

29 July 2010

Arian Silver

Year End	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/08	0.0	(3.7)	(2.5)	0.0	N/A	N/A
12/09	0.0	(2.1)	(0.9)	0.0	N/A	N/A
12/10e	4.8	2.1	0.9	0.0	12.8	N/A
12/11e	9.5	4.8	2.1	0.0	5.5	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items. Exchange rate \$1.508/£.

Investment summary: Silver on a plata

Arian Silver specialises in exploration and development of epithermal silver deposits in Mexico. It is currently focused on the imminent start of contract mining at its 100%-owned San Jose Ag-Pb-Zn mine in Zacatecas. Arian's business plan is to use near-term revenues from San Jose to fund the exploration of the 90% of the San Jose vein which has yet to be explored in detail. Our valuation of the company indicates that its four and a half year mining plan at San Jose is worth 14.96p per share and that reinvesting the resulting cash-flows should define a resource reasonably valued at 47p/share, but potentially as high as 140p/share.

Mexican silver specialists

The existing global resource of 13.4Mt, grading 99.4g/t Ag, 0.41% Pb and 0.84% Zn, was calculated from drilling along only 10% of the known strike. While San Jose is the current focus, its three other main projects add value to Arian's portfolio through a good strategic position, in the case of Calicanto, and the US\$3m farm-in option on Tepal, currently being exercised by Geologix Explorations Inc (TSX:GIX). San Celso adds organic growth potential.

Ore beneficiation options

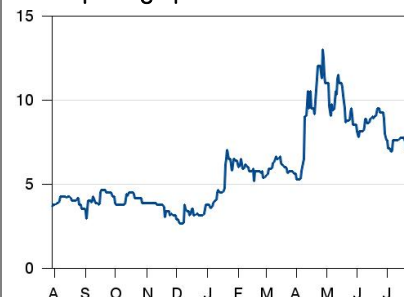
Arian is in advanced negotiations with two local toll millers regarding the beneficiation of its ore. It has three options in this respect: 1) to sell run-of-mine ore at a price of (we estimate) US\$54/t at 300g/t Ag grade, 2) to produce a concentrate to be sold to a smelter, and 3) to enter into an agreement whereby the value of any concentrate or doré produced from Arian's ore is split with the processor on a 50:50 basis, with each party bearing its own costs (ie Arian would not incur any milling costs). Mining is poised to commence within two weeks of the contract's signing.

Valuation: Share price discount potentially as high as 95%

Arian's shares are currently trading at a 52% discount to the value of its mining plan at San Jose, excluding any potential upside from exploration success, which could add as much as 140p to the valuation. In the meantime, our relative analysis of the silver sector indicates that, per ounce of silver resource, Arian lies within the lowest valuation quartile of the market.

Price 7.12p
Market Cap £17m

Share price graph



Share details

Code AGQ
Listing AIM; TSX-V
Sector Mining
Shares in issue 236.4m

Price

52 week High 13.00p Low 2.63p

Balance Sheet as at 31 March 2010

Debt/Equity (%) N/A
NAV per share (c) 4.3
Net cash (US\$'000s) 2,069

Business

Arian Silver, listed on AIM and TSX, specialises in Mexican silver deposit exploration and development. Its San Jose mine is expected to enter production soon. Its other three projects are Calicanto and San Celso, located in Zacatecas, and Tepal in Michoacan.

Valuation

	2009	2010e	2011e
P/E relative	N/A	96%	50%
P/CF	N/A	6.0	3.1
EV/Sales	N/A	2.9	1.2
ROE	N/A	19%	31%

Revenues by geography

	UK	Europe	US	Other
0%	0%	0%	0%	100%

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Investment summary: Well endowed Mexican silver mine

Arian Silver is an AIM- and TSX-listed development and exploration company, focused on Mexico. It has four main properties, its priority being the San Jose mine, which is expected to enter production within two weeks of Arian's signing of an off-take agreement with a local silver smelter. This is expected to be completed imminently, with production expedited by the good infrastructure left behind from earlier mining by San Jose's previous owner. The three other main properties (Tepal, Calicanto and San Celso) provide the company's portfolio with near-term sale potential as well as organic growth options.

Property portfolio: Mexican focus

The 6,500ha San Jose property is the strongest of Arian's properties with a global resource of 13.5Mt, grading 99.4g/t Ag, 0.84% Zn and 0.41% Pb. Geologix Explorations Inc, a Vancouver-based exploration company, is currently exercising a farm-in option on Arian's second property, Tepal. The first payment of the US\$3m option was received earlier this year, half in cash with the remainder in Geologix shares (at C\$0.22/share cf C\$0.235/share currently). The balance of the option payments is to be made in January next year, and can be up to 50% in shares at Geologix's discretion. Arian's third project, Calicanto, gives its portfolio strategic strength. It is located as little as 1.5km from Capstone's San Roberto operation, but whereas Calicanto's mineralisation is hosted within a silver-rich epithermal layer, Capstone's Male Noche vein is mesothermal (and therefore silver depleted), the epithermal layer having long since weathered away. While no approach has been made regarding the acquisition of Calicanto, the acquisition benefits are obvious, making the property prime real estate.

Peer comparison: Arian's EV/oz is in the lowest valuation quartile

Our analysis of the primary silver exploration and mining industry shows a weighted average enterprise value per in-situ silver ounce of US\$3.44 (see page 8). With an EV of US\$0.63/oz, Arian is in the lowest valuation quartile of a peer group of 38.

Valuation: Potentially 155p per share

Adding the net present value of the potential future dividends that Arian could theoretically pay (5.48p) from 2010 to the present value of the residual net asset value for the firm once the three ore blocks have been depleted (0.78p), to the value of the San Jose resource at the end of the initial mining stage (8.27p) and the value of Calicanto (0.42p) we get a value of 14.96p. To this must then be added the potential value of the resources that could be discovered as a result of exploration success on the balance of the San Jose vein, which could be as high as 140p per share, to give a total valuation of up to 155p per share.

Sensitivities

Like most junior exploration companies, Arian is exposed to commodity price, foreign exchange, geo-political, geological and execution risk. It is also exposed to contractual risk at this stage, having yet to conclude an off-take agreement. In addition, given that a high proportion of the company's potential value is associated with exploration success, the upside to its valuation is also exposed to exploration risk.

Company description: Mexican silver miner

London- and Toronto-listed Arian Silver has four main projects, San Jose, Calicanto and San Celso in Zacatecas, and Tepal in Michoacán. San Jose is Arian's focus and will be in production just two weeks after the signing of an ore supply contract with a large Mexican metals producer. Calicanto is located close to Capstone's San Roberto mine and offers obvious synergies to Capstone, but apparently no approach has yet been made. Tepal offers near-term cash-flow through a US\$3m farm-in option that is being exercised by Geologix (TSX:GIX). The San Celso property adds organic growth potential to Arian's portfolio.

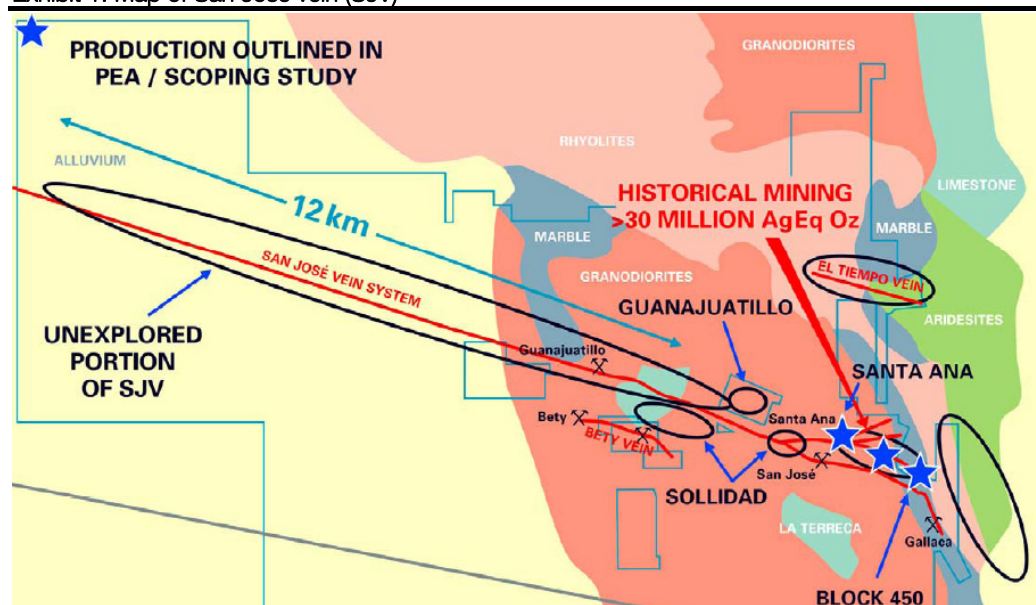
San Jose

Arian's San Jose mine, which is located 55km from Zacatecas city, was in production as recently as 2001. Arian exercised its option to acquire the 6,500ha property in 2006, and made its final payment of US\$500,000 in January this year. It is owned through Arian's wholly owned Mexican subsidiary.

Geology

On a regional scale, the first mineralisation event occurred following the intrusion of the Pánfilo Natera batholiths. This led to Ag-Pb-Zn-Cu replacement mineralisation which was mined in the area at the Bilbao mine. Later mineralisation, which cuts through the batholith and subsequent volcanic sediments, is related to porphyritic intrusions which led to epithermal vein emplacement. The veins across the San Jose property were emplaced due to this later porphyritic intrusive event.

Exhibit 1: Map of San Jose vein (SJV)



Source: ACA Howe and Arian Silver

The San Jose vein is the largest on the property and includes the Betty, La Tinaja, Veta Nueva, El Tiempo and Tiro Dos Vetas veins or vein systems (see Exhibit 1). Overall there is approximately 20km of Ag-Zn-Pb bearing vein across Arian's property, with an average oxidation depth of 100m. A large amount of the property is covered in caliche (effectively Mexican hardpan), which makes surface exploration more difficult. The average thickness of the San Jose vein is 2.5m, but there are areas of 6m thickness and occasional occurrences of 23m thicknesses. The veins on the property

are of an intermediate-sulphidation epithermal type, typical of this area of Mexico. This type is a sub-group of the low-sulphidation epithermal vein group, but exhibits higher grades of silver than its parent group up to bonanza grades.

Exploration

Arian began exploration on San Jose in late 2006, beginning with an induced polarization (IP) geophysical survey of the project and surface trenching. To date, Arian has drilled 70 holes into San Jose and retrieved 11,780m of drill core. Drilling on the property is carried out by contract drilling company Techmin Sociedad Anónima de Capital Variable (SA de CV). At the onset of the global economic crisis in 2008, Arian stopped all exploration across San Jose to preserve capital.

Resources

Prior to a preliminary economic assessment report, ACA Howe produced an independent resource statement on the San Jose deposit shown below.

Exhibit 2: Resources for San Jose mine

Note: Prices assumed Ag = US\$17.90/oz, Pb = US\$1,763/tonne and Zn = US\$1,770/tonne.

Category	Mt	Ag (g/t)	Zn (%)	Pb (%)	Total Ag (Moz)	AgE Moz (Zn)	AgE Moz (Pb)	Total Ag Eq (Moz)
Indicated	2.2	127.7	0.88	0.51	8.74	1.86	1.05	11.65
Inferred	11.2	93.8	0.83	0.39	32.68	8.89	4.10	45.67
Total	13.4	94.4	0.84	0.41	41.42	10.75	5.15	57.32

Source: Edison Investment Research, ACA Howe and Arian Silver

The resource estimate for San Jose was calculated using drill data on only 10% of the known strike of the San Jose vein. The company will use revenue from the contract mining operation to carry out exploration drilling – plus other advanced exploration methods – across 12km of western strike extension of the San Jose vein, and will also infill drill to upgrade the existing resource.

Mining blocks – 500tpd initial production, 1,500tpd potential

Having assessed the mineralisation across the entire San Jose property, Arian has decided to mine three specific ore blocks: Ramal Norte, San Jose 75m Level Central Zone and Santa Ana. Under the existing mine plan of 500tpd for 20 days per month, the three blocks will be sufficient to support approximately 4.5 years of production. These three ore blocks were chosen because they have sufficient width to allow full mechanisation mining techniques, such as sub-level caving and longhole mining. The contract miner has indicated the potential to increase the mining rate to 1,500tpd, dependent on the feed requirement of Arian's potential miller.

Existing infrastructure will allow rapid restart

The San Jose mine was operated by its previous owner as an underground mine until 2001, at which time silver prices fell to the point that the mine was no longer economic to operate. The upper levels of the underground infrastructure remain in good condition and will allow the contract miner to restart mining operations quickly. There is a 3km haulage ramp, a legacy from historic mining at San Jose, and four existing shafts, one to 400m depth, which is the main San Jose shaft. The San Jose shaft will not be used for ore exploitation, but for ventilation and as an emergency escape route only.

Contract mining

Arian Silver has a Mexican mining contractor on standby to mobilise its fleet such that the mine should be operational within a fortnight of an off-take agreement being signed. The contract mining will use standard mechanised, long-hole open stoping and sub-level caving mining techniques, with a fleet composed of load haul dump (LHD) trucks accessing the ore via the San Jose ramp. Development costs for San Jose will be included in the mining contract on a per tonne basis. The approximate development cost of US\$1m will add a further US\$3.20/t to the mining costs. With stoping costs at US\$10/t, transport US\$7/t and general & administrative costs at US\$2.50/t, this brings total mining costs to US\$22.70/tonne.

Off-take agreement

Arian is in advanced negotiations with two, local toll millers regarding the beneficiation of its ore. It has three options in this respect: 1) to sell run-of-mine ore at a price of (we estimate) US\$54/t at 300g/t Ag grade, 2) to produce a concentrate to be sold to a smelter, and 3) to enter into an agreement whereby the value of any concentrate or doré produced from Arian's ore is split with the processor on a 50:50 basis, with each party bearing its own costs (ie there will be no cost to Arian regarding milling).

In the case of option 1), the contract with the processor will be on a run-of-mine basis, with a silver price component, and will be for ore with a minimum silver grade of 230g/t. Recent ore sampling completed by the company on the three ore blocks indicates that an average grade of 300g/t Ag is achievable in places. NB This is based on new data not included in the ACA Howe preliminary economic assessment report. The first 60% of the payment for the ore will be made 30 days after delivery, the remainder to be paid after a further 30 days to allow for processing. Management's estimates for the revenue from the contract, on a per tonne basis, are shown in the table below.

Exhibit 3: Contract terms based on management's estimates

Silver Grade	Contained oz	Silver price	Revenue from miller	Effective share of Silver price
230 g/t	7.39	US\$18.00	US\$35.08	26%
300 g/t	9.65	US\$18.00	US\$54.12	31%
300 g/t	9.65	US\$17.54	US\$52.60	31%

Source: Edison Investment Research and Arian Silver

Arian is awaiting the results of final metallurgical testing (which is expected imminently) before determining on an appropriate contract type. At this stage, however, it favours the third option.

Tepal: Near-term sale potential

Location

The Tepal mine is in Michoacán state, southern Mexico. The nearest town is Tepalcatepec, 15.5km to the north-east of the mine. The 140km² Tepal licence area is currently being explored by Geologix, which notified Arian in January 2010 that it intended to exercise its option on Tepal after due diligence had been completed. Subsequently, Geologix delivered the equivalent of US\$1.45m to Arian, and will have to pay an additional US\$1.55m by 23 February 2011 to retain the project. Geologix has the option to deliver up to 50% of the required payment in Geologix shares, subject to approval by the Toronto Stock Exchange. The payments to the underlying vendor of Tepal, of US\$0.9m and US\$2.3m, will be assumed by Geologix. Following the payment of the initial US\$1.45m, Arian repaid a US\$517,500 loan to Geologix.

Exploration

The property was first explored by Inco, but its interpretation of Tepal's geology was not made public. The property was subsequently explored by Teck, Hecla and Arian. Arian began its exploration of Tepal in 2007.

Geology

Tepal is a polymetallic deposit with economic gold and copper. The deposit is made up of three tonalite stocks (bulbous intrusions of a smaller scale than a batholith), all of which exhibit multiple intrusive phases, with tonalite intrusion breccias hosting the highest grades of mineralisation. An oxidisation zone exists, with the depth ranging between 0-20m in drainage areas and 20-40m on hilltops. A much thinner supergene enriched zone exists below this, mostly exhibited by chalcocite and covellite coatings on primary sulphidic grains.

Exhibit 4: Resources for Tepal mine

Category	Tonnage (Mt)	Gold Grade (g/t)	Copper Grade (%)	In Situ Au (koz)	In Situ Cu (kt)
Indicated	24.99	0.544	0.267	437.1	66.7
Inferred	54.96	0.405	0.219	715.6	120.4
Total	79.95	0.449	0.234	1,152.7	187.1

Source: Edison Investment Research, ACA Howe and Arian Silver

Calicanto: Strategically positioned

The smaller Calicanto mine is located near the San Roberto mine owned by Capstone Mining through its Mexican subsidiary Cozamin SA de CV. Part of the same geological system as Male Noche, Calicanto has retained its epithermal cap while Capstone's mine is in the mesothermal system. While there are no immediate plans to develop Calicanto, its proximity to Capstone's mine gives it a strong strategic position, with potential for sale. The Calicanto mine was first discovered in 1600, and was worked during the colonial era. It was reopened in the 1930s, when it comprised several mines, but these were consolidated into a single working mine in the 1950s. Production ended in the late 1950s. Arian purchased the property in 2006 and began work on a decline to access the Calicanto vein and the Calicanto mine workings. Work was subsequently suspended in 2009 to preserve capital. There is no compliant resource at Calicanto. However, c 3,300m of HQ core has been drilled on the property and a decline extends 250m into the ore body. Management estimates investment in the project to date equates to US\$1.5m (or 0.63c per Arian share).

Other properties: San Celso & Los Campos

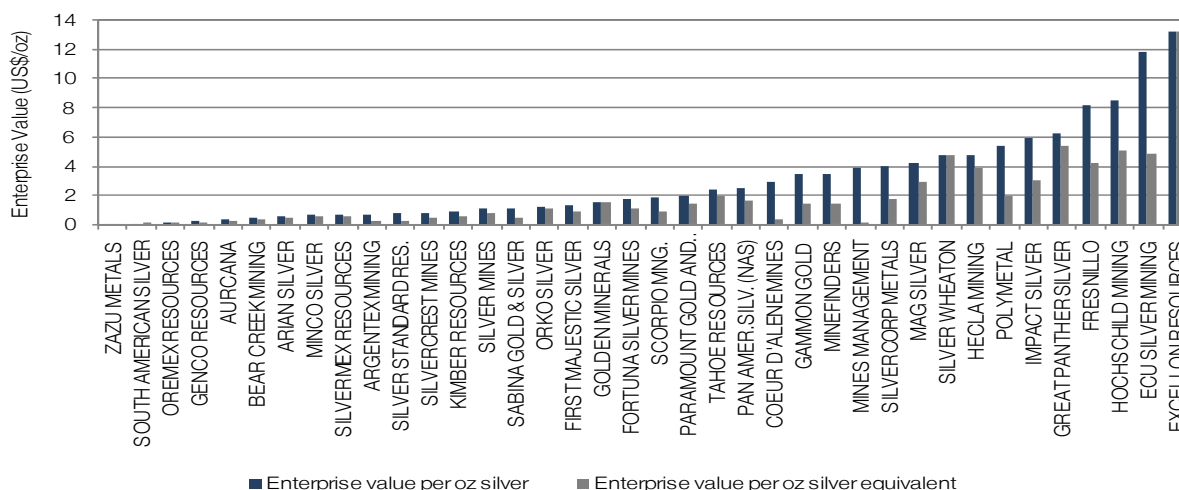
Arian also owns a large concession covering similar colonial-era mine workings, known as the San Celso licence area within the Ojocaliente District. No resource estimate is yet available for the licence area. The San Celso and Nueva Andromeda veins run across the property held by Arian. They are of low-sulfidation epithermal type. The San Celso vein is on the eastern side of the El Morro hill, on which many colonial silver mines were developed. Surface geochemical mapping of the San Celso property may be constrained by much of the surface being covered by caliche, or hardpan (a layer of calcium carbonate), that may mask geochemical signatures. In addition, Arian owns the c 400ha Los Campos concession near Calicanto, which is a brownfield site containing an estimated 200,000t of dump material at c 200g/t Ag.

Peer comparison

The graph below shows the enterprise value for an international peer group of silver producers and explorers for ounces and equivalent ounces of silver in the ground.

Exhibit 5: Silver explorer/producer's enterprise value per resource oz

Note: Prices assumed Ag = US\$17.90/oz, Pb = US\$1,763/tonne and Zn = US\$1,770/tonne.



Source: Thomson Datastream

Arian is in the lowest quartile, indicating that per US dollar of EV, it offers more silver than most of its peers. Arian has an enterprise value of US\$0.63/oz Ag, and US\$0.45/oz Ag equivalent (AgE), compared to the group's un-weighted average of US\$3.02/oz Ag, and weighted average of US\$3.44/oz Ag. Weighting the EV per resource category gives average values of US\$10.13/oz measured, US\$3.25/oz indicated and US\$0.22/oz inferred.

Assumptions

Our valuation assumes that Arian will restart the San Jose mine in early Q310, and that the company will invest 65% of the gross profit from the operations into further drilling along the San Jose vein. From discussions with management, we assume that Arian splits profits 50:50 with a processor, with each party bearing its own costs. The capex for the initial mining stage is assumed to be zero, as the development costs are included in the contract mining price at US\$3.20/t.

Exhibit 6: Assumptions

Parameter	Assumption
Silver price	US\$21.35/oz
Ore Silver Grade	300g/t
Mining Rate	500tpd
Silver recovery	77%
Contract Mining Costs	US\$22.70/t
Processing costs	US\$15.00/t
Dilution	10%
Start up	Q310
Marginal Tax Rate	30
Debtor Days	30
Creditor Days	12
Stock turn	12

Source: Edison Investment Research

We have assumed that Arian proportionally consolidates 50% of all revenues relating to the venture, but bears 100% of the costs of mining, but no costs of processing.

Scoping economics

The scoping economics shown below are based upon the assumptions given above for the San Jose mine. The figures are for 2012.

Exhibit 7: Scoping economics for San Jose mine for sample year FY12

Annual ore production	Mt	120
Revenue	US\$ ('000s)	9,514
Costs	US\$ ('000s)	2,724
Gross profit	US\$ ('000s)	6,790
General and administrative costs	US\$ ('000s)	-3,000
EBITDA	US\$ ('000s)	3,790
Depreciation and amortization	US\$ ('000s)	41
EBIT	US\$ ('000s)	3,749
Net interest	US\$ ('000s)	0
Profit before tax	US\$ ('000s)	3,749
Tax	US\$ ('000s)	-856
Marginal tax rate	%	30
Profit after tax	US\$ ('000s)	4,605
Minority interest	%	0
Profit attributable to shareholders	US\$ ('000s)	4,605
Adding back depreciation	US\$ ('000s)	41
Free cash flow	US\$ ('000s)	4,646

Source: Edison Investment Research

Discounted over four years at 10%, an annual cash-flow of US\$4.646m has a net present value of US\$14.7m, or 6.23 US cents per share (5.13c per fully diluted share). Taking all other factors into account, we estimate that the net present value of the theoretical dividends payable to Arian shareholders is 8.27 US cents, or 5.48p, with the distributions being greatest in 2011 (after the second instalment of the Tepal option) and 2012 (after the exercise of outstanding warrants). From 2013 onwards the theoretical dividend flow flattens to 1.7 US cents (1.1p) per share.

Valuation

Following our peer group review of primary silver producers and explorers, we derive a weighted average enterprise value (EV) of US\$3.44 per average ounce. Within each resource category, we derive values of US\$10.13 for measured ounces, US\$3.25 for indicated ounces and US\$0.22 for inferred ounces. Applying these to the existing resource of the San Jose mine we get a total value of US\$36.7m. Using the same values, we estimate the value of the ore to be mined on an EV basis to be US\$7.3m (see Exhibit 8), leaving a balance of US\$29.5m, being the value of the residual resource after its initial exploitation as described above. This is equal to 12.48 US cents, or 8.27p, per share (based on US\$1.508/£). Adding this to the net present value of the potential future dividends that Arian could theoretically pay (5.46p), the present value of the net asset value for the firm once the three ore blocks have been depleted (0.78p) and the value of Calicanto (0.42p), we get a total of 14.96p. In addition to this must be added the upside potential from future exploration (see below).

Exhibit 8: Current value of total San Jose resource and that of the three ore blocks to be mined

Note: * At US\$10.13/oz measured, US\$3.25/oz indicated and US\$0.22/oz inferred; ** at US\$3.44/oz ave.

		Tonnes	Ag (g/t)	Total oz	Value (US\$)*	Value (US\$)**
San Jose Mine	Indicated	2,200,000	127.7	9,032,279	29,369,003	31,057,672
	Inferred	11,200,000	93.8	33,775,720	7,311,190	116,138,493
Total					36,680,193	147,196,166
Ore blocks						
Ramal Norte	Indicated	82,461	209.7	555,944	1,807,685	1,911,623
	Inferred	24,523	161.9	127,645	27,630	438,910
S.J. 75m C	Indicated	65,542	155.9	328,511	1,068,173	1,129,591
	Inferred	7,290	110.1	25,805	5,586	88,730
St Ana	Indicated	208,332	192.3	1,288,009	4,188,041	4,428,846
	Inferred	63,380	180.4	367,597	79,571	1,263,991
Total					7,176,685	9,261,692

Source: Edison Investment Research, ACA Howe and Arian Silver

Exploration potential

We estimate that Arian will be able to spend in excess of US\$10m on future drilling campaigns (based on 65% of profit on the San Jose mine), which at roughly US\$100 per metre would enable the company to drill approximately 100,000m across the San Jose property. A rough estimate for how much this could increase the total resource by can be attained from studying the length of drill core required to define the existing resource (see page 4), which in this case is 1.15Mt per kilometre drilled. Thus, a high level estimate of the potential resource achievable is 128.4Mt (including the 13.4Mt existing resource). Our analysis of a peer group of primary silver mining companies indicates that the average split between resource categories is 12.7% measured, 35.51% indicated and 51.79% inferred. Applying this to the potential resource would give 16.3Mt measured, 43Mt indicated and 66.5Mt inferred. Using the current average silver grade of 99.4g/t we estimate a potential contained ounces target of 52Moz Ag measured, 137Moz Ag indicated and 212.5Moz inferred. Arian's three year goal is to complete a feasibility study on San Jose. Details and objectives of the report will obviously become clearer as the exploration campaign progresses, but early indications are that the feasibility report will envisage a c 1Mtpa mining operation.

Taking the potential contained ounces achievable and using the EV values per ounce per resource category, we derive a potential additional value for the SJV of US\$1,020m. Per share this is equal to \$3.76 (or £2.49) which, if the resource estimate was updated by 2016, would have a value of £1.40 per share in current money terms after subtracting the drilling cost of US\$9.7m.

Sensitivities

Our 8.27c valuation of mining operations from the San Jose mine is conducted at a silver price of US\$21.35/oz, which correlates to our long-term gold price of US\$1,177/oz (NB since 1980, the silver price has exhibited a 0.86 Pearson Product Correlation Coefficient relative to the gold price). The price of silver currently is US\$18.19/oz and the following table demonstrates the variation in our 8.27c valuation with the silver price:

Exhibit 9: San Jose mine valuation sensitivity to ore contract price, USc (unless stated otherwise)

Silver price (US\$/oz)	16.00	18.19	21.35	23.35
DDF valuation	4.94	6.30	8.27	9.53
NPV of terminal NAV	1.18	1.18	1.18	1.18
Residual resource valuation	12.48	12.48	12.48	12.48
Calicanto valuation	0.63	0.63	0.63	0.63
Total valuation (cents)	19.23	20.59	22.56	23.82
Total valuation (pence)	12.77	13.66	14.96	15.80

Source: Edison Investment Research

The valuation sensitivity relative to the discount rate is given in Exhibit 10.

Exhibit 10: San Jose mine valuation sensitivity to discount rate

Discount rate (%)	5%	10%	15%	20%	25%	30%
DDF valuation	9.47	8.27	7.30	6.50	5.83	5.27

Source: Edison Investment Research

As with all mining/exploration projects, there is execution risk in developing the mine and also exploration risk associated with carrying out a drilling campaign. At San Jose, Arian intends to be dynamic with its exploration strategy as it extends across the western extension of the San Jose vein strike. This will hopefully lead to fewer barren holes, and better delineation of the San Jose vein. As Arian drills off the western extension, it will reduce exploration risk.

In our estimate of the company's exploration potential, we have assumed that Arian identifies resource categories in proportion to those of its peers (ie 12.7% measured, 35.51% indicated and 51.79% inferred). If it identifies resources in proportion to those that it has already discovered however (ie 21.1% indicated and 78.9% inferred), then our valuation reduces to US\$353m (vs US\$1,020m on page 9). After subtracting discovery costs and discounting over six years, this equates to 71 US cents, or 47p, per Arian share.

Financials

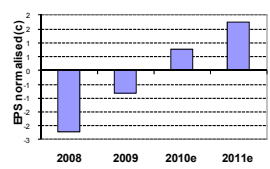
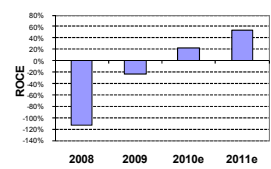
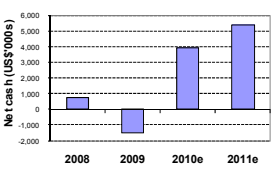
In 2009 Geologix extended a loan of US\$517,500 with respect to the Tepal property to allow Arian to meet a payment to a third party. This loan was repaid in Q110 following the receipt of US\$0.725m in cash from Geologix as the first payment in exercising its option on the property. The company also received US\$0.725m in Geologix shares at a price of C\$0.22 per share (NB originally subject to lock-in, but this provision expired in July 2010). The largest outlay for Arian in the immediate future will be that on the exploration programme on the remaining 90% of the known strike of the SJV. On the basis of the assumptions above, this should be met from cash flow generated by the contract mining operation at San Jose, as well as proceeds from the disposal of Geologix shares. As such, we estimate that there should be no current requirement to raise additional capital.

Exhibit 11: Financials

Note: FY10 exceptional item relates to a non-cash impairment of current assets held for sale.

Dec	US\$'000s	2008 IFRS	2009 IFRS	2010e IFRS	2011e IFRS
PROFIT & LOSS					
Revenue		0	0	4,757	9,514
Cost of Sales		0	0	(1,362)	(2,724)
Gross Profit		0	0	3,395	6,790
EBITDA		(3,665)	(2,027)	2,315	4,763
Operating Profit (before GW and except.)		(3,720)	(2,068)	2,274	4,722
Intangible Amortisation		0	0	0	0
Exceptionals		0	0	(5,584)	0
Other		0	0	0	0
Operating Profit		(3,720)	(2,068)	(3,310)	4,722
Net Interest		31	0	(151)	59
Profit Before Tax (norm)		(3,689)	(2,068)	2,123	4,781
Profit Before Tax (FRS 3)		(3,689)	(2,068)	(3,461)	4,781
Tax		0	(196)	0	234
Profit After Tax (norm)		(3,689)	(2,264)	2,123	5,015
Profit After Tax (FRS 3)		(3,689)	(2,264)	(3,461)	5,015
Average Number of Shares Outstanding (m)		149.1	258.1	247.3	236.4
EPS - normalised (c)		(2.5)	(0.9)	0.9	2.1
EPS - FRS 3 (c)		(2.5)	(0.9)	(1.4)	2.1
Dividend per share (c)		0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	71.4	71.4
EBITDA Margin (%)		N/A	N/A	48.7	50.1
Operating Margin (before GW and except.) (%)		N/A	N/A	47.8	49.6
BALANCE SHEET					
Fixed Assets		6,173	7,789	6,198	8,369
Intangible Assets		6,038	4,803	5,303	9,690
Tangible Assets		135	2,986	895	(1,321)
Investments		0	0	0	0
Current Assets		1,378	6,087	6,787	8,294
Stocks		0	0	396	793
Debtors		625	349	391	782
Cash		753	101	3,950	5,394
Current Liabilities		(255)	(2,133)	(1,562)	(224)
Creditors		(255)	(521)	(1,562)	(224)
Short term borrowings		0	(1,612)	0	0
Long Term Liabilities		0	0	0	0
Long term borrowings		0	0	0	0
Other long term liabilities		0	0	0	0
Net Assets		7,296	11,743	11,423	16,438
CASH FLOW					
Operating Cash Flow		(3,147)	(1,076)	2,971	5,537
Net Interest		31	0	(151)	59
Tax		0	(196)	0	234
Capex		(2,651)	(1,048)	0	(4,387)
Acquisitions/disposals		(48)	0	(500)	0
Financing		3,451	0	3,141	0
Dividends		0	0	0	0
Net Cash Flow		(2,364)	(2,320)	5,461	1,444
Opening net debt/(cash)		(3,134)	(753)	1,511	(3,950)
HP finance leases initiated		0	0	0	0
Other		(17)	56	0	0
Closing net debt/(cash)		(753)	1,511	(3,950)	(5,394)

Source: Edison Investment Research, Arian Silver accounts

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
			Litigation/regulatory	●
			Pensions	○
			Currency	●
			Stock overhang	○
			Interest rates	●
			Oil/commodity prices	●

Growth metrics	%	Profitability metrics	%	Balance sheet metrics	Company details
EPS CAGR 07-11e	N/A	ROCE 10e	21.9	Gearing 10e	N/A
EPS CAGR 09-11e	N/A	Avg ROCE 07-11e	N/A	Interest cover 10e	15.0
EBITDA CAGR 07-11e	N/A	ROE 10e	18.6	CA/CL 10e	4.3
EBITDA CAGR 09-11e	N/A	Gross margin 10e	71.4	Stock turn 10e	30.4
Sales CAGR 07-11e	N/A	Operating margin 10e	47.8	Debtor days 10e	30.0
Sales CAGR 09-11e	N/A	Gr mgn / Op mgn 10e	1.5	Creditor days 10e	120
				Address:	
				3rd Floor, Carlyle House, 235-237 Vauxhall Bridge Road, London. SW1V 1EJ	
				Phone	020 7963 8670
				Fax	020 7963 8674
				www.ariansilver.com	

Principal shareholders	%	Management team
Sprott Asset Management LP	12.7	CEO: Jim Williams
Williams (James Thomas)	2.9	Jim brings more than 20 years of mining experience to the board of Arian. He is a professional geologist, a fellow of the UK IMMM and holds CEng, CGeol titles. His specific area of expertise is epithermal and volcanic massive sulphide deposits and systems.
Centrum Bank AG	2.1	
Williams (Anthony Joseph)	0.9	
BlackRock Inv Mgt (UK) Ltd	0.6	
Crombie (James Arnott)	0.6	CFO: Graham Potts
Spiers & Jeffrey Ltd	0.1	Also the company secretary, Graham Potts' experience within the corporate environment extends for over 30 years.
Forthcoming announcements/catalysts	Date *	Tony Williams is a well known figure in the international mining industry. He brings extensive knowledge and over 30 years of mining experience to the board of Arian as its chairman.
Interim results	August 2010	
Final results	April 2011	
AGM	June 2011	
<i>Note: * = estimated</i>		
Companies named in this report		
Geologix (GIX@CT)		

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