



Sector

Mining

Report Date

7th May 2008

Arian is a Mexican based silver and base metals exploration company. They have three advanced 100% optioned projects where they hope to outline large bulk tonnage resources. San Jose is a former silver mine in Zacatecas State with a four kilometre unexplored strike extension. At Calicanto also in Zacatecas, Arian is advancing two declines and is looking to commence a phase 2 drilling program to investigate mineralised structures on multiple silver veins. Phase 1 drilling at the Tepal project in Michoacán State has outlined significant resources of low grade copper and gold.

The company is busy outlining Ni43-101 compliant resources at three projects, any one of which could more than justify the current share price.

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Year end December	Revenue US\$m	Admin US\$m	Goodwill US\$m	Net loss US\$m	EPS (p)	PE times
2006A	0.0	(3.7)	(13.5)	(17.1)	NM	NM
2007A	0.0	(5.0)	0.0	(4.8)	NM	NM
2008E	0.0	(5.0)	0.0	(4.9)	NM	NM

Source data: Company reports and Hoodless Brennan forecasts. The company is a Canadian Corporation that reports in US\$. Where necessary C\$1=US0.99 and £1=US\$1.99.

Key Data

AIM Ticker..... AGQ
Broker ... Heywood Securities
Website www.ariansilver.com

Year High/Low ..28.5p-14.5p
No. of Shares 119.46m
Mkt. Cap. £17.32m
Fully diluted No. of Shares
132.6m
Results..... Interims
August 2008

NMS..... 500
Screen Size 5,000
Bid/Offer ... 13p/16p (23.0%)
No of Market Makers.....3

- Following warrant conversion just before Christmas 2007, and a recent equity issue raising up to £1.5m, the company is funded through to the autumn of 2008.
- At San Jose, the company has recently announced an initial NI43-101 Compliant Inferred Resource of 8.36 Million tonnes (Mt) grading 102.8 grammes per tonne (g/t) silver, 0.35% lead and 0.8% zinc.
- In March 2008 the company reported initial Inferred Resources at Tepal of 78.84Mt grading 0.47g/t gold, 0.24% copper and 1.03g/t silver.
- At Calicanto, encouraged by a Phase 1 drilling program and underground development, a phase 2 drill program is expected to commence in the summer of 2008. Initial NI43-101 compliant resources are hoped by the summer of 2009.

Strengths

- Exciting exploration results have been reported at 100% optioned Calicanto, San Jose and Tepal projects. In the short term further drill results, as well as resource upgrades are due from San Jose and Tepal, whilst a Phase 2 drill program is planned for Calicanto.
- Experienced management team.
- Well followed in Canada.
- Silver price subject to renewed speculative interest.

Weaknesses

- They will have to raise further exploration finance in 2008. In addition finance will be required for property option exercises and for any production decision.
- Metallurgical testing required.
- Any significant production unlikely before 2010.
- Potential 11% dilution of share capital due to option and warrant exercises.

This Communication:

- a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research
- b) is not subject to any prohibition on dealing ahead of the dissemination of investment research

Arian's strategy

Arian has a strategy to acquire advanced and low cost silver projects and rapidly build up bulk tonnage resources in the ground. It is focussing its exploration efforts in one of the richest known silver bearing districts in the world- the Mexican state of Zacatecas.

Mexico

As well as being an established large emerging market, a stable democracy, a member of the North American Free Trade Agreement, a very close economic and political partner of the US, Mexico is also a significant producer of commodities. As well as oil and gas, Mexico is also the world's second largest producer of silver.

Initially mined by the Spanish Conquistadors, silver is produced from the central mineralised belt than runs down the spine of the country. Orebodies are typified by wide high grade veins which can extend to significant depths and strike extensions that are often surrounded by thinner veinlets with heavily mineralised halos. Most mines produce by product zinc and lead, some have additional gold potential. In many cases the Spanish and later Mexican operators followed the high grade veins, indicating that there has been little systematic exploration at depth on strike or en-echelon (parallel) to the main vein. This illustrates the potential for companies such as Arian.

Deposit metallurgy is generally benign, although oxidised ores can be challenging, whilst there are a number of tailings deposits which can be relatively high grade, but offer a variety of challenges not least the presence of mercury.

Major Silver producer Industrias Peñoles, which is listed on the Mexican Stock Exchange, is going through the process of splitting its operations. The resulting silver company **Fresnillo** intends to list in London very shortly. Peñoles/Fresnillo is a significant force in the Mexican silver industry; many of the other companies active in the industry supply its concentrators with ore, and most supply its smelters with concentrates.

In addition there are a number of younger porphyries which offer the potential for large grade copper/gold deposits. Grupo Mexico which is also listed on the Mexican Stock Exchange is a significant world scale copper producer.

The Silver market



Source: www.kitco.com

Silver is often viewed as poor man's gold, and with recent soaring prices for gold and platinum this may become more apparent, as silver substitutes for these precious metals in the jewellery industry.

Silver has a number of industrial applications, and whilst photographic is becoming less and less important new uses are developing in the electronics industry. Investment demand primarily via Exchange Traded Funds has developed rapidly in recent years, 3,700t was accumulated following their launch in 2006, a further 922t in 2007

and even after recent liquidations, approximately 250t has been accumulated so far in 2008.

On the supply side of the equation, the recovery of the silver price over the last five years, following the lows of US\$7/oz seen in 2005 has encouraged supply. The first systematic exploration of the Mexican silver belt has had success and production from Peñoles and the emerging producers has increased. In addition there is significant by-product production of silver which has increased as zinc and lead production has increased in recent years. This is less price sensitive than primary silver production.

For long term price projections and valuations, our forecast of £6/oz for silver remains very conservative.

Arian's Projects

San Jose

Arian holds an option over 100% of this property, which can be exercised at a cost of US\$1.5m.

The San Jose property in Zacatecas covers over 4,300 hectares and includes the San Jose mine which has the potential for near-term underground mechanised mining. The mine was previously operated by Peñoles from 1973-1991, and then by Monarca, from 1993-2001, extracting over 2 million tonnes averaging 250g/t silver. An existing underground development ramp extends 3 km along the San Jose vein. San Jose is located close to **Minco's (MIO)** Bilbao silver/zinc/lead project.

The western portion, over 4 kilometres of strike length, of the San Jose Vein remains unexploited as previous mining activity focused on the eastern part of the vein. An additional two main vein structures are exposed on the property, which have not been explored by modern systematic methods.

A Phase one, 5,000 metre, drill programme commenced in May 2007, and was twice extended to a total of 12,000m. The drill programme has been designed to confirm the historical drill-hole data and to expand on a number of priority target areas to give rise to a bulk tonnage resource.

The company announced on 3rd March 2008 initial NI43-101 Inferred Resources of 8.356Mt grading 102.8g/t silver, 0.35% lead and 0.8% zinc using a 0g/t silver cut off. As this resource has been calculated from only 50% of the drill holes completed to date, further drill results are to be announced on a regular basis, while a revised resource estimate is expected during the summer of 2008.

Metallurgical testing has yet to be undertaken, but the company is anticipating few problems as the whole Mexican silver mining industry is successfully processing similar material on a continuous basis. The company is evaluating the possibility of establishing a small mining operation with run of mine ore shipped to a nearby Peñoles concentrator. This will establish Arian on the map as a producer and may lead to a higher stock market rating.

Using £6/oz silver, and £950/t for both lead and zinc, total adjusted in-situ value amounts to £144.6m or 42.8Moz of silver equivalent on an unadjusted basis. With silver providing 64.5% of the in-situ value it is appropriate to value this property on a pound sterling per silver equivalent ounce basis. Silver is valued in the ground at between £0.225 for pure explorers to £1.45/oz for established producers. **First Majestic Resource Corp (FR-TSX)**, an established producer with 184Moz of silver equivalent resources is valued at about £0.60/oz, while **Great Panther Resources (GPR-TSX)** another established producer with resources of 33.6Moz of silver equivalent, is valued at about £1.25/oz.

As San Jose is an exploration project, a value of about £0.25/oz appears appropriate; hence one might value it at around £10.7m. One can argue for a higher figure as the company believes that the ultimate potential is for more than 150Moz of silver equivalent. Taking into account that only 50% of Phase 1 drilling had been taken into account and there is considerable unexplored potential along strike and at depth, this doesn't appear unreasonable.

Calicanto

The company's Calicanto concessions cover 74 hectares and are subject to one option agreement which would cost Arian less than US\$0.5m to exercise.

A Phase one, 3,150m drill programme was completed in April 2007, and the company is now advancing two

underground declines along the Calicanto and San Buenaventura structures. Run-Of-Mine (ROM) material is being stockpiled before being treated in a nearby milling facility which will indicate both head grade and recovery. Mapping and sampling is ongoing as the decline has been advanced along strike.

Some of the better results from the initial phase of the Calicanto exploration campaign include >10,000 g/t Silver (Ag) and 10.9 g/t gold (Au) over 1.2 m, 1,720 g/t Ag and 1.92 g/t Au over 1.7 m, and 649 g/t Ag and 2.37 g/t Au over 1 m. These samples were taken from veins which are part of a wider (4.5 - 5 m) zone of stockwork mineralisation on which the company is hoping to be able to define a bulk tonnage resource.

A phase two drill program is about to commence with an initial NI43-101 Compliant Inferred Resource due by the summer of 2009.

Tepal

Arian has an option over 100% of the near surface Tepal polymetallic project in Michoacán State, Mexico. The Project is located approximately 450 miles to the south of Zacatecas. The option can be exercised at a cost of approximately US\$5m.

The Tepal Project comprises six exploration concessions covering approximately 14,000 hectares. Initial investigation by Arian indicates that the Tepal Project consists of four gossanous polymetallic deposits containing copper, gold and silver, with potential for additional areas of mineralization.

Tepal 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 and 0.25% copper, illustrating that Tepal has the potential to be a large low grade near surface mining operation. The historical data also indicates that there are potentially higher grade zones within these mineralized areas.

Following a recent 7,500m drill program, Arian announced on 10th March 2008, initial NI43-101 Compliant Inferred Resources of 78.844Mt grading 0.47g/t gold and 0.24% copper, almost complete conversion of the pre NI43-101 resource. Again due to assay delays only 50% of drill holes completed to date were utilised in this estimation so there is potential further upside.

Metallurgical testing has yet to be undertaken. Whilst the company is expecting few issues, this may be a significant hurdle as the project is low grade.

At £300/oz gold and £3,000/t these resources have an adjusted in-situ value of £518.9m. This is a more appropriate way of analysing this deposit as gold represents only about 45% of in-situ value. If more than 50%, gold equivalent ounces could be a suitable valuation tool.

Deposits of this nature can be valued at a percentage of this resource value. There is a potential wide range depending on the nature of the project, its location and market sentiment> However in general those projects valued at below 10% of adjusted in-situ value could be considered towards the cheap end of the spectrum. For example copper explorer **Discovery Metals (DME)** currently trades at about 2% of adjusted in-situ value, while **Teck Cominco (TCK.A/TCK.B-TSE)** announced on 14th April 2008 the acquisition of Canadian listed copper explorer **Global Copper Inc (GLQ-TSXV)** for about 2.2% of adjusted in-situ value. Global Copper has a Tepal look a like deposit in Chile.

Other properties

Arian has a number of other Mexican exploration properties, San Celso & Ojocalinete, Somberete and a number of tailings projects. All are at a very early stage of work.

Directors and Management

Executive Chairman Tony Williams is Chairman and controlling shareholder of the Dragon Group of companies, a privately owned international mining finance and project management organisation. He is also a director of a number of other listed mining companies.

Chief Executive Officer Jim Williams is a professional geologist with more than 20 years worldwide experience for

a variety of minerals. For the past six years he has been evaluating silver (and gold) projects in Mexico.

Non-Executive Director Tom Bailey is consultant legal advisor to the Dragon Group.

Non Executive Director James Cable is financial director of Kopane Diamond Developments plc (KDD) with extensive experience at board level in quoted and entrepreneurial private companies.

Non-Executive Director David Cohen 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.

Non-Executive Director Jim Crombie is on the board of, and has been Chief Executive Officer of, several listed mining companies.

Chief Operating Officer Graham Tye was appointed on 1st February 2008, and is a mining engineer with 25 years experience

Chief Financial Officer Graham Potts has recently been promoted, but retains his Company Secretary role. He was previously CFO of European Minerals and European Diamonds plc (Now Kopane Diamond Developments plc).

Senior Geologist Matthew Booth has experience in Coeur d'Alene-type mesothermal silver-vein mineralization and NW Montana stratabound silver-copper mineralization.

Environmental Consultant Ing. Marcial Chávez Quinto has worked as a consulting engineer for over 20 Mexican and international companies.

Financials

The company is in the process of raising approximately C\$3m from an issue of units at C\$0.25. Each unit comprises one new ordinary share shares plus half an ordinary share warrant. Each whole warrant can be exercised into ordinary shares at a price of C\$0.35 for a period of 18 months from the date of closing.

The company has a number of outstanding warrant and option issues, with approximately 13m shares being potentially subject to this dilution. However a significant proportion of these are out of the money so dilution may be significantly reduced. 5m of these options expire on 31st January 2009, so the company will be keen to ensure the share price is above 15p at that time.

Warrant exercises in the last three months of 2007 raised almost £2m; hence following this and the current placing the company has funded a £2m exploration program. However the company would like to press on with more vigour on its exploration projects and is evaluating the practicality of early production at San Jose, with a possible sale of ore to Peñoles/Fresnillo. In our financial projections we assume the company is successful in raising a further £1.5m in the second half of 2008.

Valuation

Arian is currently capitalised at £17.3m. At £0.25/oz NI43-1201 Compliant Resources at San Jose can be valued at £10.5m, whilst Tepal can be valued at £10.4m or 2% of adjusted in-situ NI43-101 Compliant Resources. These conservative numbers do not take into account any resource upgrades, any value for Calicanto, but also do not take into account the cost of option exercise.

Conclusion

Arian has three exciting exploration projects in Mexico. With further drilling success to be reported, and resource upgrades to come through, any one of which could more than justify the current share price.

Recommendation: Speculative Buy.

Previous recommendation: Speculative Buy.

Date of previous recommendation: 4th January 2008

Profit and Loss

Year to December US\$m	2006A	2007A	2008E
Revenue	0.0	0.0	0.0
Administration	(3.7)	(5.0)	(5.0)
Goodwill write off	(13.5)	0.0	0.0
Finance income	0.1	0.1	0.1
Forex Gains	(0.9)	0.0	0.0
Loss before and after tax	(18.0)	(4.8)	(4.9)

Balance Sheet

Year to December US\$m	2006A	2007A	2008E
Property, Plant etc	0.1	0.2	0.2
Exploration expenditure	1.2	4.4	7.4
Receivables	0.2	0.7	0.7
Cash	3.2	3.1	2.5
Total Assets	4.7	8.4	10.8
Current liabilities	(0.4)	(0.3)	(0.4)
Net assets	4.4	8.1	10.4

Cash Flow

Year to December US\$m	2006A	2007A	2008E
Loss before and after tax	(17.1)	(5.0)	(5.0)
Depreciation	0.0	0.0	0.0
Goodwill write off	13.5	0.0	0.0
Forex movements	0.0	0.3	0.0
Interest	0.1	0.0	0.0
Equity based payments	0.9	1.1	1.2
Change in receivables	(0.1)	(0.5)	0.0
Change in current liabilities	0.2	0.0	0.1
Exploration expenditure	(1.0)	(3.2)	(3.0)
Property, plant	(0.1)	(0.1)	(0.1)
Share issues	5.5	7.4	6.0
Opening cash	1.4	3.2	3.2
Closing cash	3.2	3.2	2.5

Source data: Company reports and Hoodless Brennan forecasts. The company is a Canadian Corporation which reports in US\$. Where necessary C\$1=US\$0.99 and £1=US\$1.99.

Activities: Silver, copper/gold and zinc/lead exploration in Mexico. The company is listed on AIM, PLUS Markets, the TSX Venture Exchange and the Frankfurt Stock Exchange in Germany.

Key Events

Date	Event
6 th May 2008	Intention to raise C\$3m @ C\$0.25
10 th March 2008	Initial NI43-101 Resource at Tepal.
3 rd March 2008	Initial NI43-101 Resource at San Jose

Financial Calendar

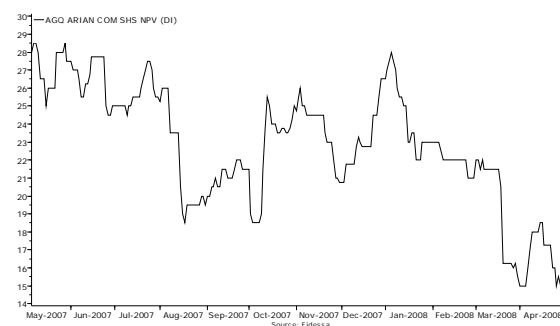
Date	Event
December 31st	Year End
August 2008	Interims
April 2009	Finals

Major Shareholders

Shareholder	%
Endeavour Financial	27.0
R Humphreys	9.3
RAB Capital	8.5
Dragon Group	7.0
Jim Williams	6.8

Board of Directors

Name	Position held
Tony Williams	Executive Chairman
Jim Williams	CEO
Tom Bailey	Non-Executive Director
James Cable	Non-Executive Director
David Cohan	Non-Executive Director
Jim Crombie	Non-Executive Director

Share Price Chart


Key to Material Interests

Below are five standard disclosures of Material Interests. Of these five disclosures, the following numbers are relevant in this case:

Company Name Arian Silver Corp**Relevant disclosures: N/A**

1. The analyst has a personal holding of the securities issued by the company, or of derivatives related to such securities.
2. Hoodless Brennan plc or an affiliate owns more than 5% of the issued capital of the company.
3. Hoodless Brennan plc or an affiliate is party to an agreement with the company relating to the provision of corporate broking services, or has been party to such an agreement within the last 12 months. Our corporate broking agreements include a provision that we will prepare and publish research at such times as we consider appropriate.
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