ARIAN SILVER CORPORATION

Management's Discussion and Analysis

Of the Financial Condition and Results of Operations

For the Six Months and Three Months Ended June 30, 2006
(in US Dollars)

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STOCK EXCHANGES
The AIM Market of the London Stock Exchange
TSX Venture Exchange

TRADING SYMBOLS
AIM: AGQ (stock is quoted in Pounds Sterling)
TSXV AGQ (stock is quoted in Canadian Dollars)

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This discussion and analysis ("MD&A") has been prepared based on information available to Arian Silver Corporation ("ASC" or the "Company") as at August 25, 2006. This MD&A should be read in conjunction with the Company's interim consolidated financial statements and the related notes for the six months ended June 30, 2006. The Company's consolidated financial information at June 30, 2006 and the related notes have been prepared in accordance with UK Generally Accepted Accounting Principles ("UK GAAP") and has been reconciled to Canadian GAAP in note 12.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING AND CONTROLS

The Consolidated Financial Statements of the Company for the three and six months ended June 30, 2006 have been prepared by management in accordance with UK Generally Accepted Accounting Principles ("UK GAAP") and have been approved by the Company's board of directors (the "Board"). The integrity and objectivity of these 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 Consolidated Financial Statements.

In support of this responsibility, the Company's 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 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 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 control. The Board carries out this responsibility principally through its audit committee. The audit committee is appointed by the Board and has several financial experts who are not involved in the Company's daily operations. The audit committee meets periodically with management and the external auditor to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the Consolidated Financial Statements with the external auditors.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this MD&A, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109—*Certification of Disclosure in Issuers' Annual and Interim Filings* of the Canadian Securities Administrators) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Introduction

The following discussion is management's assessment and analysis of the results and financial condition of the Company (formerly Hard Assets Inc.) and should be read in conjunction with the accompanying unaudited consolidated financial statements for the three and six month period ended June 30, 2006, which are available on SEDAR at www.sedar.com. The Consolidated Financial Statements have been prepared in accordance with UK GAAP and have been reconciled to Canadian GAAP in note 12 of the financial statements. The functional currency of the business is the US dollar ("**USD**"). All monetary values are expressed in USD unless otherwise indicated.

The Company was incorporated in the province of British Columbia, Canada, on May 4, 2004. On July 14, 2004, the Company was admitted to trading on the AIM Market of the London Stock Exchange,. On May 24, 2006 the Company was continued to the British Virgin Islands in connection with the merger transaction referred to below. On July 21, 2006 the Company's common shares were listed and commenced trading on the TSX Venture Exchange.

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

Merger Transaction

On March 9, 2006, the Company entered into an agreement with Arian Silver Corporation Limited ("**ASCL**") to acquire all of the outstanding shares of ASCL in consideration for the issuance of common shares of the Company (the "**Merger**"). The Merger was subject to the approval of shareholders of both the Company and ASCL. On May 24, 2006, the Merger was completed and the Company changed its name to Arian Silver Corporation. On May 25, 2006 the Company's shares were re-admitted to trading on AIM.

The Merger has been accounted for in accordance with the reverse take over method of accounting. Under this method, ASCL has been identified as the acquirer and accordingly the consolidated entity is considered to be a continuation of ASCL.

Overview of Operations

During the reporting period, exploration work was carried out at the Calicanto, San Celso and Donovan properties in the Zacatecas State of Mexico. In addition, the Company negotiated an option to acquire the Tepal project in Michoacan State, Mexico and acquired a new concession named "Missie" adjacent to the Calicanto concessions in order to increase the land tenure of the property. Several tailings projects and new hard rock properties were also investigated.

Calicanto

Prospecting work at Calicanto commenced and the first phase of sampling was completed, with assay results obtained from laboratories in Mexico and Canada. Underground mining work continued along strike of the vein. Chip channel sampling and surveying of the decline and tunnel accessing the Calicanto workings was undertaken taken on a regular basis as the tunnelling advanced. The tunnel itself is approximately 4-5 m high and 5-6 m wide. Several bulk samples were taken from the ramp material for metallurgical studies and were treated at an independent recovery plant in Zacatecas. Surveying of the project is ongoing in preparation for the phase 1 drilling campaign. Two proposals by separate drilling contractors have been submitted. Environmental work has been carried out in order to obtain the environmental permit required for drilling.

The following schedule shows project expenditures:

	3 Months ended June 30		6 months ended June 30	
	2006	2005	**2006**	2005
	$000's	$000's	**$000's**	$000's
Calicanto				
Mining & option rights	**7**	1	**47**	-
Drilling & exploration	**12**	1	**23**	-
Geology – logging & sampling	**8**	-	**8**	-
Administration	**5**	1	**5**	-
Total	**32**	3	**83**	-

A two-phase budget totaling $1,666,320 has been proposed by Arian for the Calicanto Property. Phase one diamond drilling will focus on the highest priority target(s), leaving secondary targets for phase two. Remote sensing and ground geophysics are intended to develop, or further define, additional targets for the second phase of exploration. The first phase of work, totaling $554,625, includes 2,100 m of diamond drilling as well as the ground magnetics and remote sensing. Phase two exploration includes follow-up of phase one results on the primary target(s) as well as work on other known targets and targets resulting from phase one geophysics and remote sensing. If the results from the target(s) explored during phase one are unfavorable, this/these target(s) will be abandoned and resources redirected to secondary targets. This phase of work totals $1,111,695 and consists of 5,000 m of diamond drilling and a follow-up geophysical study (induced-polarization). Each phase of drilling is to be preceded by environmental permitting.

Expenditures described above are discretionary and not yet committed and will depend on the Company's ability to raise further funding.

San Celso

Rehabilitation and reladdering of the San Celso shaft and underground workings commenced and continued in the period. First phase underground sampling and surveying was initiated, involving chip-channel samples being taken across the faces of the veins, foot walls, hanging walls and country rock areas. The first batch of samples was passed for treatment to laboratories in Mexico and Canada. Underground surveying and mapping of the San Celso mine workings was completed and the plans are being digitised. Chip-channel samples were taken across the faces of the veins, foot walls, hanging walls and country rock areas throughout all accessible levels of the workings.

The following schedule shows project expenditures:

	3 Months ended June 30		6 months ended June 30	
	2006	2005	**2006**	2005
	$000's	$000's	**$000's**	$000's
San Celso				
Mining & option rights	**1**	**5**	**44**	-
Drilling & exploration	**2**	1	**3**	-
Geology – logging & sampling	**11**	-	**12**	-
Administration	**3**	1	**12**	-
Total	**17**	7	**71**	-

A two-phase budget totaling $1,495,600 has been proposed by Arian for the San Celso Property. Phase one diamond drilling will focus on the highest priority target(s), leaving secondary targets for phase two. Remote sensing and ground geophysics are intended to develop, or further define, additional targets for the second phase of exploration. The first phase of work, totaling $754,300, consists of 3,000 m of diamond drilling as well as the ground magnetics and remote sensing study. Phase two exploration includes follow-up of phase one results on the primary target(s) as well as work on other known targets and targets resulting from phase one geophysics and remote sensing. If the results from the target(s) explored during phase one are unfavorable, this/these target(s) will be abandoned and resources redirected to secondary targets. This phase of work, totaling $741,300, consists of 3,000 m of diamond drilling and follow-up ground magnetometry. Each phase of drilling is to be preceded by environmental permitting as is the ground geophysical programme. Arian plans to continue underground sampling and mapping during both phases of exploration.

Expenditures described above are discretionary and not yet committed and will depend on the Company's ability to raise further funding.

Other properties

Tepal

Following the negotiation of the option a representative from ACA Howe International Limited, independent consultants, visited the project site with a view to preparing a technical report on the project.

Public financing

Set out below are details of financing undertaken by ASCL or by the Company during the period.

On February 13, 2006, ASCL issued 400,000 ordinary shares of US$0.01 each at a premium of US$0.49 per share to provide additional working capital.

On April 7, 2006, ASCL issued 4,000,000 ordinary shares of US$0.01 each at a premium of $0.49 per share to provide additional working capital. In settlement of agents commission in respect of this placement, ASCL also issued 280,000 common shares of $0.01 each at a premium of $0.49 per share.

On May 24, 2006, the date of the Merger, the Company issued 48,899,200 common shares at an equivalent price of $0.36 per share to acquire 100% of the issued and outstanding share capital of ASCL. Under the reverse acquisition method of accounting, it was deemed that 37,000,003 shares were issued in consideration for Hard Assets Inc, being its issued share capital immediately prior to the Merger.

On May 25, 2006 the Company issued 416,666 common shares at $0.50 per share in settlement of a corporate finance fee.

Selected Financial Information

The following is a summary of selected financial information for the 6 months ended June 30, 2006 and 2005:

	6 months to Jun-06	6 months to Jun-05
	$'000s	$'000s
Total Revenues	**31**	-
Net Loss before discontinued operations and extraordinary items	**1,923**	148
Net Loss for the period	**15,554**	148
Basic and diluted loss per share	**$(0.29)**	$(0.01)
Total Assets	**3,247**	887
Shareholders' equity	**2,838**	887
Cash dividends declared per share	**-**	-

Results of Operations

The Company has not generated any operating revenues and losses have continued to incur throughout the Company's second quarter of 2006 and six months ended June 30, 2006.

Three months ended June 30, 2006 compared to three months ended June 30, 2005
Expenditure incurred in the second quarter 2005 was at a relatively low level, with a loss of $0.1 million. The Mexican operating company had just been set up at the end of the previous quarter, costs being incurred in respect of establishing office facilities in Mexico, carrying out research to identify exploration assets and other overheads to establish the company. During the equivalent period in 2006 losses had increased to $0.6 million due to higher Mexican administrative costs and higher headquarters staff, legal and other overhead costs in this significant period during which the Merger occurred and the company obtained an AIM listing.

Six months ended June 30, 2006 compared to six months ended June 30, 2005
Expenditure incurred in developing the Company's projects in Mexico and on administration was higher during the 6 months to June 30, 2006 compared with the same period to June 30, 2005 due

to the general higher level of activities in the company, which established operations in early 2005. Higher costs were incurred to further establish operations in Mexico and hire new staff. Expenditure on developing the Mexican projects, which is treated as an intangible asset, increased in the current period due to the greater number of projects under development and increased exploration work. The loss for the 6 months to June 30, 2006 increased to $2.0 million (after expensing the fair value of share options granted in the period of $0.9 million and before the exceptional loss due to the write-off of goodwill resulting from the Merger of $13.6 million) compared to $0.1 million for the same period to June 30, 2005 resulting from this higher activity. Cash raised from the placement of shares was $2.2 million during the 6 months to June 30, 2006 compared to $1.1 million in the same period to June 30, 2005.

Summary of Quarterly Results

Unaudited	**2006** 2nd Quarter $'000s	**2006** 1st Quarter $'000s	**2005** 4th Quarter $'000s	**2005** 3rd Quarter $'000s	**2005** 2nd Quarter $'000s
Total Revenues	20	11	2	7	-
Net loss before discontinued operations and extraordinary items	611	1,312	519	182	148
Net loss for the period	14,276	1,278	519	182	148
Basic and diluted loss per share	$(0.22)	$(0.03)	$(0.01)	$(0.01)	$(0.01)
Total assets	3,247	1,463	1,780	850	887
Shareholders' equity	2,838	1,463	1,621	620	887
Cash dividends declared per share	-	-	-	-	-

Second quarter 2006 vs. first quarter 2006
The increase in Shareholders' equity and cash over the previous quarter is the result of the placement of $2 million of new common shares. The net loss increased as a result of costs associated with the Merger and re-listing on AIM. There was an exceptional loss resulting from the write off of goodwill of $13.6 million on the Merger in accordance with reverse take over accounting.

First quarter 2006 vs. fourth quarter 2005
The decrease in the Shareholders' equity and cash over the previous quarter is a result of share placements in the period of $200,000 offset by administration and project expenditure.

Fourth quarter 2005 vs. third quarter 2005
The increase in Shareholder's equity over the previous quarter is the result of share placements in the period. The increase in the net loss is attributable to increased administration costs resulting from the establishment of the Company's office and operations in Mexico, its corporate office in London and recruitment of key staff. Cash of $1.1 million was received from an exercise of warrants during the fourth quarter.

Third quarter 2005 vs. second quarter 2005
The Company in Mexico was established at the end of the first quarter 2005 and expenditure there and in respective of corporate administration was at a low level, building during the second quarter and increasing further in the third quarter.

No financial statements have been prepared for earlier quarters.

Liquidity and Capital Resources

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

The Company raises capital for its operations through the issuance of securities of the Company, proceeds received from the exercise of options and share purchase warrants. Although the Company has been successful in the past in raising finance, there can be no assurance that any funding required by the Company in the future will be made available to it and, if such funding is available, that it will be offered on reasonable terms or that the Company will be able to secure such funding through third party financing or joint ventures. Furthermore there is no assurance that the Company will be able to secure new mineral properties or projects or that they can be secured on competitive terms.

As at June 30, 2006, the Company had working capital of $2.3 million (December 31, 2005: $1.3 million) which is sufficient to cover ongoing obligations as they become due.

Total assets increased from $1.8 million at December 31, 2005 to $3.2 million at June 30, 2006, a difference of $1.4 million, due to the receipt of funds from share placements less administrative and project expenditure incurred in the period. The most significant assets at June 30, 2006 were cash of $2.6 million (December 31, 2005: $0.1 million; however, cash held by a shareholder to the Company's account was $1.3 million at that date) and intangible assets of $0.5 million (December 31, 2005: $0.2 million).

The Company does not have any exploration and development expenditure commitments in respect of its projects. However, the following are the material payments that will need to be made in order to maintain certain properties in good standing:

(a) In order to maintain the Company's interest in the Calicanto property, the Company is required to pay, over the 5 year period to June 30, 2011, $380,000 in option payments.

(b) In order to maintain the recently acquired Tepal option agreement in good standing the Company is required to pay the vendor $5 million in instalments over the five- year period through to June 2011 and will also grant the vendor a Net Smelter Return of 2.5%. The Company has made the initial payment of $100,000 to the vendor.

The Company has the right to withdraw from the option agreements relating to Calicanto and Tepal at any time during the five-year term of each option without financial penalty.

Stock Options and Share Purchase Warrants

On April 13, 2006, the Company granted 350,000 stock options with an exercise price of $0.50 and an expiry date of April 13, 2008.

On May 25, 2006 the Company issued 208,333 share purchase warrants in connection with the settlement of a corporate finance fee. These warrants have an exercise price of 30p and an expiry date of May 25, 2007.

In addition, as a result of the Merger the Company has outstanding (i) 5,830,000 stock options with an exercise price of 15p and an expiry date of January 31, 2009 and (ii) 2,899,600 share purchase warrants with an exercise price of $0.175 and an expiry date of April 7, 2007.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

Transactions with Related Parties

The Company entered into the following transactions involving related parties:

Six months ended June 30, 2006 compared to six months ended June 30, 2005
Companies in the Dragon Group charged the Company a total of $134,504 (6 months to June 30, 2005: $35,205) in respect of the provision of staff, office facilities, general office overheads and re-charged costs incurred on behalf of the Company. A. J. Williams, Chairman and a director of the Company, beneficially owns the Dragon Group.

Endeavour Financial Limited ("EF") charged the Company a total of $11,428 (6 months to June 30, 2005: $18,000) in respect of the provision of office facilities incurred on behalf of the Company. Gordon Keep, a director of the Company up to the date of the Merger, is a director of EF.

Anfield Sujir Kennedy & Durno ("ASKD") charged the Company a total of $108,154 (6 months to June 30, 2005: nil) in respect of the provision of legal services incurred on behalf of the Company. Henry Jay Sujir, a director of the Company up to the date of the Merger, is a partner in ASKD.

Three months ended June 30, 2006 compared to three months ended June 30, 2005
Companies in the Dragon Group charged the Company a total of $63,352 (3 months to June 30, 2005: $19,070) in respect of the provision of staff, office facilities, general office overheads and re-charged costs incurred on behalf of the Company. A. J. Williams, Chairman and a director of the Company, beneficially owns the Dragon Group.

Endeavour Financial Limited ("EF") charged the Company a total of $12,000 (3 months to June 30, 2005: $12,000) in respect of the provision of office facilities incurred on behalf of the Company. Gordon Keep, a director of the Company up to the date of the Merger, is a director of EF.

These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Post Balance Sheet Transactions

On July 3, 2006 the Company issued 300,000 common shares in relation to the exercise of stock options at Cdn$0.12 per share.

On August 9, 2006 the Company announced that it had entered into an agreement to acquire the exclusive option over the Tepal polymetallic project in Michoacan State, Mexico. The option agreement is for a 5 year term. Assuming the option is exercised in full, the Company will pay Minera Tepal $5 million in installments and will grant Minera Tepal a Net Smelter Return of 2.5%. The Company has the right to withdraw from the option agreement at any time during the 5 year period without penalty.

Critical Accounting Estimates

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

Resource Properties, Deferred Exploration and Development Costs

All costs related to the exploration of mineral properties are capitalised until either the properties are brought into production, at which time they are depleted on a unit of production basis, or until the properties are sold, allowed to lapse or abandoned or determined not to be commercially viable, at which time they are charged to the profit and loss account.

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 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. No writedowns were recorded in the financial statements for the period. A writedown would be recorded as an expense to the Company's profit and loss account.

Asset Retirement Obligations

The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement of fair value.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash and cash equivalents, debtors, creditors and accrued liabilities, some of which are denominated in Sterling, Mexican Peso and US dollars. These accounts are recorded at cost which approximates their fair value at each reporting period end in the reporting currency. The Company experiences financial gains or losses on these accounts as the result of foreign exchange movements against the reporting currency. The Company minimizes its foreign exchange risk by maintaining low Mexican Peso balances, to the extent possible. As exploration and mine development costs are incurred and purchase commitments made, the Company may acquire Mexican Pesos or use derivative instruments to lock in these costs in US dollar funds, if it believes it prudent to do so.

The Company has placed its cash and cash equivalents in short-term liquid deposits or investments which provide a rate of interest upon maturity.

Other Information

Additional Information:

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

Disclosure of Outstanding Share Data

The following table sets forth information concerning the outstanding securities of the Company as at August 25, 2006:

Common shares of no par value ("Shares")	**Number in issue**
Shares	86,315,869
Share options(1)	6,180,000
Share purchase warrants(1)	3,107,600

(1) *Each share option and share purchase warrant entitles the holder thereof to purchase one Share.*

Risks and Uncertainties

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

Option Agreements in relation to certain mining concessions

There is no certainty that following completion of initial exploration work at the Calicanto project and the Tepal project that the Company will elect to proceed to exercise the options over the mining concessions for those areas. The sums paid and due to be paid under the option agreements are not repayable if the options are not exercised. The Company will not be able to exercise the option over the mining concessions at the Calicanto project until probate is granted in relation to the estate of Juan Mayorga Murillo's father and all of Juan Mayorga Murillo's interests in the concessions are registered with the Public Registry of Mines in Mexico.

In addition, in relation to concessions over which the Company has an option, the current concession holder may not be able to, or may voluntarily decide not to, comply, or may not have complied in all respects, with the concession requirements for some or all of its concessions. If the current concession holder fails to fulfill 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 or suspend or revoke the concessions, any of which could have a material adverse effect on the Company's operations and proposed operations.

Requirement of Additional Financing

The exploration and development of the Company's concessions, including continuing exploration and development projects, and the construction of mining facilities and commencement of mining operations, will require substantial additional financing. Additional financing will also be required to pay the exercise price of the options held by the Company at the date of this document and any options which are subsequently acquired. The Company does not currently have sufficient funds to explore its concessions and in respect of the Tepal project maintain it. No assurance can be given that the Company will be able to raise the additional financing necessary to explore its concessions, or exercise its options (current or future). 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 a loss of a concession. The only source of funds currently available to the Company is through the issue of equity capital, the sale of concessions, 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.

Limited Operating History

The Company has no concessions producing revenue and its ultimate success will depend on its ability to generate cash flow from concessions in the future. The Company has not earned 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 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.

No Reserves or Resources

The Company does not hold any concessions, or currently have an interest in concessions pursuant to options, in respect of which reserves or resources estimates have been established that comply with CIM Standards and Guidelines or other similar recognized industry standards.

Reliance on Sub-Contractors in Mexico

The Company will rely on sub-contractors to build the Company's planned development programs. The failure of a sub-contractor to perform properly its services to the Company could delay or inconvenience mining 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 and the loss of one or more 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 or 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.

Nature of Mineral Exploration and Mining

Any exploration program entails risks relating to the location of economic orebodies, the development of appropriate metallurgical processes, the receipt of necessary governmental permits and the construction of mining and processing facilities. The Company's projects are not in production and no assurance can be given that any exploration program 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 programs 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, any of which 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 minimize 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 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 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.

Political Risk

The Company is conducting its exploration and development activities in the Republic of Mexico. The Company may be adversely affected by changes in economical, political, judicial, administrative, taxation or other regulatory factors 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 that the Government of Mexico supports the development of natural resources by foreign operators. There is no assurance that future political and economic conditions in Mexico will not result in the Government of Mexico adopting different policies in respect of foreign development and ownership of mineral resources. Any such changes in policy may result in changes in laws affecting ownership of assets, taxation, rates of exchange, environmental protection, labour relations, repatriation of income and return of capital, which 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 mining licences 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 of the 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 exists the possibility for such directors and officers to be in a position of conflict. The Company expects that any such director shall disclose such interest in accordance with its articles of association and any decision made by any of such directors and officers involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company and its shareholders.

Forward Looking Statements

This MD&A contains certain "forward-looking statements". All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding the estimation of mineral resources, potential mineralization and resources, and the Company's exploration and development plans) 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 frequently characterized by words such as "plan," "expect", "project", "intend", "believe", "anticipate", "estimate" and other similar words or statements that certain events or conditions "may" or "will" occur, and include, without limitation, statements regarding potential mineralization and resources, exploration results and future plans and objectives of 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 realized or substantially realized, 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, uncertainties relating to the availability and costs of financing needed in the future, changes in commodity prices, changes in equity markets, political developments in Mexico, changes to regulations affecting the Company's activities, delays in obtaining or failures to obtain required regulatory approvals, the uncertainties involved in interpreting drilling 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.

Interim Consolidated
Financial Statements
(Unaudited)

Second Quarter and Six Months ended June 30, 2006
(In thousands of U.S. dollars)

ARIAN SILVER CORPORATION
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ENGLAND
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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Arian Silver Corporation
Consolidated Balance Sheets (Unaudited)
As at June 30, 2006 and December 31, 2005
(In thousands of U.S. dollars)

	2006	2005
ASSETS		
Current assets		
Cash *(note 3)*	**2,587**	98
Accounts receivable and prepaid expenses	**83**	1,390
	2,670	1,488
Fixed assets		
Tangible assets *(note 4)*	**101**	50
Intangible assets *(note 5)*	**476**	242
	3,247	1,780
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**409**	159
	409	159
NET ASSETS	**2,838**	1,621
SHAREHOLDERS' EQUITY		
Share capital *(note 7(a))*	**18,509**	2,604
Contributed surplus *(note 7(b))*	**866**	-
Deficit	**(16,537)**	(983)
	2,838	1,621

The accompanying notes are an integral part of these consolidated financial statements.
These consolidated financial statements have been approved by the Company's directors.

Arian Silver Corporation
Consolidated Statements of Operations and Deficit (Unaudited)
For the three and six months ended June 30, 2006 and June 30, 2005
(In thousands of U.S. dollars except shares and per share amounts)

	3 Months ended June 30		6 months ended June 30	
	2006	2005	**2006**	2005
Income				
Interest	**20**	-	**31**	-
	20	-	**31**	-
Expenses				
Administration	**255**	60	**448**	63
Legal and professional fees	**333**	84	**621**	84
Stock-based compensation *(note 7(e))*	**55**	-	**866**	-
Foreign exchange (gain)/loss	**(12)**	1	**19**	1
	631	145	**1,954**	148
Net loss for the period	**(611)**	(145)	**(1,923)**	(148)
Less exceptional gain/(loss):				
Goodwill on acquisition of ASCL	**(13,665)**	-	**(13,665)**	-
Negative goodwill on acquisition of Arian Silver Corporation Plc	**-**	-	**34**	-
Net loss for the period after exceptional loss	**(14,276)**	(145)	**(15,554)**	(148)
Deficit at beginning of period	**(2,261)**	(113)	**(983)**	(110)
Deficit at end of period	**(16,537)**	(258)	**(16,537)**	(258)
Basic and diluted loss per common share	**$(0.22)**	$(0.01)	**$(0.29)**	$(0.01)
Weighted average number of shares ('000s)	**63,805**	29,047	**52,698**	28,543

There were no gains or losses during the period other than the above reported loss.

The accompanying notes are an integral part of these consolidated financial statements.
These consolidated financial statements have been approved by the Company's directors.

Arian Silver Corporation
Consolidated Statements of Cash Flows (Unaudited)
For the three and six months ended June 30, 2006 and June 30, 2005
(In thousands of U.S. dollars)

	3 Months ended June 30		6 months ended June 30	
	2006	2005	**2006**	2005
Cash flow provided from (used in)				
Operating activities				
Net loss for the period	**(14,276)**	(145)	**(15,554)**	(148)
Adjustments to reconcile net loss to cash flow from operating:				
Stock-based compensation	**55**	-	**866**	-
Unrealized foreign exchange (gains) / losses	**43**	1	**33**	1
Depreciation	**2**	-	**5**	-
Goodwill on acquisition of Hard Assets inc.	**13,665**	-	**13,665**	-
Goodwill on acquisition of Arian Silver Corp. Plc.	**-**	-	**(34)**	-
Changes in non cash working capital:				
(Increase)/decrease in accounts receivable and prepaid expenses	**(43)**	-	**1,316**	-
Increase/(decrease) in accounts payable and accrued liabilities	**(42)**	(2)	**(50)**	1
Costs settled through issue of shares	**-**	(70)	**-**	(70)
Cash flow provided from (used in) operating activities	**(596)**	(216)	**247**	(216)
Investing activities				
Purchase of tangible assets	**(42)**	(10)	**(55)**	(10)
Purchase of intangible assets	**(199)**	(10)	**(234)**	(10)
Cash cost of acquisition of Hard Assets Inc.	**(301)**	-	**(301)**	-
Cash acquired with Hard Assets Inc.	**654**	-	**654**	-
Cash flow used for investing activities	**112**	(20)	**64**	(20)
Management of Liquid Resources	**(1,501)**	-	**(1,501)**	-
Financing activities				
Common shares issued, net of issue costs	**2,000**	1,103	**2,200**	1,103
Redemption of preference shares	**(22)**	-	**(22)**	-
Cash flow provided from financing activities	**1,978**	1,103	**2,178**	1,103
(Decrease)/increase in cash and cash equivalents	**(7)**	867	**988**	867
Cash at beginning of period	**1,093**	-	**98**	-
Cash at end of the period	**1,086**	867	**1,086**	867
Cash in the balance sheet comprises:				
Cash balances on deposit with bank	**1,086**	867	**1,086**	867
High-interest deposit accounts	**1,501**	-	**1,501**	-
	2,587	867	**2,587**	867

The accompanying notes are an integral part of these consolidated financial statements.
These consolidated financial statements have been approved by the Company's directors.

1. Summary of Significant Accounting Policies

These interim unaudited consolidated financial statements for Arian Silver Corporation ("ASC" or the "Company") have been prepared in accordance with United Kingdom Generally Accepted Accounting Principles ("UK GAAP"), following the merger of the Company with Arian Silver Corporation Limited in May 2006. The 2005 audited accounting statements were prepared on the basis of Canadian Generally Accepted Accounting Principles ("Canadian GAAP"); any material differences in 2005 comparative statements due to the adoption of UK GAAP are shown in the notes to these statements.

Not all disclosures required by generally accepted accounting principles for annual financial statements are present, and accordingly, these interim consolidated financial statements should be read in conjunction with the Company's 2005 audited consolidated financial statements.

The group is at an early stage of development and in common with many mineral exploration and development companies it raises funds in discrete tranches. In the opinion of the directors, the company has sufficient funds to meet its obligations over the next 12 months. Accordingly the financial statements have been prepared on the going concern basis.

The current cash resources of the group will not be sufficient to bring the exploration and development projects into full production and, in due course, further funding will be required for these projects. In the event that the group is unable to secure further finance the group will not be able to fully develop these projects.

2. Merger of the Company and Arian Silver Corporation Ltd.

The Company was previously named Hard Assets Inc. until its merger with Arian Silver Corporation Limited ("ASCL") on May 24, 2006 whereupon it was renamed Arian Silver Corporation and re-admitted to the AIM market of the London Stock Exchange on May 25, 2006.

The merger of the Company with ASCL in May 2006 was accounted for in accordance the reverse take over method of accounting. Under this method, ASCL has been identified as the acquirer and accordingly the consolidated entity is considered to be a continuation of ASCL and the historical financial information prior to the acquisition is that of ASCL only. For accounting purposes, the Company is thus deemed to have been acquired by ASCL .

This treatment represents a departure from the requirements of Financial Reporting Standard 6, "Mergers and acquisitions", ("FRS 6") which would require ASC to be treated as the acquirer of ASCL. In the opinion of the directors, following the requirements of FRS 6 would be misleading and the presentation adopted gives a more true and fair view of the activities of the group for the periods presented. If the requirements of FRS 6 were followed, historical information presented would be that of ASC only and include ASCL only from May 24, 2006.

Goodwill arising on acquisition is capitalized and shown within fixed assets. The goodwill has been reduced to a nil carrying value on the basis that it arose on the acquisition of Hard Assets Inc., a non-trading company.

3. Cash

Cash balances include cash and short-term deposits with banks or other financial institutions which may or may not be held in high interest bearing accounts that have an original maturity date of 90 days or less. Where the maturity date of deposits is greater than one day, balances are classified as liquid resources for cash flow purposes.

4. Tangible assets

Changes in tangible assets for the 6 months ended June 30, 2006 and the year ended December 31, 2005 are detailed in the following table:

	2006	2005
	$000's	$000's
Opening balance	**50**	-
Additions for the period	**56**	52
Depreciation	**(5)**	(2)
Closing balance	**101**	50

5. Intangible assets

Changes in resource assets for the 6 months ended June 30, 2006 and the year ended December 31, 2005 are detailed in the following table:

	2006	2005
	$000's	$000's
Opening balance	**242**	-
Additions for the period	**234**	242
Closing balance	**476**	242

6. Acquisition of Arian Silver Corporation Plc

On 1 February 2006, the Company purchased the ordinary share capital of Arian Silver Corporation Plc for cash consideration of £1. This resulted in negative goodwill of $34,000 representing the accumulated profit at that date. This has been credited to the income statement immediately.

7. Share capital

a) Authorised

The Company is authorized to issue unlimited common shares of no par value. Under the reverse take over method of accounting for the acquisition of ASCL, share capital and movements of ASCL are shown, together with movements in share capital of the Company following acquisition.

Changes for the 6 months ended June 30, 2006 and the year ended December 31, 2005 are detailed in the following table:

Issued

	2006	**2006**	2005	2005
	Number of Shares (000's)	**Amount (000's)**	Number of Shares (000's)	Amount (000's)
Opening balance	**19,770**	**2,604**	11,000	110
Common shares issued for cash	**4,400**	**2,200**	5,652	1,723
Issue costs of share issuance	**-**	**(140)**	-	(284)
Shares issued for consulting services	**280**	**140**	-	-
ASCL shares at date of acquisition	**24,450**	**4,804**	-	-
ASC shares issued on reverse take over	**48,899**	**-**	-	-
Common shares issued on reverse take over of ASCL	**37,000**	**13,471**	-	-
Common shares issued for consulting services	**416**	**234**	118	60
Exercise of warrants	**-**	**-**	3,000	1,050
Commission payable on early warrant exercise	**-**	**-**	-	(55)
Balance – end of Period	**86,315**	**18,509**	19,770	2,604

During the period ended June 30, 2006 and the year ended December 31, 2005, the Company made the following share and warrant issues:

6 months ended June 30, 2006

On February 13, 2006, ASCL issued 400,000 ordinary shares of US$0.01 each at a premium of US$0.49 per share to provide additional working capital.

On April 7, 2006, ASCL issued 4,000,000 common shares of US$0.01 each at a premium of US$0.49 per share to provide additional working capital. In settlement of agent's commission in respect of this placement, the Company issued 280,000 common shares of US$0.01 each at a premium of US$0.49 per share.

On May 24, 2006 the Company issued 24,449,600 common shares in respect of the Merger with ASCL on basis of two shares for every one old share. Under the reverse acquisition method of accounting, it was deemed that 37,000,003 shares were issued in consideration for Hard Assets Inc, being its issued share capital immediately prior to the merger.

On May 25, 2006, upon admission to AIM, the Company issued 416,666 common shares at US$0.50 per share in settlement of a corporate finance fee.

Year ended December 31, 2005

On April 12, 2005, ASCL issued 37,800 common shares of US$0.01 each as consideration for investment services provided to the company of US$9,450. A premium of US$9,072 was recognised on the issue.

On April 19, 2005, ASCL issued 4,412,000 common shares of US$0.01 each at a premium of US$0.24 per share to provide additional working capital.

On September 28, 2005, ASCL issued 3,000,000 shares of US$0.01 each at a premium of US$0.34 under the terms of a share warrant agreement to provide additional working capital.

On November 22, 2005, ASCL issued 200,000 shares of US$0.01 each at a premium of US$0.49 each.

On November 30, 2005, ASCL issued 1,040,000 shares of US$0.01 each at a premium of US $0.49 each to provide additional working capital.

On December 9, 2005, ASCL issued 79,800 shares of US$0.01 each at a premium of US $0.49 each in respect of commission on funding.

b) Contributed surplus

A summary of the changes in the Company's contributed surplus for the 6 months ended June 30, 2006 and the year ended December 31, 2005, is set out below:

	2006	2005
	Amount ($000's)	Amount ($000's)
Opening balance	**-**	-
Incentive stock options vested	**70**	-
Incentive stock options granted on Merger	**796**	-
Balance - end of period	**866**	-

c) Share purchase warrants

A summary of the changes in the Company's share purchase warrants for the 6 months ended June 30, 2006 and the year ended December 31, 2005, is set out below:

	2006	**2006**	**2006**	2005	2005	2005
	Value assigned ($000)	**Warrants out-standing (000's)**	**Weighted average exercise price ($)**	Value assigned ($000)	Warrants out-standing (000's)	Weighted average exercise price ($)
Opening balance	**-**	**2,900**	**0.17**	-	-	-
Exercised	**-**	**-**	**-**	-	(6,000)	0.17
Issued	**-**	**-**	**-**	-	8,900	0.17
Issued to brokers	**-**	**208**	**0.28**	-	-	-
Balance – end of period	**-**	**3,108**	**0.19**	-	2,900	0.17

At the period end, there were the 2,899,600 share warrants and 208,333 brokers' warrants in issue. These are exercisable at an issue price of US$0.35 before April 7, 2007 and US$0.55 before end May 25, 2007 respectively.

d) Incentive stock options

The Company currently has in place two incentive stock option plans (the "Plans") covering directors, officers, employees and consultants of the Company and its subsidiary companies. The exercise price of a future option grant will be determined by the Board of Directors on the basis of the closing market price of the Company's shares on the trading day prior to the date of issue of the option. Options may be granted for periods of up to ten years and the Board of Directors determines the vesting provisions of each option granted, which may vary. The aggregate number of shares which may be issued and sold under the Plans may not exceed 10% of issued share capital. As at June 30, 2006, a total of 2,152,000 options remained available for grant under the Plan

A summary of the Company's stock options (as adjusted to reflect the terms of the merger referred to in note 2) for the 6 months ended June 30, 2006 and the year ended December 31, 2005, is set out below:

	2006	**2006**	**2006**	2005	2005	2005
	Value assigned ($)	**Out-standing (000's)**	**Weighted average exercise price ($)**	Value assigned ($)	Out-standing (000's)	Weighted average exercise price ($)
Opening balance						-
Options assumed on acquisition of Hard Assets Inc.		**300**	**0.11**	-	-	-
Issued on acquisition of ASCL[(1)]		**5,830**	**0.28**	-	-	-
Issued		**350**	**0.50**	-	-	-
Balance –end of period		**6,480**	**0.28**	-	-	-

[(1)] Converted to $US. Actual exercise price was £0.15.

e) Stock-based compensation

The fair value of stock options granted for the 6 months ended June 30, 2006 was $866,000 (same period in 2005 - nil) which was expensed in the statement of operations.

The fair value of stock options used to calculate compensation expense is estimated using the Black-Scholes option pricing model with the following assumptions:

	2006	**2005**
Risk free interest rate	3.98% to 4.18%	-
Expected dividend yield	0%	-
Expected stock price volatility	80%	-
Expected option life in years	2 to 3 years	-

Pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of units granted by the Company.

8. Related party transactions

These interim consolidated financial statements include balances and transactions with directors and officers of the Company and/or corporations related to them. All transactions have been recorded at the exchange amount which is the consideration established and agreed to between the related parties. Details are as follows:

Transactions during the 6 months ended June 30, 2006:	Amount ($000s)
Administrative costs	254
	254
Related-party payables included in Accounts payable and accrued liabilities	**9**

9. Income taxes

No corporate or deferred tax charge or credit arises in respect of the three months and six months ended 30 June 2006 and 2005. The loss arising in the period gives rise to tax losses that are equivalent to a potential tax asset of $0.2 million (six months ended June 30, 2005 - $30,000). This asset has not been recognised in the financial statements because of the uncertainty as to the incidence and timing of future taxable income against which the asset can be recovered.

10. Segmented reporting

The Company has one operating segment, the exploration of natural resource properties. All capital assets of the Company are held in Mexico. Short-term deposit interest, which is the Company's only regular source of income, is generally earned in the United Kingdom.

11. Subsequent events

On July 3, 2006 the Company issued 300,000 common shares in relation to the exercise of stock options at Cdn$0.12 per share.

On July 21, 2006 the Company was admitted to the Canadian TSX Venture Exchange in Toronto, Canada under the sticker AGQ.

On August 9, 2006 the Company announced that it had entered into an agreement to acquire the exclusive option over the Tepal polymetallic project in Michoacan State, Mexico. The option agreement is for a 5 year term. Assuming the option is exercised in full, the Company will pay Minera Tepal $5 million in installments and will grant Minera Tepal a Net Smelter Return of 2.5%. The Company has the right to withdraw from the option agreement at any time during the 5 year period without penalty.

12. Reconciliation to Canadian GAAP

a) Reconciliation of assets, liabilities, equity and cash flows

The consolidated financial statements of the Company have been prepared in accordance with UK generally accepted accounting principles "UK GAAP" which differ, in certain material respects, from Canadian GAAP.

Had the Company prepared the consolidated financial statements in accordance with Canadian GAAP, certain items on the consolidated balance sheets, statements of operations and deficit, and statements of cash flows would have been reported as follows:

$000's, except per share amounts	**6 months ended June 30,**	
	2006	2005
Consolidated statements of operations		
As reported in accordance with UK GAAP	(15,554)	(148)
Add Goodwill write off	13,665	-
Net loss under Canadian GAAP	(1,889)	(148)
Basic and diluted loss per common share under Canadian GAAP	(0.04)	(0.01)
Cash flows for the period		
Under UK GAAP	(7)	867
Liquid resources classified as cash equivalents	1,501	-
Under Canadian GAAP	1,494	867

$000's, except per share amounts	**June 30, 2006**	**Dec 31, 2005**
Consolidated balance sheet		
Total assets		
Under UK GAAP	3,247	1,780
Adjustments to Canadian GAAP	-	-
Under Canadian GAAP	3,247	1,780
Total liabilities		
Under UK GAAP	409	159
Adjustments to Canadian GAAP	-	-
Under Canadian GAAP	409	159
Total shareholders' equity		
Under UK GAAP	2,838	1,621
Adjustments to Canadian GAAP	-	-
Total shareholder's equity under U.S. GAAP	2,838	1,621
Total liabilities and equity per Canadian GAAP	3,247	1,780

Under Canadian GAAP, goodwill arising from a reverse takeover transaction that does not constitute a business combination is immediately written off to retained earnings.

Under Canadian GAAP, stock-based awards made to non-employees and employees are measured and recognized using a fair value based method. Accordingly, the fair value of options at the date of grant is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. Under UK GAAP, share options that have vested before January 1, 2006, the date of adoption of FRS 20, "Share based payments", are not required to be measured and recognised using a fair value based method.

Under UK GAAP, short term deposits with an original maturity of more than one day are classified as liquid resources for cash flow purposes and movements in these assets are reflected in the cash flow statement. Under Canadian GAAP, such balances would fall to be treated as cash equivalents.

b) Statement of changes in Shareholders' equity

	Shares (000's)	Amount ($000's)	Warrants/share options (000's)	Warrants/share options ($000's)	Deficit ($000)	Total ($000's)
Opening balance	11,000	110	-	-	-	110
Shares issued	5,770	1,783	-	-	-	1,783
Warrants issued	-	-	4,450	-	-	-
Warrants exercised	3,000	1,050	(3,000)	-	-	1,050
Share issue costs		(339)				(339)
Net loss	-	-	-	-	(983)	(983)
December 31, 2005	**19,770**	**2,604**	**1,450**	**-**	**(983)**	**1,621**
Shares issued	4,680	2,340	-	-	-	2,340
Share issue costs	-	(140)	-	-	-	(140)
Shares/warrants split on acquisition	24,449	-	1,450	-	-	-
Shares/options issued on reverse take over	37,000	13,471	300	-	-	13,471
Shares issued	416	234	-	-	-	234
Fair value of share options	-	-	6,180	866	-	866
Goodwill written off	-	-	-	-	(13,665)	(13,665)
Warrants issued	-	-	208	-	-	-
Net loss	-	-	-	-	(1,889)	(1,889)
Balance end of period	**86,315**	**18,509**	**9,588**	**866**	**(16,537)**	**2,838**

c) **Income tax losses**

	3 Months ended June 30		6 months ended June 30	
	2006	2005	**2006**	2005
	($000's)	**($000's)**	**($000's)**	**($000's)**
Income tax benefit computed at UK statutory rates	(4,283)	(44)	(4,666)	(44)
Permanent differences	4,173	14	4,450	14
Unrecognised tax losses	110	30	216	30
Total	**-**	-	**-**	-

The components of future income tax assets for the 6 months ended June 30, 2006 and the year ended December 31, 2005, is set out below:

	2006	2005
	($000's)	($000's)
Future income tax assets:		
Non-capital loss carry-forwards for UK tax purposes	1,680	960
Tax rate	30%	30%
Income tax asset	504	288
Less: Valuation allowance	(504)	(288)
Closing balance	-	-

The valuation allowance reflects the Company's estimate that the tax assets, more likely than not, will not be realized.

The Company has available non-capital losses that may be carried forward to apply against future years' income for United Kingdom income tax purposes. The losses have no fixed expiry date.

d) **Income taxes**

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

e) **Financial Instruments**

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term to maturity of these financial instruments.

It is management's opinion that the Company is not exposed to interest, or credit risk arising from these financial instruments.

The Company is exposed to foreign currency fluctuations to the extent certain expenditures incurred are not in US dollars.