*e*Research

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# ARIAN SILVER CORPORATION

| Recommendation |
|---|
| Speculative Buy |
| **Target Price** |
| $0.50 |
| **Risk** |
| High |
| **Average Daily Volume** |
| 245.300 |

## Quick Facts

| | |
|---|---|
| **Symbol** | AGQ:TSX-V<br>AGQ:AIM<br>I3A:FF |
| **Price** (Jan 15) | $0.39 |
| **52-Wk. Range** | $0.65-$0.225 |
| **Shares O/S** | 100.7 million |
| **Market Cap** | $39.3 million |
| **Year-End** | December 31 |


Data Source: www.BigCharts.com

*Arian Silver Corporation is an early-stage junior mining exploration company.*

**STRENGTHS**
- **Key projects are 'brown field' sites (previously mined and explored)**
- **Properties are in known mineral districts and geology**
- **Demand and pricing for silver expected to continue strong**

**RISKS**
- **Focus on single metal (silver) increases vulnerability to commodity price swing**
- **Ability to raise funds to explore and develop the projects**
- **Ability to define economic resources**

**CONCLUSION**
- **Advanced-stage projects offer excellent exploration and development potential**

## SUMMARY & RECOMMENDATION

Arian Silver Corporation ("Arian Silver" or the "Company") is an early-stage junior mining exploration company holding interests in numerous mineral concessions and having several others under negotiation, all in Mexico, with high prospects for silver discovery.

Silver usually takes a "back seat" to gold in terms of exposure, commentary, and awareness in the media and investment community. However, over the past twelve months, the price of silver has performed considerably better than its even more lustrous cousin. Gold rose 57% between its high and low and is currently up 36%; silver rose 99% from its low and is still up 69%. Demand for the metal continues strong, with uses primarily in industrial applications, photography, jewelry, and silverware.

Arian Silver's strategy is to acquire silver properties that have had previous exploration and/or production history. In many cases, this provides the advantage of an existing infrastructure. The Company's key projects, both in central Mexico, are Calicanto (three concessions totaling 45 hectares) and the near-by San Celso (three concessions on 88 hectares). While these properties are not yet producing, their "brown field" nature means that the Company can more easily assess their viability and, if sizable reserves eventually can be delineated, bring the projects into production fairly quickly.

With good cash resources, the Company should be able to finance its current exploration activities and also cover its immediate "burn" such that it is unlikely to return to the capital markets for some time, unless it does something unforeseen.

Immediately after listing on the TSX-V, the shares touched a high of $0.65 and then sunk quickly to a low of $0.225. It has rebounded on strong volume of late to a current $0.39 per share. With a management well versed in mining endeavours internationally, including in Mexico, we are intrigued with the Company's prospects and rate the shares a Speculative Buy at current levels with a 12 months Target Price of $0.50 per share, representing a 28% capital gain from the present price.

# THE COMPANY

Arian Silver Corporation is a junior exploration company based in London, England. It was formed when the privately-held Arian Silver Corporation Limited merged with Hard Assets Inc. in May 2006. Arian Silver Corporation, through its 100% owned subsidiary Arian Silver Mexico S.A. de C.V, owns mineral properties in Mexico. Arian Silver's shares trade on the London Stock Exchange's AIM and on the TSX Venture Exchange in Canada with the identical symbol: AGQ. It is also listed on the Frankfurt Stock Exchange with the symbol :I3A.

The Company's strategy is to acquire silver properties with prior exploration and production history at a low cost and build up the resources in the ground. Arian Silver will also commence silver production in the interim if economic resources and mineable reserves are defined in the acquisition process.

Arian Silver's mineral concessions are in Mexico with twelve concessions (1,493 hectares) in the prolific silver mining state of Zacatecas and five concessions (1,415 hectares) in Michoacán. It also holds options and/or is currently negotiating interests on 10 other mineral concessions (1,950 hectares) and is investigating mine tailings projects for potential sources of silver, which could generate near-term cash flow for the Company.

Several of these concessions, notably the Calicanto Group and San Celso Group are "brown field" sites, which means that not only are the properties located in known mining districts but also they have been explored or have produced silver in the past and have existing mine-related infrastructure such as shafts, adits, etc. in place.

**Table 1. 2006 Exploration Schedule On Key Mexican Projects**

| Properties | Objectives | Budget (US$) | Implementation Date |
|---|---|---|---|
| Calicanto – Zacatecas | Phase I fieldwork (drilling + geophysical surveys) to confirm historical grades, expand mineralized zones, define NI43-101 resources | $554,625 | November 2006 |
| San Celso – Zacatecas | | $754,300 | November 2006 |
| Tepal – Michoacán | Phase I fieldwork (drilling + remote sensing) to confirm previous grades and identify new zones, infill-drilling, etc. | $1,027,050 | Within Q4/ 2006 (drill-permitting stage) |

*Source: Company*

Arian may co-develop these advanced projects towards production with third parties via joint venture or on its own in the long term. Currently, the Company is focused primarily on defining NI 43-101-compliant resources and expanding zones of mineralization on these advanced (brown field) projects.

**Figure 1. Location Of Calicanto And San Celso Projects**


*Source: Company*

## RECENT DEVELOPMENTS

The following news announcements have been made since the publication of our Initiating Report on November 29, 2006.

**November 30, 2006:**
• Closed a private placement for C$3.5 million.
• Gained a listing on PLUS, a new independent London-based equity market service; symbol: AGQ.

**December 5, 2006:**
• Encouraging underground sampling activity at Calicanto.
• 19 diamond drill holes will be undertaken for a total of 3000 metres.
• Drilling will test for down-dip and along-strike extension.
• Aim is to delineate a NI 43-101 resource.

**December 13, 2006:**
• Acquired a 3-year option, at a cost of US$1.5 million payable in installments, for 100% of San Jose silver-base metal property in Zacatecas State in the silver-rich Ojocaliente mining district. Total area under the option is 4000 hectares. This was a producing property from 1973 to 2001. The option is part of the Company's strategy of acquiring in-the-ground silver resources.

**January 10, 2007:**
• Acquired a mining claim, which is called Tepal #2, for 12,500 hectares. It surrounds the existing five Tepal mining claims that the Company has under option. The total area under option is now about 14,000 hectares.

# KEY PROJECTS

The Company's key projects are Calicanto, San Celso, and Tepal, all located in Mexico.

## 1. Calicanto

The Calicanto project is located in the historic mining district of Zacatecas state in central Mexico. It is held under option by the Company with Mr. Hector Juan Manuel Mayorga Murillo and comprises three contiguous mining concessions totaling approximately 45.12 hectares. A further claim, known as 'Misie' and partly contiguous with the other three concessions within the Calicanto Group, is 100% owned by Arian Silver Mexico. The property is close to population centres and has excellent access with a ramp approximately one kilometer from paved city streets.

Mineralization on Calicanto is typical of low-sulfidation epithermal vein deposits common in Mexico and the project hosts up to five known distinct veins (Calicanto, San Buenaventura, Nevada, the Vicochea and the Barones).

**Figure 2. Photograph Of The Calicanto Vein Exposed In The Arian Decline**

*Source: Company*

Mining at Calicanto was believed to have started around the 16th century. However, the mine remained dormant until 1934 when Compañía Fresnillo S.A. de C.V., on a short-term option, dewatered the mines, re-sampled the veins, and mined a small amount of ore. Average grades were reported to be 0.5 g/t to 1.0 g/t Au and 200 g/t to 250 g/t Ag. In 1948, a full-scale operation began at Calicanto, with a flotation mill and modern power plant built the following year. Mine production during this period was at 100-130 t/day including that of the adjacent Nevada mine (not owned by Arian Silver). Production continued through 1955 when the two mines were connected by drifts and crosscuts and worked as one mine. Production from the two mines totaled 1,500 to 3,400 tons monthly, averaging 2.3 g/t Au, 110 g/t Ag, and 2.0 % Pb. However, this was not deemed profitable by the owners and mining ceased. The Calicanto mine was reexamined in 1961 and again in 1985, and a set of mine plans and reports were developed. (For further information, see Appendix 1, page 16.)

Given the high silver grades of the property and its potential for low-cost mechanized mining method, Arian Silver became involved in the property and, in August 2005, it began constructing a 4 meter-by-4 meter decline to access the Calicanto vein. A channel sampling program was also conducted to test for disseminated silver and gold mineralization in the wall rock. 254 samples have been collected to date. Selected results are shown in the following Table 2.

**Table 2. Selected Channel Sampling Results For Calicanto**

| Sample No. | Sample Length (m) | Silver Grade (g/t Ag) | Gold Grade (g/t Au) | Lead (% Pb) | Zinc (% Zn) |
|---|---|---|---|---|---|
| CAL 008 | 2 | 184 | 0.31 | 0.10 | 0.25 |
| CAL 009 | 2 | 458 | 0.06 | 0.17 | 0.22 |
| CAL 011 | 1 | 279 | 0.35 | 0.13 | 0.14 |
| CAL 102 | 1 | 299 | 0.31 | 0.14 | 0.24 |
| CAL 114 | 1 | 649 | 2.37 | 0.29 | 0.50 |
| CAL 119 | 1 | 228 | 0.40 | 0.09 | 0.22 |
| 38154 | 1.2 | >10,000 | 10.90 | 1.40 | 1.68 |
| 38163 | 1 | 754 | 1.69 | 0.67 | 2.46 |

*Source: Company*

During 2006, the Company continued to advance the decline along the Calicanto vein structure, which now extends more than 80 meters. A recent bulk sample of 165 tonnes from this underground ramp returned an average grade of 393 g/t Ag and 1.2 g/t Au. In addition to the ramp advance, a chip and channel sampling program is ongoing within the pre-existing adit at Calicanto, and best results so far include 10,653 g/t Ag and 10.9 g/t Au over 1.2 meters, 1,720 g/t Ag and 1.9 g/t Au over 1.7 meters, and 2,100 g/t Ag and 7.3 g/t Au over 0.6 meters.

A new mining claim (Misie), adjacent to the Calicanto concession, has also been acquired, bringing the total area of the Calicanto project to 74 hectares. Misie was mined until the early 1990s when the price of silver took a downturn. It contains six existing mine shafts, numerous prospects and trenches and is host to a number of structures, including the extension of the "Misie" vein structure, which is parallel to both the Calicanto and Nevada veins; Misie has been explored and partially exploited over a strike length of 2.2 kilometers. The property also covers the southwest extension of the San Buenaventura vein.

To further evaluate the potential of the Calicanto, the Company has proposed a two-phase exploration program budgeted at US$1,666,320. The Phase I fieldwork with a US$554,625 allocation to include drilling of up to 3,000 metres (note: there has been no drilling on the property by previous owners), remote sensing and ground geophysics is set to commence in November.

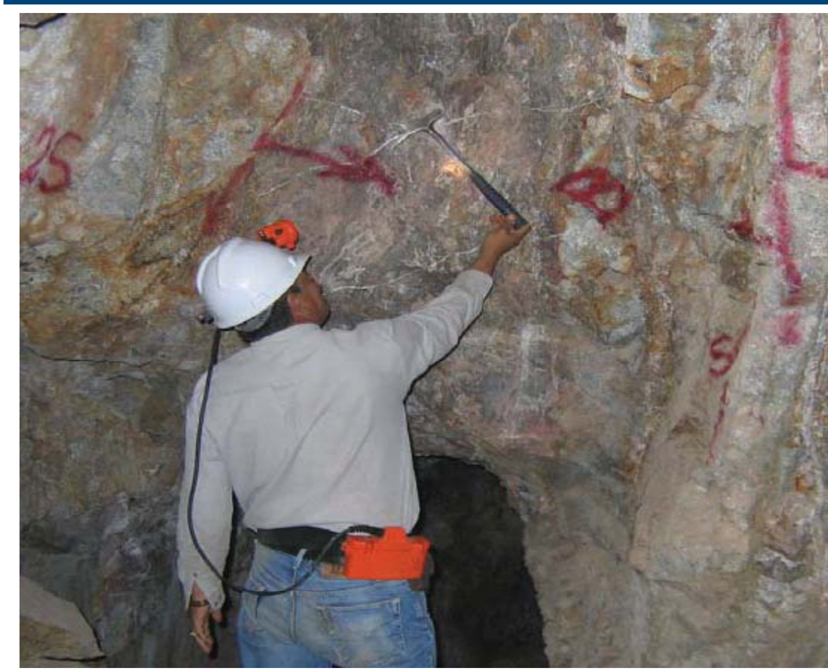
**COMMENT:** *The planned geophysical surveys as part of the Phase I program could extend lateral extents of mineralized zones in shallow portions of the veins on the property and outside the areas of old workings. Moreover, considering that no drilling was conducted by past owners on the property, Arian's drilling in November could extend known veins or identify new vein systems at depth beyond the existing mining levels. The Misie vein – which was previously explored and partially mined in the 1990s – and the San Buenaventura vein within the Misie claim hold significant potential to contribute to the total silver resources in Calicanto.*

## 2. San Celso

The 100%-owned San Celso property is located in the historic mining district of Pánfilo Natera-Ojocaliente, some 50 kilometers southeast of Zacatecas in central Mexico. It consists of three contiguous mining concessions totaling approximately 88.58 hectares. Access to the property is good as the San Celso and Las Cristinitas shafts are less than 10 kilometers from paved roads.

San Celso is an epithermal silver prospect and hosts two known veins (San Celso and Nueva Andromeda). The mine was worked at the beginning of colonial times and developed to at least 130 meters on at least three levels. Each of the accessible levels has numerous stopes indicating the presence of high-grade shoots within the San Celso vein. The Company has accessed and realdered two shafts on the property: 1) the San Celso shaft to a depth of 110 metres, and 2) the Las Cristinitas shaft to 120 meters in depth. Historic mining (silver extraction using amalgamation) was believed to have occurred near the surface to 100 meters on the narrow (<1 meter wide) ore shoots.

**Figure 3. Photograph Of The San Celso Vein On The Second Lowest Accessible Level**



*Source: Company*

Similar to the Calicanto property, there has been no drilling on the San Celso by any previous owner.

In September 2006, the Company completed the initial phase of underground sampling, surveying and geological mapping on San Celso. Underground geological mapping has identified a previously unexploited vein, approximately 2-4 metres into the footwall of the main San Celso vein. To date, a total of 175 samples have been taken from the San Celso workings. Samples have also been taken from across the face of the veins and in adjacent country rock.

**Table 3. Selected Values From Recent Sampling On San Celso**

| Sample No. | Sample Length (m) | Silver grade (g/t Ag) |
|---|---|---|
| SC024 | 2.25 | 336 |
| SC026 | 2.05 | 268 |
| SC 040 | 2.00 | 165 |
| SC047 | 1.15 | 1,044 |
| SC050 | 1.10 | 373 |
| SC051 | 1.45 | 299 |

*Source: Company*

In October 2006, the Company has also completed underground sampling, surveying and geological mapping of the Las Cristinitas mine workings, located 130 metres northeast of the San Celso project. Arian took 265 chip-channel samples from the vein and country rock at the periphery of historical mine workings and stopes within Las Cristinitas area and favorable assays were obtained. Underground geological mapping has also identified further mineralization comprising a 6-metre wide vein structure between the Las Cristinitas and the San Celso veins, some 10 to 20 metres in the footwall of the San Celso vein.

**Table 4. Selected Values From Recent Sampling On Las Cristinitas Within San Celso**

| Sample No. | Sample Length (m) | Silver grade (g/t Ag) |
|---|---|---|
| LC069 | 3.95 | 253 |
| LC069-B | 0.8 | 480 |
| LC070-B | 1.05 | 2,683 |
| LC070-C | 1.40 | 1,225 |
| LC084 | 1.45 | 603 |
| LC084-A | 0.55 | 1,475 |

*Source: Company*

A two-phased exploration program amounting to US$1,495,600 has been proposed by Arian Silver for the San Celso property. The first phase of work planned in November 2006 will total US$754,300, consisting of 3,000 metres of diamond drilling, ground magnetic survey and remote sensing studies.

**COMMENT:** *Additional fieldwork especially drilling in November could yield further significant metal grades to complement the results obtained from the recently completed underground sampling on the face of the veins and in adjacent country rock. Likewise, deeper extensions of the vein systems could be encountered. Further evaluation of the new unexploited vein found in the footwall of the main San Celso vein could expand areas of mineralization that could contribute silver ounces to the NI 43-101 compliant resource base to be defined on the property.*

## 3. Tepal

The Tepal project, held via option by Arian Silver with Minera Tepal S.A. de C.V., comprises five exploration concessions covering 1,406 hectares located in Michoacán state in Mexico. The property is a copper-gold porphyry prospect discovered by International Nickel Company of Canada, Ltd. ("Inco") in 1973. It was evaluated as a copper-gold target by Inco and Teck Resources Inc. while Minera Hecla S.A. de C.V. explored its potential as a large but low-grade gold deposit. These three companies have defined historical resources (non-NI 43-101) on Tepal.

**Table 5. Historical Resources At Tepal**

| Company | Tonnage (000) | Copper Grade (% Cu) | Gold Grade (g/t Au) |
|---|---|---|---|
| Inco Ltd | 27,000 | 0.33 | 0.65 |
| Teck | 78,822 | 0.25 | 0.48 |
| Hecla | 9,063 | N/A | 0.91 |

*Source: Company*

A substantial amount of fieldwork was conducted by the three companies prior to defining the resources. From 1972 to 1974, Inco completed a total of 21 diamond drill holes totaling 3,247.75 meters on two areas of the property as well as conducted geologic mapping and an induced polarization survey. A petrographic study of 177 rock and drill core samples including a limited number of whole rock analyses was also completed. Inco subsequently abandoned Tepal, believing it was uneconomic to mine the property at the time.

Work on the property recommenced in late 1992. Teck Resources conducted geologic mapping, collected over 200 rock samples for multi-element analysis, collected 1,268 soil samples and 50 rock chip samples from a 60-kilometer grid line, constructed a 15-kilometer road and completed 50 reverse-circulation holes totaling 8,168 meters in four phases.

In the spring of 1997, work by Hecla included the creation of a 1:2000 scale topographic map from aerial photographs, a geologic mapping program, the collection of nearly 900 rock ship samples on a 50 meter by 50 meter grid, the reanalysis of 298 pulps from the Teck reverse-circulation drilling program, the completion of 17 reverse-circulation drill holes totaling 1,506 meters and the completion of a resource estimate.

Although the mine was considered uneconomic from a gold-copper standpoint, the potential for silver was never adequately pursued by the previous owners of the property. This will be the focus of Arian Silver in the short term.

In August 2006, Arian Silver established a local operational base in the area and commenced further analysis of the historical exploration data to assess the larger potential for silver and other metals. A two-phase budget totaling US$3,382,500 has been proposed by Arian for the property to develop a new NI 43-101 resource by the end of 2007. Phase I exploration, budgeted at US$1,027,050, will include 3,000 meters of diamond drilling as well as the remote sensing. The property is currently at drill-permitting stage.

**COMMENT:** *Review of historical field data and a subsequent exploration program could confirm previous metal grades, identify new economic mineralization sufficient to upgrade and/or expand the historical resources to NI43-101-compliant resources. Considering Tepal was not systematically explored for silver by its previous owners, evaluating the mineralization especially in the south zone (previously identified by Teck to hold the best potential) and at depth could yield additional tonnage for silver as well as other metals.*

## OTHER PROPERTIES

Arian Silver owns or holds options over other properties prospective for silver and other base metals within Mexico, namely Los Campos south of Zacatecas, La Africana and Ampliacion El Cabezon, Donovan I, Donovan II, and Navidad in the Ojocaliente area about 50 kilometers southeast of Zacatecas, four concessions in the Sombrerete area 15 kilometers south of Jimenez del Teul in the westernmost part of Zacatecas; Reyna Victoria, El Triangulo . Arian Silver is also investigating potential silver tailings retreatment projects. Full details of the properties can be found in the Appendix on page 16.

**COMMENT:** *Arian Silver's strategy of acquiring advanced-stage silver projects (brown field sites) including silver tailings retreatment projects can minimize time and associated risks of exploring and developing properties. If the Company is successful in delineating sizeable reserves from these projects, mining may commence and generates cash flow in the short to medium term. Diversifying into other advanced metal projects (e.g. gold, copper, lead, zinc, etc.) for development and production could also provide the Company with some leverage when the silver price becomes too low or volatile. With the Calicanto claims being adjacent to the Cozamin project (of Capstone Mining), which is set to commence copper-zinc-lead production in Q3/06, there may be potential cost synergies for the Company with other mine operators in terms of mining, ore processing, metal production, etc.*

*Note: With due diligence, the authors have relied upon the data contained in the documents submitted by Arian Silver Corp to the TSX Ventures and LSE AIM stock exchanges in formulating its comments/ opinions on the properties. Personal communications were also made with the Company to augment or further clarify particular information. There were no independent exploration work or field visits made while preparing the report.*

## SILVER MARKET OVERVIEW

The price of silver has seen significant growth from around US$9/oz at the start of the year to almost US$13/oz currently, driven largely by investment demand from fund markets. Total fabrication demand (from industrial applications, photography, jewelry and silverware, and coins and medals) posted a marginal increase of 3% to 864.4 million ounces ("Moz") in 2005 from 839.4 Moz in 2004. Notable is the waning demand for silver in photography with the growing popularity of digital cameras. In 1996, photography consumed 210.1 Moz of silver compared with 164.8 Moz last year. Studies are being conducted to find alternative uses of silver in the areas of health and energy. Total silver supply in 2005 grew to 911.9 Moz from 878.1 Moz a year ago.

Top country producers in 2005 included Peru, Mexico, Australia, China and Chile. Strong production from Mexico and Australia increased the global mine production by 21.1 Moz to 641.6 Moz in 2005.

Mexico produced 99.2 Moz in 2004 and 92.3 Moz. in 2005 with approximately 60% of that production coming from the state of Zacatecas (where Arian Silver Corp is active). Silver from

Mexico comes from primary silver mines, or as a co-product of gold or by-product of base metals.

Mining of the rich silver deposits in Zacatecas was started by the Spanish colonizers in 1546 and in Sombrerete areas two years later. From the early 17th century to the present, Zacatecas has contributed significantly to silver production in Mexico and to the total world supply. Industrias Peñoles S.A. de C.V. is Mexico's largest silver producer, and is second only to BHP Billiton worldwide in 2005. Industrias Peñoles operates the Proaño silver mine near Fresnillo in the state of Zacatecas.

In this section, all figures quoted were taken from The Silver Institute, 2006. Specific reference was also taken from the Technical Report on Calicanto and San Celso Projects, March 2006.

## FINANCIAL REVIEW AND OUTLOOK

**Revenue/Income:** Arian Silver is an exploratory stage company that has not, as yet, begun production from its properties. As a result, it does not have any mining revenue, only exploration and development expenses and overhead. It recorded a loss per share of US$0.29 at 30 June 2006 compared with a loss of $0.01 for the same period in 2005. We expect that the Company will post losses until the production stage is reached.

**Past Financing:** During the six-month period ended June 30, 2006, Arian Silver was able to raise US$2.2 million from issuance of shares compared with US$1.1 million a year ago.

**Cash:** As at June 30, 2006, the Company had cash and cash equivalents of US$2.59 million. Currently, the cash position for the second quarter of 2006 is estimated to be at US$4.79 million. Less administrative and exploration costs of approximately US$3.24 million, the Company will have an estimated balance of US$1.56 million at the end of 2006, assuming no new financing is undertaken. An additional US$1.09 million may also accrue to the Company if warrants are exercised within the 12-month period.

**Burn Rate:** The Company's estimated monthly burn rate for administrative overhead and salaries is $74,666 for a total of US$448,000 in the first six months of 2006. Assuming monthly administrative expenses at constant rate, our estimated total for 2006 would be around US$1.0-1.1 million.

**Capex:** In 2006, Arian Silver is expected to spend around US$2.34 million for Phase I exploration (drilling and geophysical surveys to define NI 43-101-compliant resources) of its key projects, with (1) approximately $554,625 on Calicanto property, (2) approximately $754,300 for San Celso, and 3) approximately US$1.03 million on Tepal.

**COMMENT:** *The Company has sufficient cash at US$4.79 million to finance the Phase I field programs for its key projects (US$2.334 million) and for general administrative expenditures (US$0.906 million) totaling US$3.244 million in 2006. Approximately $230,000 has already been spent in September from the total $1.3 million earmarked for Calicanto and San Celso.*

**Options:** As of June 30, 2006, Arian Silver has 6.18 million stock options outstanding, with strike prices varying from $0.28 to $0.50 and a lifespan of up to three years. All of the stock options outstanding are current and "in the money" with the potential to yield additional funds of US$1,807,400.

**Table 6. Stock Options**

| Number | Exercise Price | Expiry Date | Comment | Potential Equity |
|---|---|---|---|---|
| *3,107,933* | *$0.35* | *7-Apr-07* | *In-the-Money* | *$1,087,777* |

*Note: The entries in italics are within our 12-month forecast period.*

*Source: Company and eResearch*

**Warrants:** As at June 30, 2006, the Company has 3.1 million warrants outstanding at a strike price of $0.35 exercisable in April 2007. All of the warrants are current and "in the money" with the potential to yield additional funds of US$1,087,777.

In late September, Arian Silver announced that it had issued 7,000 common shares of no par value in connection with an exercise of warrants at US$0.175 per share.

**Table 7. Warrants**

**Options**

| Number | Exercise Price | Expiry Date | Comment | Potential Equity |
|---|---|---|---|---|
| 5,830,000 | $0.28 | 31-Jan-09 | In-the-Money | $1,632,400 |
| 350,000 | $0.50 | 13-Apr-08 | In-the-Money | $175,000 |
| 6,180,000 | | | | $1,807,400 |

*Source: Company and eResearch*

**COMMENT:** *In determining our estimate of the intrinsic value of Arian Silver's shares, we include those options and warrants that are: (a) "in the money" or within our expected 12-month share price horizon; and (b) expiring within our 12-month forecast period. Thus, as indicated above and shown in italics, we are including an additional 3,107,933 shares in the capital structure, resulting in a total number of shares of approximately 89.422 million (from the June 30, 2006 shares outstanding). Exercise will also result in additional capital of US$1.09 million.*

**Funding Requirements:** Giving consideration to the Company's cash position, our estimate of monthly burn, its anticipated capex, and the potential new equity that could be generated from warrant conversion, the Company has sufficient operating capital in the next 12 months.

**Capital Structure:** Arian Silver currently has 86.62 million shares outstanding and a market capitalization of approximately C$31.2 million at recent prices on the TSX Venture Exchange. The company has no long-term debt or other significant liabilities. The largest shareholders are RAB Capital plc and Endeavour Financial.

**Selected Financial Information:** Set out on the following page are abridged financial statements: Statement of Income/(Loss); Statement of Cash Flow; and the Balance Sheet.

**Table 8. Selected Financial Information (In US Dollars)**

| **US$** | From date of merger between Hard Assets Inc and Arian Silver in May 2006 to June 30, 2006. |
|---|---|
| **Statement of Income/(Loss):** | |
| Operating Income | 0 |
| Non-Operating Income | 31,000 |
| General & Administrative Expense | (1,069,000) |
| Amortization | 0 |
| Stock-based Compensation | (866,000) |
| Other Non-Cash Items | 0 |
| Other Income/(Expenses) | (19,000) |
| Net Income/(Loss) | (1,923,000) |
| Total Shares Outstanding | 86,315,000 |
| Weighted Average Shares Outstanding | 52,698,000 |
| Earnings (Loss) Per Share | ($0.04) |
| **Statement of Cash Flow:** | |
| Net Income (Loss) | (1,923,000) |
| All Non-Cash Items | 866,000 |
| Cash Flow from Operations | (1,057,000) |
| Capital Expenditures (Properties) | (55,000) |
| Other Investing Items | 119,000 |
| Free Cash Flow | (993,000) |
| Working Capital Changes | (197,000) |
| Equity Financing | 2,178,000 |
| Debt Financing | 0 |
| Change in Cash | 988,000 |
| Cash, Beginning of the Period | 98,000 |
| Cash, End of the Period | 2,587,000 |
| | As at June 30: 2006 |
| **Balance Sheet:** | |
| Cash | 2,587,000 |
| Other Current Assets | 83,000 |
| Mineral Properties | 476,000 |
| Other Assets | 101,000 |
| Total Assets | 3,247,000 |
| Current Liabilities | 409,000 |
| Other Liabilities | 0 |
| Debt Obligations | 0 |
| Total Liabilities | 409,000 |
| Shareholders' Equity | 2,838,000 |
| Total Liabilities & Equity | 3,247,000 |
| Book Value (S.E.) Per Share | $0.03 |

*Source: eResearch*

**COMMENT:** *Hard Assets Inc., which was formed in May 2004, acquired all of the shares of privately-held Arian Silver Corporation Limited in May 2006, and the merged entity changed its name to Arian Silver Corporation. Consequently, there is little financial history to analyze. Since it is an exploration company with no producing mines, Arian will incur net losses. Book value per share was US$0.03 at the end of second quarter of 2006. Capex in 2006 is expected to be around US$1.3 million for the Calicanto and San Celso projects. With approximately US$4.79 million cash on hand as at June 30, 2006, and with this year's "burn" expected to be around US$1.07 million, the Company should have sufficient funds available to cover its capex and operating costs without the need to visit the capital markets for the next 12 months.*

# VALUATION

Considering that Arian Silver has not yet defined any silver or metal resources on its key properties, we are estimating an intrinsic value for the Company's shares by using the per attributable resource ounce method, wherein the share price is a function of silver value as determined from a possible range of resources at a given silver price.

To determine the applicable silver price we will use, we have assembled a group of companies (see Table 9) which we deem comparable with Arian Silver. The Mexican properties of these companies have undergone various levels of development, i.e. sampling to drilling to NI 43-101 resource estimation to production. We estimated the adjusted market capital per silver equivalent resource ounces ("AMC/oz") of these companies and have obtained an average value of C$2.58/oz. As shown, the range was wide, from C$0.14/oz to C$7.35/oz. (Adjusted market capitalization is defined as: (share price x share O/S) – cash – "in the money" warrants/ options value + debt).

We used silver equivalent resource in the calculations since Arian Silver has only copper and gold historical resources (see section on the Tepal property). The 16.7 million silver (Ag) equivalent resource ounces were taken from 9.1 million tonnes (0.91 g/t gold) determined by Minera Hecla in 1997. The Company's AMC/oz of C$1.62 is within the range obtained for the peer group.

**Table 9. Silver Comparables**

| Company | Symbol | Share Price (C$) | Shares O/S (M) | Adjusted MC (C$ M) | Mexican Property | Ownership/ Option to Acquire | Project Status | Silver / Silver Equivalent Ounces NI43-101 Inferred Category | AMC per oz (C$) |
|---|---|---|---|---|---|---|---|---|---|
| Capstone Mining Corp | CS - TSX | 1.87 | 80.83 | 122.50 | Cozamin | 100 | Commenced Cu-Pb-Zn-Ag metal production. | 31,733,874 | 3.86 |
| Great Panther Resources Ltd | GPR - TSXV | 2.63 | 67.63 | 163.78 | Km 66 | Ongoing purchase for USD3M over 4 years. | Completion of NI43-101 resource estimate; airborne geophysical surveys commenced. | 22,268,981 | 7.35 |
| Golden Tag Resources Ltd | GOG - TSXV | 0.43 | 26.34 | 9.72 | San Diego | Earning 50% stake from ECU. | 4,000-m surface drilling and road construction commenced. | 71,419,421 | 0.14 |
| Cream Minerals Ltd | CMA - TSXV | 0.56 | 38.77 | 19.60 | Nuevo Milenio | 100 | Phase I exploration (soil grid, sampling of old shafts, trenching, etc) ongoing. | 47,266,316 | 0.41 |
| Orko Silver Corp | OK-TSV | 0.62 | 65.49 | 29.14 | La Preciosa | 75 | Reestimation of silver-gold resource for La Preciosa completed; new vein system discovered. | 25,798,770 | 1.13 |
| | | | | | | | | Ave | 2.58 |
| Company | | Share Price | Shares O/S | Adjusted MC | Property | Ownership / Option to acquire | Project Status | Silver Equivalent Ounces Historical/ Unclassified | AMC per oz (C$) |
| Arian Silver Corp | AGQ - TSXV | 0.39 | 86.62 | 27.12 | Tepal | Earning 100% | Exploration program to commence. | 16,747,066 | 1.62 |

Notes:

1) Market Cap values were calculated at 27 Nov 2006 share price and number of shares outstanding.

2) AMC = (Share price x Share O/S) - cash - ITM + debt

3) Adj Market Cap/oz = AMC/ silver equivalent resources

5) Silver Equivalent Oz = Total Ag oz + Total Au oz (600/9.5) or Total Ag oz + Total Cu in oz (0.1026/9.5)

6) Metal prices used: Gold at USD600/t oz; Silver at USD9.50/ t oz; Copper at USD1.5/ lb

7) Figures for Cash, Options and Warrants for ITM, and Debt may vary in dates of availability for each company and are estimates only.

*Source: eResearch*

Using the average AMC/oz of C$2.58 (~US$2.28) as the "in-the-ground" value of silver or silver equivalent for Arian Silver, Table 10 below outlines the silver equivalent value at a various range of resources that could be delineated on the Company's key properties, as well as the corresponding per share value using the eResearch-calculated shares outstanding of 89,422,933.

**Table 10. Matrix of Values Per Attributable Resource Ounce**

| | | | | | |
|---|---|---|---|---|---|
| Peer Group "In the Ground" Ave Value | US$2.28 | US$2.28 | US$2.28 | US$2.28 | US$2.28 |
| Silver Equivalent Resources | 16,000,000 | 18,000,000 | 20,000,000 | 25,000,000 | 30,000,000 |
| Silver Equivalent Value (C$ @CAD1=USD0.8827) | | | | | |
| Using Silver Eq Resource Ounces | $41,327,744 | $46,493,712 | $51,659,681 | $64,574,601 | $77,489,521 |
| Value Per Fully Diluted Share | | | | | |
| Using 89,422,933 Shares | $0.46 | $0.52 | $0.58 | $0.72 | $0.87 |

*Source: eResearch*

Currently, the Company has a historical resource of 16.7 million Ag equivalent resource oz. at Tepal, but has yet to define resources on the Calicanto and San Celso properties. Fieldwork results continue to confirm the strong potential of silver and other metals from these properties. Underground mapping recently completed on the historic workings at San Celso has identified a previously unexploited vein at the main San Celso vein and returned, among other results, 364 g/t Ag, 1,312 g/t Ag, and 1,177 g/t Ag over an average width of a metre. Arian Silver has also gained further access to the Calicanto vein with a 4 meter x 4 meter adit, which is now more than 80 meters. Bulk samples of 165 tonnes from this advance returned an average grade of 393 g/t Ag and 1.2 g/t Au. The Misie claim, the most recent addition to the Calicanto, has been previously explored and partially exploited in the early 1990s for silver, and is believed to have similar geologic features to an area currently mined on a neighboring property.

We believe the Phase I exploration program (drilling + geophysical surveys) on Calicanto, San Celso, and Tepal properties could further widen zones of mineralization laterally (within and outside old mine workings) and at depth. And high drill intersections on these new zones could potentially contribute silver resources to be delineated on these properties.

With the Company's historical silver equivalent resources at almost midpoint between $0.46 and $0.52 a share (refer to Table 10), we are selecting a 12-month Target Price for Arian Silver shares of $0.50 dependent on the Company converting and/or establishing 16.7 million equivalent silver ounces to NI 43-101 compliant inferred resources on its key projects. The shares are recommended to risk-tolerant investors as a Speculative Buy.

## MANAGEMENT AND DIRECTORS

Arian Silver was founded by Mr. Jim Williams and Mr. Tony Williams (not related) who, combined, have over 50 years of experience in exploration, project construction, and mining worldwide. Arian Silver is supported in the areas of mining finance and project management by the Dragon Group of Companies in London and the Endeavour Group of Companies in Canada.

**Tony Williams, Chairman**
Mr. Williams has 30 years of experience in the international mining industry, having been involved in projects in the Americas, Australia, Africa, Europe and the former Soviet Union. He co-founded and led the Natural Resource Group at Yorkton Securities Limited. He is the Chairman and Director of European Minerals Corporation, and a Director of Endeavour Mining Capital Corporation. Mr. Williams is Chairman and controlling shareholder of the Dragon Group of Companies, a privately owned international mining finance and project management organization, which he founded in 1995. In addition to the Dragon Group, Mr. Williams holds a number of directorships in public and private companies engaged principally in mining finance and mineral exploration.

**Jim Williams, Chief Executive Officer**
Mr. Williams is a professional geologist with more than 20 years' experience worldwide in a variety of minerals. For the past two years, Mr. Williams has been evaluating silver (and gold) projects in Mexico and is familiar with both epithermal and VMS systems. Mr. Williams is a Fellow of the UK IMMM, a CEng and a CGeol. He is also a Eur. Ing., and a Euro. Geol. In addition, he is involved with various project financings, and is conversant with the U.S., Canadian, and U.K. financial circuits. Mr. Williams holds B.Sc., M.S., and DIC degrees in geology and exploration.

**Tom Bailey, Legal Advisor**
Mr. Bailey qualified as a solicitor in 1975 and worked as an in-house lawyer for a number of years with Citibank and Chase Manhattan before returning to private practice to establish a law firm which ultimately became one of the top 500 law firms in London. Mr. Bailey was the senior partner of his firm specializing in commercial law. Mr. Bailey has for a number of years carried out consultancy work for various companies and now acts as consultant legal advisor to the Dragon Group.

**James Cable, Chief Financial Officer**
Mr. Cable is a financial director with extensive experience at the board level in quoted and entrepreneurial private companies. He has gained significant international and commercial experience in the Middle East, Africa, the Far East, and Europe in several business sectors, including oil and construction. He has been a chartered accountant for 27 years. He is also Financial Director of an AIM-listed mining company.

**Merfyn Roberts, Non-Executive Director**
Mr. Roberts holds a B.Sc. Honours Geology from Liverpool University and an M.Sc. in Geochemistry from Oxford University. He is a chartered accountant and has extensive experience in finance, particularly with respect to the natural resource sector. Mr. Roberts is also a director of several junior resource issuers.

**David Cohen, Non-Executive Director**
Mr. Cohen has over 20 years experience in operations, project development and financing of the mining industry. Formerly with Anglo American and Fluor, he has worked in South Africa and internationally in the mining and oil and gas sectors. He is the President and CEO of Northern Orion Resources, a Toronto and Amex-listed intermediate copper and gold producer in South America, and Chairman of Eastern Platinum Limited. He is a director of a number of resource companies and has initiated and closed major resource acquisitions and equity raisings globally.

## APPENDIX 1 : PROPERTIES

### 1. Calicanto - Zacatecas

The Calicanto Property consists of three contiguous mining concessions totaling approximately 45.12 hectares located on the edge of the city of Zacatecas in the state of Zacatecas in central Mexico. On February 24, 2006, Arian signed an option agreement with the legally-binding representative of the Calicanto, Vicochea and Vicochea II concessions, Mr. Hector Juan Manuel Mayorga Murillo. Total purchase price under this agreement is $340,000 to be paid as follows: $20,000 in April 2006, $20,000 in April 2007 and $300,000 due on April 25, 2008. Under the terms of a previous agreement, dated April 25, 2005, Arian made a payment of $30,000 to the vendor's agent, and which is recognized with the legally-binding representative mentioned above, bringing the overall purchase price to $370,000. Upon the commencement of production, a 3.0% Net Smelter Royalty is to be paid to Mr. Mayorga Murillo on a monthly basis. The agreement specifies that the property cannot be put into production until the final option payment has been made.

Access to the property is excellent. The ramp being driven by Arian is approximately one kilometer from paved city streets. The final kilometer to the Calicanto ramp is over unimproved dirt roads. Driving time from Arian's office is approximately 15 minutes. The property is accessible by two-wheel drive vehicle.

The Calicanto mine was likely discovered about 1600 and mined in colonial times. The property was dormant until 1934, when Compañía Fresnillo S.A. de C.V. obtained a short-term option, dewatered the mines, resampled the veins and mined a small amount of ore. At the same time, approximately 300,000 tonnes of material from the dumps of the Calicanto, Nevada, Vicochea and Santa Clara mines was shipped to the cyanidation plant at Fresnillo. The average grades are reported to be 0.5 grams per tonne to 1.0 g/t Au and 200 g/t to 250 g/t Ag. Little was done from 1934 to 1948.

In 1948, the owners began a full-scale operation and in 1949 a flotation mill and modern power plant were built. During this time, the mines were producing 100-130 t/day. In 1952, the mines were connected by a crosscut, which released water flooding both mines to the 105-meter level. Pumps were required to allow work above the 95 and 105 meter levels.

In 1955, the mines were connected by drifts and crosscuts and worked as one mine. In 1956, the owners opened up a new level, the 205-meter level. Monthly production was 1,500 to 3,400 dry tons averaging 2.3 g/t Au, 110 g/t Ag, and 2.0 % Pb. There is no production reported after this date and the mine is believed to have closed.

The Zacatecas mining district is located in the east-central part of the state of Zacatecas. The oldest rocks in the district are Triassic metamorphic sequence composed of sericite schist, phyllite, slate and quartzite. This unit is intruded by the Zacatecas diorite, also referred to locally as "green rock". Both of these units are overlain by a younger intermediate volcano-sedimentary sequence. Tertiary conglomerate covers the intermediate volcanics and is in turn overlain by felsic flows and tuffs. The entire sequence has been intruded by rhyolite dikes and necks.

A resurgent caldera has been proposed south of Zacatecas in which a concentric and radial fracture system can be distinguished, as outlined by the veins in the area. The young rhyolites are also associated with two collapse events and three resurgent episodes. Mineralization occurred during the waning stages of each cycle. The most economically significant structures are the Ag-Pb-Zn-Cu-Au-bearing vein systems that are emplaced within northwest-trending structures. These are primarily located north of Zacatecas. South of Zacatecas, within the area of the collapsed caldera, Au-Ag-bearing vein systems occur in radial northeast-trending structures. Subsequent basin and range faulting and at least 500 meters of erosion followed emplacement of the veins.

The veins on the Calicanto property consist of silicified and brecciated andesite that contains disseminated sulfide, predominantly pyrite. Other sulfides include sphalerite, galena, chalcopyrite, proustite, pyrargyrite and occasional native silver. Mineralization on the Calicanto property is typical of low-sulfidation epithermal deposits common in Mexico and other parts of the world.

In August 2005, Arian began a decline intended to access the Calicanto vein and workings. The ramp has advanced a further 60 meters since the beginning of 2006, is 4-5 meters wide and 4 meters in height. The face is being advanced by a single jack-leg drill. At the same time, a channel sampling program was initiated to provide data on the Calicanto vein and to test for disseminated precious metal mineralization in the andesitic wallrocks. 254 samples have been collected to date. The decline is still under development and Arian maps and samples new development on a regular basis.

All original samples were submitted to ALS Chemex sample preparation facility in Guadalajara, Jalisco, Mexico. Sample pulps were then shipped to the ALS Chemex laboratory in Vancouver, British Columbia for analysis. Duplicate samples of high-grade intervals were submitted to BSi/Inspectorate sample preparation facility in Durango, Mexico. Sample pulps were then shipped by BSi/Inspectorate's laboratory in Reno, Nevada for analysis.

At the present time, Arian's quality assurance/quality control ("QA/QC") procedures rely on duplicate samples. All duplicate analyses are compared to identify potential analytical or sampling errors.

A.C. Howe International Limited visited the property on two different occasions to visit and sample the decline that Arian is driving on the Calicanto vein. Five chip-channel samples were collected from the Calicanto zone (samples 69969 to 69973) and one sample was collected from run-of-mine muck stockpiled on the surface near the decline. All samples were collected under Howe's direct supervision and were placed in appropriately numbered sample bags and sealed at the project site. These samples were sealed in sacks for shipping and transported by commercial carrier to the SGS de Mexico S.A. de C.V. sample preparation facility in Durango, Mexico. Silver values vary from 10 g/t to 170 g/t and gold grades vary from 0.30 g/t to 5.33 g/t. Howe's results for silver are somewhat lower, but generally are consistent with those obtained by Arian and others. Gold values are generally higher in the Howe sampling. This variation in silver and gold values is thought to represent the natural variation present in many epithermal precious metal systems.

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 meters 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 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.
In September 2006, Arian announced that its 100% owned subsidiary, Arian Silver Mexico S.A. de C.V., had been awarded an additional 29 hectares of mining concession by the Mexican Mines Directorate, enlarging the Calicanto area to 74 hectares. The new mining claim, called "Misie" (No. 93/27847) lies adjacent to the three existing Calicanto mining claims under option to Arian.

The Misie property was mined until the early 1990s when mining ceased following a downward trend in the price of silver. The 'Misie' property hosts a number of structures, including the extension of the "El Cobre" structure. The El Cobre (Misie) vein is parallel to both the Calicanto and Nevada veins and is explored and partially exploited over a strike length of 2.2 kilometer. The property also covers the south-west extension of the San Buenaventura vein.

With Misie's acquisition, Arian's proposed diamond drill programme on the Calicanto group of properties has been increased from 2,100 meters to 3,000 meters to accommodate the extra targets associated with the Misie structures. Arian has had environmental permits granted for drill holes planned on the Calicanto property, and drilling is expected to start in the next few weeks.

**2. Los Campos - Zacatecas**

The Los Campos project comprises four concessions wholly owned by Arian Mexico covering an area of approximately 500 hectares located on the south side of the city of Zacatecas. The target area can be easily accessed within 15 minutes' drive from Arian Mexico's offices via a paved bypass road between Guadalupe and Zacatecas. The target area incorporates the Los Campos, La Virgen, Dolka and San Vicente mines, which were productive in colonial times. Future exploration will be to depths below levels of colonial mining and portions of the epithermal veins have yet to be evaluated by drilling. In addition, a currently unknown quantity of mineralised dump material exists at various surface localities within the area covered by these concessions.

**3. San Celso – Ojocaliente (50 km SE of Zacatecas)**

The San Celso property consists of three contiguous mining concessions totaling approximately 88.58 hectares located 50 kilometers southeast of Zacatecas and west and south of the town of General Pánfilo Natera in the state of Zacatecas in central Mexico. All three concessions are exploitation concessions located in the historic mining district of Pánfilo Natera-Ojocaliente. The properties are owned outright by Arian.

Access to the property is good. The San Celso and Las Cristinitas shafts are less than 10 kilometers from paved roads. The final few km to the site are over unimproved dirt roads. Driving time from Arian's office is approximately one hour. The property is accessible by two-wheel drive vehicles.

The precise date of the discovery of the first mines in Pánfilo Natera-Ojocaliente area is not known but is thought to be around 1600. Little is known about the history of the San Celso mine itself. The mine was worked beginning in colonial times and is developed to at least 130 m on at least three levels. Each of the accessible levels has numerous stopes indicating the presence of high-grade shoots within the San Celso vein. Surface buildings indicate that ore was crushed and amalgamated on site. There are no production records or mine plans for this mine.

The eastern half of Zacatecas state, which contains the Pánfilo Natera-Ojocaliente area is characterized by isolated mountain ranges consisting of Triassic, Jurassic and Cretaceous volcaniclastic and marine sedimentary rocks surrounded by Quaternary alluvial deposits. Rocks exposed in the Pánfilo Natera-Ojocaliente area range in age from Triassic to recent. The area consists of a large northwest-trending anticlinal structure with an intermediate intrusive exposed in the core of the anticline. This intrusive, known as the Pánfilo Natera batholith, intrudes sericite schists of the Zacatecas Formation (Upper Triassic) and Upper Jurassic Zuloaga limestone or La Caja Formation. The overlying Upper Jurassic-Lower Cretaceous Chilitos Formation is composed of tuffs and andesitic flows with shale, limonite, limestone and chert horizons, as well as a thick set of limestone, shale and marl beds. The Pánfilo Natera batholith caused several periods of thermal metamorphism.

All of these units are partially, or in some cases wholly, covered by Tertiary rhyolitic volcanics. Porphyries, in the form of volcanic necks and dikes, cut the sediments, the batholith and the andesites. These porphyritic intrusive bodies are intimately related to the hydrothermal mineralization present in the area, which is manifested by intense silicification as irregular jasperoid bodies located in the limestones. As evidence of the last stage of igneous activity, volcanic pyroclastics and lava flows of a basaltic composition outcrop in the northeast and the west ends of the district There are two mineralization events in the Ojocaliente area. The oldest is related to the Pánfilo Natera batholith and consists of Ag, Pb, Zn and Cu replacement mineralization in the limestones that are associated with garnet and wollastonite skarns and marble alteration zones. The younger mineralization type occurs as epithermal veins in both sedimentary rocks and the intrusive.

The San Celso and Las Cristinitas veins occurs on the east side of a prominent hill called El Morro. The hill is a rhyolite plug, which is thought to be younger than the mineralization at San Celso since mineralization is reportedly cut by the plug. The wallrock at San Celso is the intermediate intrusive of the Panfilo Natera batholith. Much of the surface is covered by a blanket of caliche of varying thickness. There are two named veins exposed in the San Celso mine: the San Celso and the Nueva Andromeda. Each vein is 0.3-1.2 meters in width. There are two additional mineralized structures exposed in cross-cuts in the San Celso mine, both in the footwall of the main vein. The first is 2-4 meters from the main vein and similar in width. The second structure is 15 meters from the main vein and is approximately six meters wide.

Mineralization is epithermal in nature with silver and minor amounts of base metal. The veins consist of banded quartz and calcite and are low in total sulfide content. No visible sulfides were identified during sampling although some dark gray to black quartz bands that probably contain sulfides were identified in dump material. The Las Cristinitas vein is located in the footwall of the San Celso vein, approximately 115 meters to the east-northeast of the San Celso vein. Although little is known about the Las Cristinitas vein, early sampling indicates that it is similar in grade to the San Celso vein. In the immediate footwall and hanging wall of the Las Cristinitas vein are massive calcite-quartz veins that appear to contain variable amounts of silver. These veins are approximately 1-2 meters in width.

Arian is presently engaged in a detailed sampling program at the San Celso and Las Cristinitas mines and Arian had collected a total of 438 samples from the San Celso and Las Cristinitas workings and dumps. The work completed to date by Arian, or consultants working on behalf of Arian, appears to be reliable and confirms the presence of epithermal silver mineralization on the Property. All original samples are submitted to BSi/Inspectorate sample preparation facility in Durango, Mexico. Sample pulps were then shipped by BSi/Inspectorate's laboratory in Reno, Nevada for analysis. Duplicate samples of high-grade intervals are submitted to ALS Chemex sample preparation facility in Guadalajara, Jalisco, Mexico. Sample pulps were then shipped to the ALS Chemex laboratory in Vancouver, British Columbia for analysis.

At the present time, Arian's quality assurance/quality control ("QA/QC") procedures rely on duplicate samples. All duplicate analyses are compared to identify potential analytical or sampling errors. A.C. Howe International Ltd. visited the property and collected four chip-channel samples from the San Celso vein (the Las Cristinitas mine was not accessible at the time of Howe's visit). All samples were collected under Howe's direct supervision and were placed in appropriately numbered sample bags and sealed at the project site. These samples were sealed in sacks for shipping and transported by commercial carrier to the SGS de Mexico S.A. de C.V. sample preparation facility in Guadalajara, Jalisco, Mexico. Silver values vary from 170 to 470 g/t and gold values vary from 0.05 g/t to 0.69 g/t. Overall Howe's results are consistent with those obtained by Arian but when comparing the specific results of locations that were sampled by both Howe and Arian, Howe's silver values are higher as are the gold values. This variation in silver and gold values is thought to represent the natural variation present in many epithermal precious metal systems.

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 meters 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 meters of diamond drilling and follow-up ground magnetometry. Each phase of drilling is to be preceded by environmental permitting as is the ground geophysical program. Arian plans to continue underground sampling and mapping during both phases of exploration.

### 4. Tepal – Michoacán

The Tepal project comprises five exploration concessions covering 1,406 hectares with terms of 50 years from 2002 and 2003. The option agreement is for a five-year term. Assuming that the option is exercised in full, Arian will pay Minera Tepal US$5 million (Pounds Sterling 2.7 million), in installments over the five- year period and will also grant Minera Tepal a Net Smelter Return of 2.5%. Arian has the right to withdraw from the option agreement at any time during the five-year term without financial penalty. Arian has made the initial payment of US$100,000 to the vendor.

The project was previously explored in the 1970s and the 1990s by a number of companies including Inco, Teck and Hecla. The historical data indicates 78.82 million tonnes of mineralization grading 0.5 g/t gold (Au) and 0.25% copper (Cu), equating to 1.23 million contained ounces of gold and 432.63 million contained pounds of copper. The historical data also indicates that there are potentially higher-grade zones within these mineralized zones.

Both Inco and Teck were interested in the project as a copper-gold porphyry target, regarding silver only as a by-product. Hecla's primary focus on the project was as a large tonnage, low-grade gold target. The Tepal project has not been systematically tested for silver by previous owners, as the silver market has been subdued, with a price averaging less than US$6 an ounce during the 1970s and 1990s.

The project was initially explored in the early 1970s by Inco who identified the area as having potential to host a porphyry copper-gold deposit. Inco drilled 21 diamond drill holes, totaling 3,247meters and identified significant mineralization at the North Zone. In 1992, Teck acquired the project, drilled an additional 50 Reverse Circulation holes, totaling 8,168 meters, and discovered a second area of mineralization at the South Zone. Spacing between drill holes was typically 50 or 100 meters. In 1994, Teck completed a resource estimate of 78.82 million tonnes grading 0.5 g/t Au and 0.25% Cu. However, Teck only assayed for gold and copper. Teck used polygonal block estimates to calculate its resource estimate. Intercept intervals were based on combined gold and copper values calculated to a dollar value equivalent using gold at US$375/oz and copper at US$0.80/lb. Two cut-off values, greater than US$4/ton and greater than or equal to US$8/ton over a minimum of 6.0 meters were used. A specific gravity of 2.6 g/cm3 was used.

Subsequently, Hecla owned the project. Hecla collected nearly 900 rock chip samples on a 50 meter by 50 meter grid, reanalyzed 298 pulps from the Teck RC drilling program and drilled a further 17 RC holes, totaling 1,506 meters. Hecla's focus was exclusively on gold potential. In 1997, Hecla estimated a total historic resource of 9.063 million tonnes averaging 0.90 g/t Au containing 262,359 ounces of gold. However, Hecla used a specific gravity of 2.2 g/cm3, which is substantially lower than the 2.6 g/cm3 used by Teck. Hecla used polygonal block estimates to calculate its resource estimate, using drill sections constructed at intervals ranging from 50 meters to 90 meters. Cut-off grades of 0.5 g/t Au and 0.30 % Cu were used in the estimate although there is no copper resource in the Hecla material.

A two-phase budget totaling $3,382,500 has been proposed by Arian for the Property. The overall objective of the program is to develop a new resource on the Property by the end of 2007.

### 5. La Africana – Ojocaliente

The 100%-owned La Africana property situated about three kilometers southwest of Panfilo Natera, consists of two concessions totaling 14.75 hectares and covers a number of prospects and historical mine workings that explored and exploited high-grade silver veins hosted in tertiary-aged granodiorites and cretaceous-aged limestones. Previously the high-grade epithermal vein at La Africana was mined using conventional mining methods.

In October 2006, the Company announced that it has completed the initial phase of surface and underground sampling on the property. In the first half of 2006, the Company has accessed and rehabilitated the underground workings of the La Africana mine to sample the Africana vein system and surveyed the underground workings to assess the potential of the vein and to establish the extent of the mine workings in order to determine the optimum collar location of proposed drill holes. Selected results include 593 g/t Ag and 17 oz/t Au over 2 metres width including 1,195 g/t Ag and 35 g/t Au and 237 g/t Ag and 7 g/t Au (composite sample AF001), 101 g/t Ag and 3 oz/t Au over a metre (composite sample AF002), and 253 g/t Ag and 1 oz/t Au over a metre (composite sample AF005).

### 6. Donovan I – Ojocaliente

The Donovan 1 concession, which is wholly owned by Arian Mexico, covers approximately 42 hectares of agricultural land near the small settlement of Rancho Nuevo, situated between Panfilo Natera and El Morro. Small sub-crops and float boulders of epithermal and skarn hosted mineralization have been found. Little or no previous modern exploration has been done on this prospect.

Arian Mexico is aware, through its preliminary exploration of this area, that calcareous and siliceous caliche covers the surface. This phenomenon caused by upward leaching, masks the underlying mineralization from many conventional exploration techniques. The proposed directors are of the opinion that mineral-hosting structures may be present in this area which, if correct, may be located using exploratory techniques, such as remote sensing and induced polarization. The proposed directors intend to carry out further exploration in the medium term.

### 7. Donovan II – Ojocaliente

The Donovan 2 concession, which is wholly owned by Arian Mexico, covers an area of approximately 746 hectares, located to the north of the Milagros epithermal vein system. Initial reconnaissance has been undertaken and field observations indicate it has the potential to host volcanogenic massive sulphide mineralization similar to the San Nicolas deposit nearby.

### 8. Navidad – Ojocaliente

This concession, which is wholly owned by Arian Mexico, covers an area of approximately 100 hectares near the village of Genaro Codina. To date no exploration has been carried out save for initial reconnaissance

### 9. Sombrerete Concessions (West of Zacatecas)

In the Sombrerete area, Arian Mexico has an option over four concessions over an aggregate area of approximately 250 hectares and is in negotiations to acquire an option over three further concessions over an aggregate area of approximately 1,650 hectares. All of the concessions are situated about 15 kilometers south of Jimenez del Teul in the westernmost part of the state of Zacatecas. Access is by paved highways through Chalchihuites and Jimenez del Teul, from which gravel roads give access to the concessions.

### 10. Reyna Victoria

Arian Mexico has an option over four concessions at the Reyna Victoria project. Under the option agreement, Arian Mexico is required to make staged payments totaling US$40,000 to the concession holder for the right to explore the area covered by the concessions during the period of the option. Arian Mexico can exercise the option at any time until April 25, 2008 at an exercise price of US$250,000. The concession holder is also entitled to a 3% smelter royalty. Initial reconnaissance, including survey and sampling, has been carried out at the Reyna Victoria project.

### 11. El Triangulo

Arian Mexico is in negotiations for an option to purchase the three concessions at the El Triangulo project. The workings at the El Triangulo project appear to have had limited production in the past from a stoped area in a variably altered rhyolite body. There are a number of epithermal showings in the area and a number of lenticular veins containing silver and gold. The proposed directors propose to further investigate this area, subject to concluding negotiations to acquire an option over these concessions.

### 12. Tailings Projects

From September to November 2005, Arian Mexico conducted preliminary scoping studies on a number of silver tailings projects across Mexico. Arian Mexico is currently in negotiations to acquire at least one of these tailings projects.

Arian believes that the near-term production potential of these tailings projects may provide a source of cash flow, possibly within 18 months of development commencing. It is expected that if a tailings project is acquired, Arian plans to utilize the concept of leaching silver (and gold where present as a by-product) using environmentally-friendly thiosulphate in a series of reinforced concrete vats.

# ANALYST CERTIFICATION

Each Research Analyst who was involved in the preparation of this Research Report hereby certifies that: (1) the views, opinions, and recommendations expressed in this Research Report reflect accurately the Research Analyst's personal views concerning any and all securities and issuers that are discussed herein and are the subject matter of this Research Report; and (2) the fees, earnings, or compensation, in any form, payable to the Research Analyst, is not and will not, directly or indirectly, be related to the specific views, opinions, and recommendations expressed by the Research Analyst in this Research Report.

***e*Research analysts on this report: Adrian Manlagnit, B.Sc. (Mining Engineering)** has been working as a Geological Analyst with InfoMine, Inc. in Vancouver, B.C. since 2002, providing analysis of technical documents for exploration and mining companies as well as writing industry articles for online publication. He is also the editor of two TechnoMine (a division of InfoMine) websites on underground and open pit mining. Prior to InfoMine, he worked as Physical Scientist with the Geological Survey of Canada in Vancouver, and was involved in structural mapping in the Yukon and GIS modeling and map-making of field data. He is in the process of obtaining his Engineer-In-Training registration with the Professional Engineers Association of B.C.

**Bob Weir, B.Sc., B.Comm., CFA.** Bob Weir has 40 years of investment research and analytical experience in both the equity and fixed-income sectors, and in the commercial real estate industry. His experience ranges from being a research analyst for nine years at investment dealer Wood Gundy Limited, to Vice-President Corporate Development at property owner/manager Lehndorff Inc., to Executive Vice-President at Dominion Bond Rating Service (DBRS). He joined eResearch in 2004.

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## *e*Research Recommendation System

**Strong Buy:** Expected total return within the next 12 months is at least 40%.

**Buy:** Expected total return within the next 12 months is between 10% and 40%.

**Speculative Buy:** Expected total return within the next 12 months is substantial, but Risk is High (see below).

**Hold:** Expected total return within the next 12 months is between 0% and 10%.

**Sell:** Expected total return within the next 12 months is negative.

## *e*Research Risk Rating System

A company may have some, but not necessarily all, of the following characteristics of a specific risk rating to qualify for that rating:

**High Risk:** Financial - Little or no revenue and earnings, limited financial history, weak balance sheet, negative free cash flows, poor working capital solvency, no dividends.

Operational - Weak competitive market position, early stage of development, unproven operating plan, high cost structure, industry consolidating, business model/technology unproven or out-of-date.

**Medium Risk:** Financial - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend.

Operational - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry

**Low Risk:** Financial - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock.

Operational - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.



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