

MAG SILVER CORP  
Form 20-F  
June 15, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 20-F**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934**

**For the fiscal year ended December 31, 2006**

Commission file number 0 50437

**MAG Silver Corp.**

(Exact name of Registrant as specified in its charter)

**Not Applicable**

(Translation of Registrant's name into English)

**British Columbia**

(Jurisdiction of incorporation or organization)

**Suite 328, 550 Burrard Street, Vancouver, British Columbia, Canada, V6C 2B5**

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

Name of each exchange on which registered

None

N/A

Securities registered or to be registered pursuant to Section 12(g) of the Act.

**Common Shares Without Par Value**

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

**None**

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(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

**37,928,610 Common Shares at December 31, 2006**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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## INTRODUCTION AND USE OF CERTAIN TERMS

MAG Silver Corp. is a company incorporated on April 21, 1999 under the *Company Act* (British Columbia), which has been superseded by the *Business Corporations Act* (British Columbia). As used herein, except as the context otherwise requires, the terms *Company* or *MAG* refer to MAG Silver Corp. Our financial statements are prepared in accordance with Canadian generally accepted accounting principles with reconciliation to United States Generally Accepted Accounting Principles and are presented in Canadian dollars. All monetary amounts contained in this Annual Report are in Canadian dollars unless otherwise indicated.

Our North American office and principal place of business is located at Suite 328, 550 Burrard Street, Vancouver, British Columbia, Canada, V6C 2B5. Our registered office is located at Suite 2100, 1075 West Georgia Street, Vancouver, British Columbia, Canada, V6E 3G2.

## FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements and information, within the meaning of Section 21E of the Exchange Act, relating to the Company that are based on the beliefs and estimates of management as well as assumptions made by and information currently available to the Company.

When used in this document, any statements that express or involve discussions with respect to predictions, beliefs, plans, projections, objectives, assumptions or future events of performance (often but not always using words or phrases such as *anticipate*, *believe*, *estimate*, *expect*, *intend*, *plan*, *strategy*, *goals*, *objectives*, *plans*, *projections*, *objectives*, *assumptions* or future events of performance) or stating that certain actions, events, or results *may*, *could*, *would*, *might* or *will* be taken, occur, be achieved, or the negative of any of these terms and similar expressions, as they relate to the Company or management, are intended to identify forward-looking statements.

Such statements reflect the Company's current views with respect to future events and are subject to certain known and unknown risks, uncertainties and assumptions. Many factors could cause actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others:

risks relating to the Company's ability to finance the exploration and development of its mineral properties;

permitting risks relating to the Company's exploration and development of its mineral properties and business activities;



risks and uncertainties relating to the interpretation of exploration results, geology, grade and continuity of the Company's mineral deposits;

commodity price fluctuations (particularly gold and silver commodities);

currency fluctuations;

risks related to governmental regulations, including environmental regulations;

risks related to possible reclamation activities on the Company's properties;

the Company's ability to attract and retain qualified management and the Company's dependence upon such management in the development of its mineral properties;

increased competition in the exploration industry;

the Company's lack of infrastructure;

the Company's history of losses and expectation of future losses.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including without limitation, those referred to in this document, under the heading "Risk Factors" and elsewhere. The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and the Company does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change.

For the reasons set forth above, investors should not attribute undue certainty to or place undue reliance on forward-looking statements.

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**GLOSSARY**

The following is a glossary of terms that appear in this Annual Report.

<i>Ag</i>	The elemental symbol for silver.
<i>alluvium</i>	Unconsolidated surficial sediments deposited by water.
<i>alteration</i>	Usually referring to chemical reactions in a rock mass resulting from the passage of hydrothermal fluids.
<i>andesite</i>	Volcanic rock, low in quartz content, generally fine grained and moderately dark coloured.
<i>anomalous</i>	A value, or values, in which the amplitude is statistically between that of a low contrast anomaly and a high contrast anomaly in a given data set.
<i>basalt</i>	Volcanic rock, low in quartz content, generally fine grained and dark coloured.
<i>calcite</i>	Calcium carbonate mineral. It is a common constituent of many rock types as well as occurring in veins and alteration assemblages.
<i>carbonate</i>	Minerals which have the formula $X\text{CO}_3$ . Calcite is the most common carbonate mineral. Also rocks composed dominantly of carbonate minerals such as calcite.
<i>Cascabel</i>	Minera Cascabel, S.A. de C.V., a company incorporated pursuant to the laws of the Mexican Republic.
<i>Common Shares</i>	Common Shares without par value in the capital stock of the Company.
<i>Company</i>	MAG Silver Corp., a company under the <i>Business Corporations Act</i> (British Columbia).
<i>Conglomerate</i>	Sedimentary rock composed of gravel and coarser fragments.
<i>CRD</i>	Carbonate Replacement Deposit.
<i>Cretaceous</i>	The geological period extending from 135 million to 63 million years ago.
<i>CSAMT</i>	Controlled Source Audio Magneto Tellurics.
<i>diorites</i>	Medium-coloured intrusive igneous rocks of intermediate composition.
<i>Don Fippi Property</i>	The Don Fippi Property as defined in Item 4 - Information on the Company The Don Fippi Property.
<i>Exchange</i>	TSX Venture Exchange.
<i>exploration concession</i>	A defined area for which mineral tenure has been granted by the Mexican government for a period of six years to allow exploration. The concession may subsequently be upgraded to exploitation status.
<i>fault</i>	A fracture in rock where there has been displacement of the two sides.
<i>flow</i>	Volcanic rock comprised of flow lava.
<i>fracture</i>	Breaks in a rock, usually due to intensive folding or faulting.
<i>g/T</i>	Grams per tonne (31.1 g/T = 1.0 troy ounce/tonne).
<i>gangue</i>	Minerals incorporated in an orebody other than those of economic interest.
<i>grade</i>	

The concentration of each ore metal in a rock sample, usually given as weight percent. Where extremely low concentrations are involved, the concentration may be given in grams per tonne (g/T) or ounces per ton (oz/T). The grade of an ore deposit is calculated, often using sophisticated statistical procedures, as an average of the grades of a very large number of samples collected from throughout the deposit.

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<i>graywacke</i>	Sandstone composed largely of sand-sized rock fragments.
<i>Guigui Property</i>	The Guigui Property as defined in Item 4 - Information on the Company The Guigui Property.
<i>hydrothermal</i>	Hot fluids, usually mainly water, in the earth's crust which may carry metals and other compounds in solution to the site of ore deposition or wall rock alteration.
<i>igneous</i>	A rock formed by the cooling of molten silicate material.
<i>intrusive</i>	A rock mass formed below the earth's surface from magma which has intruded into a pre-existing rock mass.
<i>Juanicipio Property</i>	The Juanicipio Property as defined in Item 4 - Information on the Company The Juanicipio Property.
<i>kaolinite</i>	An aluminum-silicate clay mineral. It is a common component of hydrothermal alteration of siliceous rocks.
<i>Lagartos</i>	Minera Los Lagartos, S.A. de C.V., a company incorporated pursuant to the laws of the Mexican Republic, the principal of which is the Company.
<i>MAG</i>	MAG Silver Corp., a company under the <i>Business Corporations Act</i> (British Columbia).
<i>magma</i>	Molten rock formed within the crust or upper mantle of the earth.
<i>Mexico or Mexican Republic</i>	United Mexican States
<i>mill</i>	A facility for processing ore to concentrate and recover valuable minerals.
<i>mineral reserve</i>	That part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. The economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. The study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined.
<i>mineral resource</i>	A concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the Earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Industry Guide 7 does not provide for the disclosure of mineral resource estimates.
<i>mineralization</i>	Usually implies minerals of value occurring in rocks.
<i>monzonite</i>	An intermediate intrusive rock related to granite.
<i>net smelter returns royalty or NSR</i>	Payment of a percentage of mining revenues after deducting applicable smelter charges.

<i>NSAMT</i>	Natural Source Audio-frequency Magneto Tellurics.
<i>ore</i>	A natural aggregate of one or more minerals which may be mined and sold at a profit, or from which some part may be profitably separated.
<i>outcrop</i>	An exposure of rock at the earth's surface.
<i>oz/T</i>	Troy ounces per tonne.
<i>Policy 2.4</i>	The Policy of the Exchange entitled "Capital Pool Companies" which sets forth the steps for listing a company on the Exchange as a capital pool company (which is essentially a blind pool) and the steps that company must take, including its Qualifying Transaction, to qualify for a regular listing on the Exchange.

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<i>porphyry</i>	Rock type with mixed crystal sizes, i.e., containing larger crystals of one or more minerals.
<i>portal</i>	Entrance from surface into an underground development.
<i>pyrite</i>	Iron sulphide mineral.
<i>Qualifying Transaction</i>	The transaction conducted pursuant to Policy 2.4 whereby the Company acquired significant assets, other than cash, by way of purchase, amalgamation, merger or arrangement with another company or by other means and then qualified for a regular listing on the Exchange.
<i>quartz</i>	SiO <sub>2</sub> , a common constituent of veins, especially those containing gold and silver mineralization.
<i>replacement</i>	Process whereby one mineral is chemically substituted by a later mineral.
<i>rhyolite</i>	Volcanic rock high in quartz content, generally fine grained and light coloured.
<i>SEC</i>	Securities and Exchange Commission of the United States of America
<i>serpentine</i>	A rock composed of serpentine, typically formed from the alteration of mafic igneous rocks.
<i>silicification</i>	Replacement of the constituents of a rock by quartz.
<i>skarn</i>	Alteration of carbonate rocks near an intrusion dominated by garnet and pyroxene minerals.
<i>tailings</i>	Material rejected from a mill after recoverable valuable minerals have been extracted.
<i>Tertiary</i>	The geological period extending from 63 million to 2 million years ago.
<i>tonne or T</i>	Metric ton = 1,000 kilograms or 1,000,000 grams.
<i>tuffs</i>	Volcanic rocks composed of ash, crystal and rock fragments ejected from a volcano. May become welded (tightly compacted and lithified) during cooling.
<i>VAT</i>	An acronym for Value Added Tax which, in Mexico, is charged on all goods and services at a rate of 15%. Proprietors selling goods or services must collect VAT on behalf of the government. Goods or services purchased incur a credit for VAT paid. The resulting net VAT is then remitted to, or collected from the Government of Mexico through a formalized filing process. (In Mexico it is referred to as IVA )
<i>veinlets</i>	Small veins, generally measuring only a few millimetres in thickness, filling fractures in rocks.
<i>veins</i>	The mineral deposits that are found filling openings in rocks created by faults or replacing rocks on either side of faults.
<i>volcaniclastic</i>	Coarse-grained sedimentary rocks (sandstone or conglomerate) composed of fragments of volcanic rocks.





**PART I****ITEM 1.****IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2.****OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3.****KEY INFORMATION****Selected Financial Data**

The following table sets forth our selected consolidated financial information, which has been derived from our consolidated financial statements included in this Annual Report prepared in accordance with Canadian Generally Accepted Accounting Principles. Information for the 12 months ended December 31, 2006, 2005 and 2004 are derived from audited financial statements which are included elsewhere in this Report. Information for the years ended December 31, 2003 and December 31, 2002 are derived from audited financial statements that are not included in this Report. The financial data should be read in conjunction with our consolidated financial statements and notes thereto and Item 5 - Operating and Financial Review and Prospects.

	<b>12 months ended Dec. 31, 2006</b>	<b>12 months ended Dec. 31, 2005</b>	<b>12 months ended Dec. 31, 2004</b>	<b>12 months ended Dec. 31, 2003</b>	<b>12 months ended Dec. 31, 2002</b>
Revenue	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Total Expenses	\$4,075,160	\$1,891,270	\$800,896	\$915,007	\$123,536
Net Loss	\$(3,866,567)	\$(1,810,838)	\$(733,897)	\$(837,539)	\$(122,631)
Basic and Diluted Loss per Share	\$(0.10)	\$(0.06)	\$(0.03)	\$(0.06)	\$(0.08)
Weighted Average Common Shares Outstanding	37,055,631	28,353,901	24,578,037	14,455,369	1,500,000

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Consolidated  
Balance Sheet

Total Assets	\$18,930,558	\$18,075,406	\$9,774,297	\$8,534,794	\$408,125
Total Liabilities	\$350,368	\$393,621	\$61,837	\$208,018	\$58,880
Working Capital	\$3,585,789	\$7,320,292	\$2,360,343	\$4,920,182	\$108,472
Shareholders Equity	\$18,580,190	\$17,681,785	\$9,712,460	\$8,326,776	\$349,245

Under U.S. GAAP, all amounts in the foregoing table remain the same except the following:

Net Loss	\$(7,862,028)	\$(2,757,486)	\$(2,710,519)	\$(4,058,279)	\$(160,433)
Basic and Diluted Loss per Share	\$(0.21)	\$(0.10)	\$(0.11)	\$(0.28)	\$(0.11)
Total Assets	\$8,870,626	\$12,010,935	\$5,139,133	\$5,876,252	\$370,323
Shareholders Equity	\$8,520,258	\$11,617,314	\$5,077,296	\$5,668,234	\$311,443

On May 31, 2007, the Interbank rate of exchange for converting Canadian dollars into United States dollars equalled 1.0699 Canadian dollars for one United States dollar. The following table presents a history of the high and low exchange rates of Canadian dollars into United States dollars for the previous six months.

<b>Month</b>	<b>High</b>	<b>Low</b>
May 2007	1.1135	1.0699
April 2007	1.1584	1.1067
March 2007	1.1811	1.1529
February 2007	1.1853	1.1585
January 2007	1.1824	1.1649
December 2006	1.1653	1.1417

The following table presents a five-year history of the average annual exchange rates of Canadian dollars into United States dollars, calculated by using the average of the exchange rates on the last day of each month during the given year.

<b>Year</b>	<b>Average Exchange Rate</b>
2006	1.1344
2005	1.2116
2004	1.3016
2003	1.4012
2002	1.5705

### **Risk Factors**

The following is an overview of the risk factors to be considered in relation to our business. Specific risk factors to be considered are as follows:

1.

**The Company has a lack of cash flow, which may affect its ability to continue as a going concern.**

2.

**Values attributed to the Company's assets may not be realizable, the Company has no proven history and its ability to continue as a going concern depends upon a number of significant variables.** The amounts attributed to the Company's exploration concessions in its financial statements represent acquisition and exploration costs and should not be taken to represent realizable value. Further, the Company has no proven history of performance, revenues, earnings or success. As such, the Company's ability to continue as a going concern is dependent upon the existence of economically recoverable resources, the ability of the Company to obtain the necessary financing to complete the development of its interests and future profitable production or alternatively, upon the Company's ability

to dispose of its interests on a profitable basis.

3.

**The Company is dependent on its key personnel, some of whom have not entered into written agreements with the Company and whom are not insured by the Company.** The Company is dependent upon the continued availability and commitment of its key management and consultants, whose contributions to immediate and future operations of the Company are of central importance. The Company relies on its President, Dan MacInnis, and its other officers, none of whom has entered into a written employment agreement with the Company, for the day-to-day operation of the Company, its projects and the execution of the Company's business plan. The Company also relies heavily on Dr. Peter Megaw for the planning, execution and assessment of the Company's exploration programs. Dr. Megaw was formerly an arm's length consultant to and is currently a director of and consultant to the Company and he is paid a fee for his consulting services based on fair market rates and his submission of invoices for services rendered. The Company has not obtained key man insurance for any of its management or consultants. The loss of either Dan MacInnis or Dr. Megaw may have a temporary negative impact on the Company until they were replaced.

4.

**The Company does not pay dividends.** Payment of dividends on the Company's Common Shares is within the discretion of the Company's Board and will depend upon the Company's future earnings, its capital requirements and financial condition, and other relevant factors. The Company does not currently intend to declare any dividends for the foreseeable future.

5.

**The Company's directors and officers may have conflicts of interest which may not be resolved in favour of the Company, which in turn may adversely affect the Company.** None of the Company's directors or officers devotes their full time to the affairs of the Company. All of the directors and officers of the Company are also directors, officers and shareholders of other natural resource or public companies, as

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a result of which they may find themselves in a position where their duty to another company conflicts with their duty to the Company. None of the Company's constituting documents or any of its other agreements contains any provisions mandating a procedure for addressing such conflicts of interest. There is no assurance that any such conflicts will be resolved in favour of the Company. If any of such conflicts are not resolved in favour of the Company, the Company may be adversely affected. See Item 6. Directors, Senior Management and Employees for details of other companies that the Company's officers and directors are involved with.

#### Risk Factors Relating to Title

6.

**Title to the properties in which the Company has an interest may be in doubt and any challenge to the title to any of such properties may have a negative impact on the Company.** A full investigation of legal title to the Company's property interests has not been carried out at this time. Accordingly, title to these property interests may be in doubt. Other parties may dispute title or access to the properties in which the Company has an interest. The Company's property interests may also be subject to prior unregistered agreements or transfers or land claims and title may be affected by undetected defects. Any challenge to the title or access to any of the properties in which the Company has an interest may have a negative impact on the Company as the Company will incur delay and expenses in defending such challenge and, if the challenge is successful, the Company may lose any interest it may have in the subject property.

7.

**Title opinions provide no guarantee of title and any challenge to the title to any of such properties may have a negative impact on the Company.** Although the Company has or will receive title opinions for any concessions in which it has or will acquire a material interest, there is no guarantee that title to such concessions will not be challenged or impugned. In Mexico, a title opinion does not provide absolute comfort that the holder has unconditional or absolute title. Any challenge to the title or access to any of the properties in which the Company has an interest may have a negative impact on the Company as the Company will incur expenses in defending such challenge and, if the challenge is successful, the Company may lose any interest it may have in the subject property.

8.

**Titles to the properties in which the Company has an interest are not registered in the name of the Company, which may result in potential title disputes having a negative impact on the Company.** All of the agreements under which the Company may earn interests in properties have either been registered or been submitted for registration with the Mexican Public Registry of Mining, but title relating to the properties in which the Company may earn its interests are held in the names of parties other than the Company. Any of such properties may become the subject of an agreement which conflicts with the agreement pursuant to which the Company may earn its interest, in which case the Company may incur expenses in resolving any dispute relating to its interest in such property and such a dispute could result in the delay or indefinite postponement of further exploration and development of properties with the possible loss of such properties.

#### Risk Factors Relating to the Company's Property Interests

9.

**The properties in which the Company has an interest are in the exploration stage and most exploration projects do not result in the discovery of commercially mineable deposits.** All of the Company's property interests are at the exploration stage only (even when some of the mining concession titles covering such property interests were issued as exploitation concessions) and there are no known commercial quantities of minerals or precious gems on such properties. Most exploration projects do not result in the discovery of commercially mineable deposits of ores or gems. Estimates of reserves, mineral deposits and production costs can be affected by such factors as environmental permit regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grade of precious metals ultimately discovered may differ from that indicated by drilling results. There can be no assurance that precious metals recovered in small-scale tests will be duplicated in large-scale tests under on-site conditions or in production scale. Because the probability of an individual prospect ever having reserves is extremely remote, in all probability the Company's properties do not contain any reserves, and any funds spent on exploration will be lost. The failure of the Company to find an economic mineral deposit on any of its exploration concessions will have a negative effect on the Company.

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10.

**The properties in which the Company has an interest are in Mexico.** The Company's property interests are located in Mexico. Any changes in governmental laws, regulations, economic conditions or shifts in political attitudes or stability in Mexico are beyond the control of the Company and may adversely affect its business. See Item 4. Information on the Company Business Overview Carrying on Business in Mexico.

11.

**There is no guarantee licenses and permits required by the Company will be obtained which may result in the Company losing its interest in the subject property.** The Company's ability to explore and exploit the property interests is subject to ongoing approval of local governments. The operations of the Company may require licenses and permits from various governmental authorities. The Company may not be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects. Failure to obtain such licenses and permits may adversely affect the Company's business as the Company would be unable to legally conduct its intended exploration work, which may result in it losing its interest in the subject property.

12.

**Environmental regulations are becoming more onerous to comply with and the cost of compliance with environmental regulations and changes in such regulations may reduce the profitability of the Company's operations.** The Company's operations are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions of spills, release or emission of various substances produced in association with certain mining industry operations, such as seepage from tailing disposal areas, which could result in environmental pollution. Failure to comply with such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require submissions to and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with environmental regulations and changes in such regulations may reduce the profitability of the Company's operations. See Item 4. Information on the Company Business Overview Carrying on Business in Mexico Environmental Regulation.

13.

**Mexican Foreign Investment and Income Tax Laws apply to the Company.** Under the Foreign Investment Law of Mexico, there is presently no limitation on foreign capital participation in mining operations; however, the applicable laws may change in a way which may adversely impact the Company and its ability to repatriate profits. Under Mexican Income Tax Law, dividends paid out of previously taxed net earnings are not subject to Mexican taxes if paid to a foreign investor. Otherwise, such dividends paid to a foreign resident corporation are subject to the Mexican corporate tax rate, which presently is 29 percent over a gross up basis (amount of the dividend times 1.4085), payable by the Mexican company. Currently, there is no withholding tax on dividends paid by a Mexican company to a foreign shareholder.

14.

**Foreign currency fluctuations and inflationary pressures may have a negative impact on the Company's financial position and results.** The Company's property interests in Mexico make it subject to foreign currency fluctuations and inflationary pressures which may adversely affect the Company's financial position and results. Several of the Company's options to acquire properties in Mexico may result in option payments by the Company denominated in Mexican Pesos or in US dollars over the next few years. Exploration and development programs to be conducted by the Company in Mexico will also be funded in Mexican Pesos or in US dollars. As the Company maintains its accounts in Canadian and US dollars, any appreciation in Mexican currency against the Canadian or US dollar will increase our costs of carrying out operations in Mexico. Further, any decrease in the US dollar against the Canadian dollar will result in a loss on our books to the extent we hold funds in US dollars. The steps taken by management to address foreign currency fluctuations may not eliminate all adverse effects and, accordingly, the Company may suffer losses due to adverse foreign currency fluctuations. The Company also bears the risk of incurring losses occasioned as a result of inflation in Mexico.

15.

**None of the properties in which the Company has an interest has any reserves.** Currently, there are no reserves on any of the properties in which the Company has an interest.

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Risk Factors Relating to Mining Generally

16.

**Mining exploration is a speculative business and most exploration projects do not result in the discovery of commercially mineable deposits.** Exploration for minerals or precious gems is a speculative venture necessarily involving substantial risk. The expenditures made by the Company described herein may not result in discoveries of commercial quantities of minerals or precious gems. The failure to find an economic mineral deposit on any of the Company's exploration concessions will have a negative effect on the Company.

17.

**Mining operations generally involve a high degree of risk and potential liability.** Hazards such as unusual or unexpected formations and other conditions are involved in mining. The Company may become subject to liability for pollution, fire, explosions, cave-ins or hazards against which it cannot insure or against which it may elect not to insure. The incurrence of any such liabilities may have a material, adverse effect on the Company's financial position.

18.

**Mineral prices and marketability fluctuate and any decline in mineral prices may have a negative effect on the Company.** Mineral prices, particularly gold and silver prices, have fluctuated widely in recent years. The marketability and price of minerals and precious gems which may be acquired by the Company will be affected by numerous factors beyond the control of the Company. These other factors include delivery uncertainties related to the proximity of its reserves to processing facilities and extensive government regulation relating to price, taxes, royalties, allowable production land tenure, the import and export of minerals and precious gems and many other aspects of the mining business. Declines in mineral prices may have a negative effect on the Company.

19.

**Mining is a highly competitive industry.** The mining industry is intensely competitive and the Company must compete in all aspects of its operations with a substantial number of large established mining companies with substantial capabilities and greater financial and technical resources than the Company. The Company may be unable to acquire additional attractive mining properties on terms it considers to be acceptable. The inability of the Company to acquire attractive mining properties would result in difficulties in it obtaining future financing and profitable operations.

Risk Factors Relating to Financing

20.

**Adequate funding may not be available, resulting in the possible loss of the Company's interests in its properties.** Sufficient funding may not be available to the Company for further exploration and development of its property interests or to fulfil its obligations under applicable agreements. The Company may not be able to obtain adequate financing in the future or the terms of such financing may not be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of properties with the possible loss of such properties. The Company will require new capital to continue to operate its business and to continue with exploration on its properties, and additional capital may not be available when needed,

if at all.

21.

**Funding and property commitments will result in dilution to the Company's shareholders.** It is likely any additional capital required by the Company as described in Risk Factor #20 above will be raised through the issuance of additional equity which will result in dilution to the Company's shareholders. Further, as described in Item 4. Information on the Company's Business Overview, the Company, from time to time, is required to issue Common Shares to earn its interests in properties. Such property share issuances will also result in dilution to the Company's shareholders.

22.

**Substantial expenditures are required for commercial operations and if financing for such expenditures is not available on acceptable terms, the Company may not be able to justify commercial operations.** If mineable deposits are discovered, substantial expenditures are required to establish reserves through drilling, to develop processes to extract the resources and, in the case of new properties, to develop the extraction and processing facilities and infrastructure at any site chosen for extraction. Although substantial benefits may be derived from the discovery of a major deposit, resources may not be discovered in sufficient quantities to justify commercial operations or the funds required for development may not be obtained at all or on terms acceptable to the Company.

23.

**Lack of funding to satisfy contractual obligations may result in the Company's loss of property interests.** The Company may, in the future, be unable to meet its share of costs incurred under agreements

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to which it is a party and the Company may have its property interests subject to such agreements reduced as a result or even face termination of such agreements. The Company has options to acquire interests in properties in Mexico and in order to obtain ownership of such properties, it must make payments to the current owners and incur certain exploration expenditures on those properties. In order to secure ownership of these properties, additional financing will be required. Failure of the Company to make the requisite payments in the prescribed time periods will result in the Company losing its entire interest in the subject property and the Company will no longer be able to conduct certain aspects of its business as described in this Annual Report. The Company may not have sufficient funds to: (a) make the minimum expenditures to maintain its properties in good standing under Mexican law; and (b) make the minimum expenditures to earn its interest in such properties. In such event, in respect of any of the properties, the Company may seek to enter into a joint venture or sell the subject property or elect to terminate its option. See Item 4 - Information on the Company - Business Overview and Item 5 - Operating and Financial Review and Prospects Tabular Disclosure of Contractual Obligations for details of the property payments the Company is required to make to earn its interests.

#### Miscellaneous Risk Factors

24.

**The price of the Company's Common Shares is volatile.** Publicly quoted securities are subject to a relatively high degree of price volatility. It may be anticipated that the quoted market for the Common Shares of the Company will be subject to market trends generally, notwithstanding any potential success of the Company in creating sales and revenues.

25.

**There is an absence of a liquid trading market for the Company's Common Shares.** Shareholders of the Company may be unable to sell significant quantities of Common Shares into the public trading markets without a significant reduction in the price of their Common Shares, if at all. The Company may not continue to meet the listing requirements of the Exchange or achieve listing on any other public listing exchange.

26.

**The Penny-Stock Rule may limit trading in the Company's Common Shares.** In October 1990, Congress enacted the Penny Stock Reform Act of 1990. Penny Stock is generally any equity security other than a security (a) that is registered or approved for registration and traded on a national securities exchange or an equity security for which quotation information is disseminated by The National Association of Securities Dealers Automated Quotation ( NASDAQ ) System on a real-time basis pursuant to an effective transaction reporting plan, or which has been authorized or approved for authorization upon notice of issuance for quotation in the NASDAQ System, (b) that is issued by an investment company registered under the Investment Company Act of 1940, (c) that is a put or call option issued by Options Clearing Corporation, (d) that has a price of five dollars (US) or more, or (e) whose issuer has net tangible assets in excess of \$2,000,000(US), if the issuer has been in continuous operation for at least three years, or \$5,000,000(US) if the issuer has been in continuous operation for less than three years, or average revenue of at least \$6,000,000(US) for the last three years.

The Company's Common Shares are presently considered penny stock under these criteria. Therefore, the Common Shares are subject to Rules 15c-2 through 15c-9 (the Penny Stock Rules ) under the Exchange Act. The penny stock trading rules impose duties and responsibilities upon broker-dealers and salespersons effecting purchase and sale

transactions in the Company's Common Shares, including determination of the purchaser's investment suitability, delivery of certain information and disclosures to the purchaser, and receipt of a specific purchase agreement from the purchaser prior to effecting the purchase transaction. Compliance with the penny stock trading rules affect or will affect the ability to resell the Company's Common Shares by a holder principally because of the additional duties and responsibilities imposed upon the broker-dealers and salespersons recommending and effecting sale and purchase transactions in such securities. In addition, many broker-dealers will not effect transactions in penny stocks, except on an unsolicited basis, in order to avoid compliance with the penny stock trading rules. Consequently, the penny stock trading rules may materially limit or restrict the number of potential purchasers of the Company's Common Shares and the ability of a holder to resell our stock.

So long as the Common Shares are within the definition of Penny Stock as defined in Rule 3a51-1 of the Exchange Act, the Penny Stock Rules will continue to be applicable to the Common Shares. Unless and until the price per share of Common Shares is equal to or greater than \$5.00(US), or an exemption from the rule is otherwise available, the Common Shares may be subject to substantial additional risk disclosures and document and information delivery requirements on the part of brokers and dealers effecting

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transactions in the Common Shares. Such additional risk disclosures and document and information delivery requirements on the part of such brokers and dealers may have an adverse effect on the market for and/or valuation of the Common Shares.

27.

**Classification as a Passive Foreign Investment Company has adverse income tax consequences for United States shareholders.** The Company believes it is a Passive Foreign Investment Company ( PFIC ), as that term is defined in Section 1297 of the Internal Revenue Code of 1986, as amended, and believes it will be a PFIC in the foreseeable future. Consequently, this classification will result in adverse tax consequences for U.S. holders of the Company's Common Shares. For an explanation of these effects on taxation, see Item 10. Additional Information United States Federal Income Tax Consequences. U.S. shareholders and prospective holders of the Company's Common Shares are also encouraged to consult their own tax advisers.

28.

**The Company and its principals and assets are located outside of the United States which makes it difficult to effect service of process or enforce within the United States any judgments obtained against the Company or its officers or directors.** Substantially all of the Company's assets are located outside of the United States and the Company does not currently maintain a permanent place of business within the United States. In addition, most of the directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to effect service of process or enforce within the United States any judgments obtained against the Company or its officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. In addition, there is uncertainty as to whether the courts of Canada, Mexico and other jurisdictions would recognize or enforce judgments of United States courts obtained against the Company or its directors and officers predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original actions brought in Canada, Mexico or other jurisdictions against the Company or its directors and officers predicated upon the securities laws of the United States or any state thereof. Further, any payments as a result of judgments obtained in Mexico should be in pesos and service of process in Mexico must be effectuated personally and not by mail.

#### ITEM 4.

#### INFORMATION ON THE COMPANY

##### History and Development of the Company

The Company was originally incorporated under the *Company Act* (British Columbia) on April 21, 1999 under the name 583882 B.C. Ltd. . On June 28, 1999, in anticipation of becoming a capital pool company, the Company changed its name to Mega Capital Investments Inc. On April 22, 2003, the Company changed its name to MAG Silver Corp. to reflect its new business upon the completion of its Qualifying Transaction. Effective March 29, 2004, the *Company Act* (British Columbia) was replaced by the *Business Corporations Act* (British Columbia). Our North American office and principal place of business is located at Suite 328, 550 Burrard Street, Vancouver, British Columbia, Canada, V6C 2B5 (phone: 604-630-1399).

The Company is a reporting company in the Provinces of British Columbia, Alberta and Ontario.

The Company's Common Shares were listed and posted for trading on the Exchange on April 19, 2000 under the symbol MGA . Concurrent with the Company's name change to MAG Silver Corp. on April 22, 2003, the trading symbol was changed to MAG .

The Company's reporting currency is the Canadian dollar and all amounts in this discussion and in the consolidated financial statements are expressed in Canadian dollars, unless identified otherwise. The Company reports its financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles ( Canadian GAAP ). The Company's significant accounting policies are set out in Note 2 of the audited consolidated financial statements.

The Company does not have an agent in the United States.

#### The Qualifying Transaction

On April 5, 2001, the Company entered into a letter of intent to acquire all of the issued and outstanding share capital of Advanced Disc Manufacturing Corporation ( ADMC ), a private British Columbia start-up company

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engaged in the manufacture of injection moulded compact discs. Effective May 2, 2001, a formal share exchange agreement was entered into among the Company, ADMC and the shareholders of ADMC in which the terms of the acquisition were set forth (the ADMC Agreement). This proposed acquisition was intended to serve as the Company's Qualifying Transaction. In contemplation of the closing of this transaction, the Company advanced ADMC a total of \$268,758 to finance its operations. On September 26, 2001, the Company issued a press release to announce that it would not be proceeding with its intended purchase of the share capital of ADMC as a result of certain breaches of the ADMC Agreement by the vendors of the ADMC shares. Of the amounts advanced by the Company to ADMC, only \$16,338 was returned. As a result, the Company wrote off to expense the outstanding advances to ADMC in the amount of \$252,420.

Subsequent to the termination of the ADMC Agreement, the Company was introduced to Dr. Peter Megaw who presented the Company with what appeared to be favourable opportunities involving the acquisition and exploration of silver properties in Mexico. After reviewing these new opportunities, the Company felt the proposal represented a favourable business concept for the Company. Management was of the opinion that the Company was well equipped to pursue the opportunities and therefore adopted the concept.

In August 2002, the Company entered into an arms length agreement dated August 8, 2002 (the Lagartos Agreement) with Ing. Porfirio Cesar Augusto Padilla Lara, Dr. Peter Megaw and Dr. Carl Kuehn (collectively, the Vendors) pursuant to which the Company agreed to acquire (the Acquisition) 98% (later amended to include 99% registered ownership and beneficial ownership of the remaining 1%) of the issued and outstanding common shares of Lagartos. Lagartos is a private company incorporated under the laws of the Mexican Republic in the mineral exploration business, as described below. As consideration for the Acquisition, the Company agreed to pay the Vendors the sum of US\$5,000, and to further pay the sum of US\$50,000 for the reimbursement of funds advanced to secure the Juanicipio Option (described below under The Juanicipio Property), plus applicable purchase and transfer costs. The Acquisition of beneficial ownership of 100% of Lagartos was completed on January 15, 2003. The Company's Qualifying Transaction was completed on April 15, 2003, with a concurrent financing, which raised gross proceeds of \$5,750,000. See Item 4 Information on the Company Business Overview The Juanicipio Property for further information.

#### Expenditures

To December 31, 2006, approximately \$2,125,000 had been spent by the Company on the Juanicipio Property.

To December 31, 2006 the Company has incurred \$2,082,845 in exploration costs on the Don Fippi Property.

To December 31, 2006 the Company has incurred \$1,376,293 in exploration costs on the Guigui Property.

To December 31, 2006, approximately \$149,000 has been spent on the Sierra de Ramirez Property.

To December 31, 2006 the Company has incurred exploration expenditures of \$314,778 on the Adargas Property.

To December 31, 2006 the Company has incurred \$1,213,475 in exploration expenditures on the Cinco de Mayo Property.

To December 31, 2006, approximately \$2,197,360 has been spent on the Lagartos Property.

As at March 31, 2007, \$11,196,134 has been advanced by the Company as an intercorporate loan to Lagartos, with no fixed terms of repayment, for acquisition costs of mineral rights of \$2,339,765 and exploration expenditures of \$8,192,256. The balance of \$664,113 is made up of cash, receivables, and other operating and administration activities.

Apart from the advancement of intercorporate loans to Lagartos and property expenditures described above, the Company has completed no material capital expenditures or divestitures in the past three fiscal years.

**Business Overview**

The Company is in the mineral acquisition, exploration and development business. The Company is in the exploration stage and there is no assurance that a commercially viable mineral deposit exists on any of our properties. Further exploration will be required before a final evaluation as to the economic and legal feasibility of any of the Company's properties is determined. Even if the Company completes its exploration program and is

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successful in identifying a mineral deposit, it will have to spend substantial funds on further drilling and engineering studies before it will know if it has a commercially viable mineral deposit or reserve.

### Carrying on Business in Mexico

The Company's property interests are located in Mexico. A summary of the regulatory regime material to the business and affairs of the Company is provided below.

#### *Mining Regulation*

The exploration and exploitation of minerals in Mexico may be carried out by Mexican citizens or Mexican companies incorporated under Mexican law by means of obtaining concessions (currently covering exploration and exploitation). Concessions are granted by the Mexican federal government for a period of fifty years from the date of their recording in the Public Registry of Mining. The term of mining concessions previously issued by the Mexican federal government (for exploration and/or exploitation) was automatically extended by the enactment of the recent amendments to the Mexican mining law. Holders of concessions may, within the five years prior to the expiration of such concessions, apply for their renewal for the same period of time. Failure to apply prior to the expiration of the term of the concession will result in termination of the concession. Concessions are subject to annual work requirements and payment of surface taxes which are assessed and levied on a semi-annual basis. Such concessions may be transferred or assigned by their holders, but such transfers or assignments must comply with the requirements established by the Mexican Mining Law and be registered before the Public Registry of Mining in order to be valid against third parties.

Mineral concessions may also be obtained by foreign citizens or foreign corporations, in this latter case, through the establishment of a branch or subsidiary in Mexico, and in the case of foreign citizens, provided that they comply with certain requirements set forth in the Law of Foreign Investment. Foreign citizens are required to apply for the corresponding authorization before the Ministry of Foreign Affairs and register their investment in the National Registry of Foreign Investment. In the case of a branch of foreign corporations, in addition to registration in the National Registry of Foreign Investment, additional authorization from the Ministry of Economy is required in order to obtain subsequent registration in the corresponding local Public Registry of Commerce.

Mexican mining law does not require payment of finder's fees or royalties to the Government, except for a discovery premium in connection with national mineral reserves, concessions in marine zones and claims or allotments contracted directly from the Mexican Geological Service. None of the property interests held by Lagartos are under such fee regime. However, holders of exploration and exploitation concessions are required to pay surface taxes which are assessed and levied on a semi-annual basis.

#### *Foreign Investment Regulation*

Foreign investment regulation in Mexico is basically governed by the Law of Foreign Investment and its Regulations. Foreign investment of up to 100% in Mexican mining companies is freely permitted. Foreign companies or companies with foreign investment in their capital stock must be registered with the National Registry of Foreign Investment which is maintained by the Ministry of Economy.

#### *Environmental Regulation*

Mexico has federal and state laws and regulations relating to the protection of the environment, including regulations concerning water pollution, air pollution, noise pollution and hazardous substances. The principal environmental legislation in Mexico is the *Ley General del Equilibrio Ecológico y la Protección al Ambiente* (the General Law of Ecological Balance and Environmental Protection or the General Law ), which provides for general environmental rules and policies, with specific requirements set forth in regulations on air pollution, hazardous substances, environmental impact and others (the Environmental Regulations ). Additionally, there are a series of Mexican Official Norms that establish ecological and technical standards and requirements on various environmental related matters (the Ecological Standards ).

The *Secretaría de Medio Ambiente y Recursos Naturales* (the Ministry of the Environment and Natural Resources or SEMARNAT for its initials in Spanish) is the federal agency in charge of monitoring compliance with and enforcing the General Law, the Environmental Regulations and the Ecological Standards (collectively the Environmental Laws ). On enforcement matters the SEMARNAT acts mainly through the *Procuraduría Federal*

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*de Protección al Ambiente* (the Federal Bureau of Environmental Protection or PROFEPA for its initials in Spanish) and in certain cases through other governmental entities under its control.

Environmental Laws also regulate environmental protection in the mining industry in Mexico. In order to comply with these laws, a series of permits, licences and authorizations must be obtained by a concession holder during the exploration and exploitation stages of a mining project. Generally, these permits and authorizations are issued on a timely basis after the completion of an application by a concession holder. To the best of the Company's knowledge, all of the Company's property interests are currently in compliance with the Environmental Laws.

In the exploration stage, the cost of complying with such Environmental Laws is included in the exploration budget. Until such time as the Company conducts larger more invasive procedures, such as trenching or bulk sampling, there is only nominal cost associated with compliance with the Environmental Laws. The Company's programs are not yet sufficiently advanced to allow an estimate of the future cost of such environmental compliance.

### *Currency*

The official monetary unit of Mexico is the peso. The currency exchange rate freely floats and the country has no currency exchange restrictions. Nevertheless, following the devaluation of the Mexican peso in December, 1994, uncertainties continue with respect to the financial situation of Mexico. See Item 3 - Key Information Risk Factors, specifically those risk factors dealing with currency fluctuation and inflation.

The following table presents a five-year history of the average annual exchange rates to convert one Canadian dollar into Mexican pesos, calculated by using the average of the exchange rates on the last day of each month during the given year.

<b>Year</b>	<b>Average Exchange Rate</b>
2006	9.6025
2005	8.9918
2004	8.68913
2003	7.73190
2002	6.15751

### *Value Added Tax*

In Mexico, VAT is charged on all goods and services at a rate of 15% percent. Proprietors selling goods or services must collect VAT on behalf of the government. Goods or services purchased incur a credit for VAT paid. The resulting net VAT is then remitted to, or collected from the Government of Mexico through a formalized filing process.

### The Juanicipio Property

Pursuant to an agreement dated July 18, 2002 as amended December 19, 2002 between Lagartos and Ing. Martin Bernardo Sutti Courtade I ( Sutti ), of Zacatecas, Mexico (the Juanicipio Agreement ), Sutti granted to Lagartos an option (the Juanicipio Option ) to acquire a 100% interest in the Juanicipio Property. Sutti subsequently assigned his

interest to Minera Venus, S.A. de C.V.

Minera Venus, S.A. de C.V. was owned as to 99% by Lexington Capital Group Inc. and as to 1% by Jose Ruiz Lopez. Lexington Capital Group Inc. was owned as to 100% by Strategic Investments Resources Ltd. Pursuant to a stock purchase agreement dated May 29, 2003 between the Company and Strategic Investments Resources Ltd., on July 16, 2003, for consideration of US\$250,000 and 200,000 Common Shares of the Company at a price of \$0.90 per share for a deemed value of \$180,000, the Company acquired 100% of the issued shares of Lexington Capital Group Inc., thereby acquiring 99% ownership of the Juanicipio Property (with the remaining 1% held by Jose Ruiz Lopez). As a result of the acquisition of Lexington Capital Group Inc. by the Company, the Company did not have to incur any more of the originally required option payments and work commitments. The Company subsequently merged and amalgamated Minera Venus, S.A. de C.V. into Lagartos and terminated the Juanicipio Agreement, thereby eliminating its obligations under the original Juanicipio Agreement to make any further option payments, fulfill any further work commitments or pay any royalty.

Pursuant to a letter of intent dated March 17, 2005 and a formal agreement effective July 1, 2005 (the Agreement ) with Industrias Peñoles, S.A. de C.V. ( Peñoles ), the Company and Lagartos have granted to Peñoles or any of its

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subsidiaries an option to earn a 56% interest in the Juanicipio Property in Mexico in consideration for Peñoles: (a) conducting US\$5,000,000 of exploration on the property over four years as follows: (i) minimum US\$750,000 in year 1, including a minimum of 3,000 metres of diamond drilling; (ii) US\$1,000,000 in year 2; (iii) US\$1,250,000 in year 3; and (iv) US\$2,000,000 in year 4; and (b) Peñoles purchasing US\$500,000 of Common Shares of the Company within 30 business days after the Agreement becomes effective at a price calculated based on the average closing price of the Company's Common Shares for the 10 trading days prior to the purchase (which has been done); and (c) Peñoles purchasing US\$500,000 of Common Shares of the Company within 30 business days after the first anniversary of the execution of the Agreement, taking into account the average closing price of the Company's Common Shares for the 10 trading days prior to such purchase (which has been done).

At December 31, 2006, Peñoles had spent US\$3,360,000 and had completed 18,320 metres of diamond drilling on the Juanicipio Property. Peñoles invested US\$500,000 in MAG by subscribing for a total of 621,577 Common Shares at a price of C\$0.967 on signing, and on February 27, 2006 invested a further US\$500,000 in MAG by subscribing for a total of 245,716 Common Shares at a price of C\$2.35, to continue the contract into the second year. This second year includes a commitment for Peñoles to spend a minimum of US\$1,000,000 on exploration on the Juanicipio Property. Drilling was re-started in August 2006 on a series of holes located 1.8 km west of the discovery hole JI-05-16. In August 2006 Peñoles and MAG announced that the surface rights to an area covering the east-west projection of the Valdecañas Vein had been purchased for approximately US\$1.40M. Drilling on the discovery resumed in October 2006 and is continuing into the first quarter of 2007 with four operating drill rigs.

#### The Don Fippi Property (Batopilas)

Under the terms of a November 18, 2002 option agreement (the Don Fippi Agreement) between the Company, Lagartos and Minera Bugambilias, S.A. de C.V. (Bugambilias), Bugambilias granted to Lagartos an option (the Don Fippi Option) to acquire a 100% interest in the Don Fippi Property.

On April 20, 2005 the Don Fippi Agreement was amended whereby the Company acquired a 100% interest in the Don Fippi Property through a one time final payment of 750,000 Common Shares. The purchase eliminated the Company's prior obligations to make further cash payments of US\$450,000, incur further work expenditures of approximately US\$3,410,000 and issue 673,822 additional Common Shares under the original Don Fippi Agreement.

Lagartos also agreed to pay to Bugambilias a 4.5% NSR.

To December 31, 2006 the Company has incurred \$2,082,845 in exploration costs on the Don Fippi Property.

All properties acquired by Lagartos, Bugambilias or any of their affiliates within the borders of the Don Fippi Property will become part of the Don Fippi Property and be included under the Don Fippi Agreement.

#### The Guigui Property

Under the terms of a November 18, 2002 option agreement (the Guigui Agreement) between the Company, Lagartos and Minera Coralillo, S.A. de C.V. (Coralillo), Coralillo granted to Lagartos an option (the Guigui Option) to acquire a 100% interest in the Guigui Property.