tonne per day ("tpd"), vertical shaft with operational hoist. In addition, a number of shallower vertical shafts are located in a westerly direction along the SJV.

Production information

The production information for San José mine for Q1 was as follows:

	Q1 2011	Q4 2010
Head grade - Ag grams per tonne	**178**	154
Tonnes mined	**19,462**	7,600
Tonnes milled	**21,128**	3,385
Concentrate tonnes produced	**146**	22
Ounces produced	**46,236**	9,462
Ag ounces per concentrate tonne produced	**316**	439

Mining operations

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

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

Mining expectations remained unchanged at 500 tpd for the contract mining operation. Mining was planned to operate 20 days per month. Total costs to mine and deliver ore to the mill were estimated at approximately $26/tonne.

Milling operations

It was previously reported that Arian produced in March 934kg of silver in concentrate. The subsequent reconciliation process with the Smelter resulted in a disagreement between Arian and the Smelter's silver assays. Following further independent test sampling it has been concluded the production of silver in concentrate for March 2011 was 481kg. Arian has implemented actions to ensure that the Smelter and plant results are consistent. Concentrate recoveries are anticipated to increase as new reagents are tested in the plant and greater efficiencies are achieved.

Milling expectations also remain unchanged at a milling rate of 400 tpd (for 20 days), up to 125 tonnes of concentrate was forecast to be produced per month with an anticipated silver content of between 370 and 440 ounces per tonne ("opt").

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

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

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

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

Exploration

Arian's major drill programmes from 2006 along the SJV delineated a JORC Code compliant resource estimate of approximately 33.8 million ounces of silver, 95.5 million pounds of lead and 205 million pounds of zinc in the "inferred" mineral resource category and 9.0 million ounces of silver, 24.6 million pounds of lead and 42.2 million pounds of zinc in the "indicated" mineral resource category from seven delineated resource blocks. The NI 43-101 compliant mineral resources mentioned above for these same seven blocks are summarized in the table below:

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

1. *Geological characteristics and +30 ppm grade envelopes used to define resource volumes.*
2. *The mineral resource estimates are in accordance with CIM and JORC standards.*
3. *The effective date of the mineral resource estimates is 15 August, 2008.*
4. *The estimates are based on geostatistical data assessment and computerised IDW[3], Ag grade wireframe restricted, linear block modelling.*
5. *The resource was estimated using 830 drill hole samples and 1122 underground samples.*
6. *Resource figures were prepared by Galen White, Qualified Person and author of the August 2008 report.*
7. *Tonnage figures have been rounded up or down to the nearest 1000 t.*
8. *Ag ounces have been calculated using 31.1035 g = 1oz.*
9. *Pb and Zn tonnes have been calculated using 2204.622 lbs = 1 tonne.*

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

In May 2011 Arian completed the Phase three drill programme which commenced in November 2010, drilling over 10,000m.

The purpose of the drill programme was to delineate additional areas of high grade mineralisation and to upgrade existing resources, between the Santa Ana and Guanajuatillo resource areas along the SJV. The drill programme also started to explore in detail the SJV system that lies to the west of the village of Guanajuatillo, which collectively accounts for approximately 90% of the known strike length of the SJV system. The results to date from the drilling continue to confirm the presence of significant silver and, in places lead and zinc mineralisation and that the SJV remains completely open along strike and to depth. In April 2011 the latest drilling results from the current drilling programme were released (see the Company's press release dated 4 April 2011 entitled "Arian Silver's continuing exploration drilling intercepts high-grade silver at San José").

It is anticipated that a resource estimation update will be completed during the summer months of 2011 and this process has already begun with the recent site visit by an independent consultant. It is also proposed to immediately follow up the Phase three drill programme with another drill programme, details of which will be announced in due course.

The laboratory purchased in November 2010 from Stewart Group's Geochemical & Assay Division ("Stewart Group") has been commissioned and went operational in April 2011.The laboratory comprises a comprehensive sample preparation facility, a fire assay laboratory and a wet chemistry laboratory with Atomic Absorption Spectrometry ("AAS"). The laboratory should significantly increase the turnaround times for analysis of Arian's sampled cores and is being 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.

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

The following reports prepared by A.C.A. Howe International Limited relating to the San José project are available on the Company's website www.ariansilver.com 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"
b) Report dated 15 August, 2008 and entitled "Resource Estimation Update for the San José Silver-Lead-Zinc Deposit, Zacatecas, Mexico".

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

Calicanto Project, Zacatecas State

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

During the period under review there was no material operational activity in relation to this project and there has not been any significant project expenditure during the past two years.

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

Tepal Project, Michoacán State

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

RESULTS OF OPERATIONS

Three months ended 31 March, 2011 compared to three months ended 31 March, 2010

The pre-tax loss for the year was $8.4 million (2010 - $0.4 million). This loss includes the expensing of the fair value of share purchase options vesting of $7.3 million (2010 - $8,000) and other administrative expenses of $0.8 million (2009 - $0.3 million). Other administration expenditure was $0.5 million higher than last year mainly due to $0.2 million foreign exchange gain in March 2010 as a result of cash balances held and $0.3 million as a result of increased expenditure in the following areas; investor relations, share register, travel and employers national insurance contributions relating to exercise of stock options. The San José mining operation incurred a gross loss of $213,000. Finance loss of $0.1 million (2010 - $0.1 million), including interest income of $11,000 (2010 - $4,000), losses, due to foreign exchange, on the sale of Tepal of $52,000 (2010 - $nil), and on Geologix shares held of $74,000 (2010 - $105,000).

SUMMARY OF QUARTERLY RESULTS

Unaudited	**2011** 1st Quarter $'000	**2010** 4th Quarter $'000	**2010** 3rd Quarter $'000	**2010** 2nd Quarter $'000
Total Revenue and finance revenue	1,148	325	144	91
Net loss before finance revenue/costs	8,275	936	411	469
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	-	-	-	-

Unaudited	**2010** 1st Quarter $'000	**2009** 4th Quarter $'000	**2009** 3rd Quarter $'000	**2009** 2nd Quarter $'000
Total Revenue and finance revenue	4	-	-	-
Net loss before finance revenue/costs	270	552	588	446
Net loss for the period	371	357	588	446
Basic and diluted loss per share	$(0.01)	$(0.00)	$(0.00)	$(0.00)
Total assets	11,932	13,876	14,042	12,993
Shareholders' equity	10,010	11,743	11,643	12,045
Cash dividend declared per share	-	-	-	-

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 $1.4m 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 $0.6m due to investment in mine development costs at the San José mine. Trade and receivables increased by $0.3 million as a result of the deposit paid on the assay laboratory for the San José mine. The increase in shareholders' equity is largely attributable to a share placement the exercise of share purchase warrants and options offset by the loss incurred in the period.

Third quarter 2010 vs. second quarter 2010

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

Second quarter 2010 vs. first quarter 2010

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

First quarter 2010 vs. fourth quarter 2009

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

Fourth quarter 2009 vs. third quarter 2009

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

Third quarter 2009 vs. second quarter 2009

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

LIQUIDITY, CAPITAL RESOURCES AND WORKING CAPITAL

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

During the period the Group received new funding from:-

- the exercise of 1,200,000 share purchase options and 17,342,000 "F" share purchase warrants which generated £66,000 and Cdn$1,734,200 respectively.

- the exercise of the Tepal option by Geologix which resulted in the receipt of a final instalment of $1.55 million, satisfied as to $775,000 in cash and the issue of to the Company of 1,089,318 common shares of Geologix at a price of approximately Cdn$0.70. The Geologix shares are subject to a four month hold period expiring in June 2011.

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

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

Working Capital – 31 March, 2011

As at 31 March, 2011, the Company had working capital of approximately $10.5 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 - $8.9 million (2010 – $8.3 million) – increase has largely arisen through funds from the final instalment received for the sale of the Tepal project and the exercise of share purchase warrants and options.
- 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 has been sold in the quarter.

- trade and other receivables - $1.6 million (2010 – $0.9 million) – increase largely due to $1.0 million relating to the trade debtor for the sale of silver concentrate from the San José mining operation, offset by $0.3 million for the transfer of the deposit for the assay laboratory to non-current assets.
- inventories - $0.4 million (2010 – $0.1 million) – relates to stockpile held at cost relating to production at the San José mine.
- other financial assets at fair value through profit and loss -$0.7 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) – relates to the value of the non-refundable first instalment of the Tepal option consideration pending exercise or termination of the Tepal option. This has now been realised in the quarter.
- trade payables - $1.1 million (2010 – $0.5 million) – the increase relates to invoices outstanding relating to the production and exploration costs at the San José project.

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

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During the three months ended 31 March, 2011 the Group entered into the following transactions involving related parties:

Transactions with key management personnel

(a) The Dragon Group charged the Company a total of $31,081 (2010 – $30,319). This relates to 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, 2011 $10,376 (2010 - $32,576) was outstanding.

(b) Kopane Diamond Developments PLC ("KDD") charged the Company a total of $13,357 (2010 – $6,761). This includes reimbursement of $nil (2010 – $6,605) in respect of James Cable's remuneration paid on behalf of the Company with the balance relating to the provision of office accommodation and reimbursable expenses incurred on behalf of the Company. The Company charged KDD $8,762 (2010 – $8,113) for the provision of accounting support services. James Cable and Tony Williams are Directors of the Company and are former directors of KDD. At 31 March, 2011 $28,213 (2010 - $6,526) was outstanding due to KDD and $17,369 (2010 - $7,892) was outstanding due from KDD.

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

PROPOSED TRANSACTIONS

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

CRITICAL ACCOUNTING ESTIMATES

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

Going Concern

The directors currently believe that the Group has adequate financial resources or access to such resources in order to continue in operational existence for the foreseeable future and to meet its currently projected working capital and project expenditure requirements for the next 12 months. They therefore believe it appropriate to prepare the Group's financial statements on a going concern basis.

Resource Properties, Deferred Exploration and Development Costs

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

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

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

Share based payments

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

RISKS AND UNCERTAINTIES

The 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 actually incur, 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.

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

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

Volatility of Silver Price

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

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

Requirement of Additional Financing

The exploration and development of the Company's concessions, including continuing exploration projects, and the construction of mining facilities and commencement of mining operations, will require substantial additional financing. The Company currently has sufficient funds to finance its projected working capital and project expenditures for the next 12 months but may require further funding in the future to continue to explore and develop its concessions and to maintain its interest in all its projects. No assurance can be given that the Company will be able to raise the additional financing necessary to continue its production activities or to explore and/or develop its concessions. Failure to obtain sufficient financing for any projects will result in a delay or indefinite postponement of exploration, development or production on properties covered by the Company's concessions or even the loss of a concession. The only sources of funds currently available to the Company are through the sale of product from production activities, the issue of equity capital, the sale of concessions or other assets, royalty interests or the entering into of joint ventures. In addition, the Company's ability to obtain further financing will depend in part on the price of silver and the industry's perception of its future price and other factors outside the Company's control. 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.

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.

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 26 May, 2011:-

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

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