



MAG SILVER CORP.

Management's Discussion & Analysis
For the three months ended
March 31, 2012

Dated: May 14, 2012

A copy of this report will be provided to any shareholder who requests it.

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OVERVIEW

MAG Silver Corp. ("MAG" or the "Company") is a mineral exploration and predevelopment company focused on the acquisition, exploration and development of district scale projects located within the Mexican silver belt. The Company is based in Vancouver, British Columbia, Canada, and its common shares trade on the Toronto Stock Exchange under the symbol MAG and on the NYSE MKT (formerly NYSE Amex) under the symbol MVG. The Company is a "reporting issuer" in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador and is a reporting "foreign issuer" in the United States of America.

The following Management's Discussion and Analysis ("MD&A") of MAG focuses on the financial condition and results of operations of the Company for the three months ended March 31, 2012 and 2011. It is prepared as of May 14, 2012 and should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the three months ended March 31, 2012 and the audited consolidated financial statements of the Company for the year ended December 31, 2011, together with the notes thereto.

All dollar amounts referred to in this MD&A are expressed in United States dollars ("US\$") except where indicated otherwise. Effective January 1, 2012, the Company changed its presentation currency from the Canadian dollar ("C\$") to the US\$ on a retrospective basis (see 'Changes in Accounting Policies' below). The change in presentation currency is to better reflect the Company's business activities and to improve investors' ability to compare the Company's financial results with other publicly traded businesses in the mining industry.

The Company believes it is a Passive Foreign Investment Company ("PFIC"), as that term is defined in Section 1297 of the U.S. Internal Revenue Code of 1986, as amended, and believes it will be a PFIC for the foreseeable future. Consequently, this classification may result in adverse tax consequences for U.S. holders of the Company's common shares. For an explanation of these effects on taxation, U.S. shareholders and prospective U.S. holders of the Company's common shares are encouraged to consult their own tax advisers.

Except for historical information contained in this MD&A, the disclosures contained herein are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 or are future oriented financial information and as such are based on an assumed set of economic conditions and courses of action. These may include estimates of future production levels, expectations regarding mine production and development programs and capital costs, expected trends in mineral prices and statements that describe future plans, objectives or goals. There is significant risk that actual results will vary, perhaps materially, from results projected depending on such factors as discussed under "Risks and Uncertainties" in this MD&A and other risk factors and forward-looking statements listed in the Company's most recently filed Annual Information Form ("AIF"). More information about the Company including its AIF and recent financial reports are available on SEDAR at www.sedar.com and on the SEC's EDGAR website at www.sec.gov.

Unless otherwise specifically noted herein, all scientific or technical information in this MD&A, including reserve estimates was based upon information prepared by or under the supervision of Dr. Peter Megaw, Ph.D., C.P.G., a certified professional geologist who is a "Qualified Person" for purposes of National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("National Instrument 43-101" or "NI 43-101") and/or are prepared by or under the supervision of Dan MacInnis P. Geo., a certified professional geologist who is a "Qualified Person" for purposes of NI 43-101.

Cautionary Note to Investors Concerning Estimates of Indicated and Inferred Mineral Resources

This MD&A uses the terms "Inferred Resources" and "Indicated Resources." MAG advises investors that although these terms are recognized and required by Canadian regulations (under NI 43-101), the U.S. Securities and Exchange Commission ("SEC") does not recognize these terms. Investors are cautioned that "inferred resources" have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or prefeasibility studies. **Investors are cautioned not to assume that part or all of an inferred resource exists, or is**

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economically or legally mineable. Investors are further cautioned not to assume that any part or all of an indicated mineral resource will be converted into reserves.

FINANCIAL PERFORMANCE

As at March 31, 2012, the Company had working capital of \$20,244,060 (compared to \$38,870,965 at March 31, 2011), including cash on hand of \$21,776,226 (compared to \$36,568,988 at March 31, 2011). The Company's reserves of cash originate from financings. There were no financings in 2011 or in the first quarter of 2012.

Three Months Ended March 31, 2012

The Company's net loss for the three months ended March 31, 2012 amounted to \$754,371 (2011: \$1,451,582). The decreased net loss compared to the prior period is primarily due to a deferred income tax recovery of \$840,052 in the quarter ended March 31, 2012 (March 31, 2011: Nil). The recovery represents a reversal of a deferred tax liability of \$840,052 that was set up at December 31, 2011 in relation to temporary differences between the book and tax base of its Mexican non-monetary assets. The tax base of these non-monetary assets is determined in a different currency (Mexican Peso) than the functional currency (US\$), and changes in the exchange rate can give rise to temporary differences that result in a deferred tax liability in accordance with IAS 12 *Income Taxes*. With the strengthening of the Mexican Peso against the US\$ from 13.98 Pesos/US\$ on December 31, 2011 to 12.85 Pesos/US\$ on March 31, 2012, the previously recognized deferred tax liability was entirely reversed in the current period.

During the quarter ended March 31, 2012, the Company granted no stock options (March 31, 2011: nil), but still recorded \$375,856 (March 31, 2011: \$501,005) of share based payment expense relating to stock options previously granted, but vesting to employees and consultants in the period. The fair value of all share-based payment compensation is estimated using the Black-Scholes-Merton option valuation model.

Accounting and audit fees for the three months ended March 31, 2012 of \$103,530 (2011: \$145,726), decreased as the Company no longer incurred advisory costs on converting financial statements to conform with International Financial Reporting Standards. Shareholder relations expenses incurred during the period ended March 31, 2012 of \$209,691 (2011: \$57,733) increased as a result of increased local and foreign marketing activities to increase investor awareness about the Company. Other expenses incurred during the three months ended March 31, 2012 included amortization of \$10,941 (2011: \$13,926), filing and transfer agent fees of \$125,002 (2011: \$139,373), foreign exchange gain of \$53,582 (2011: \$48,353), general office and property investigation costs of \$178,909 (2011: \$180,035), legal fees of \$244,144 (2011: \$252,851), travel costs of \$80,714 (2011: \$60,147) and management and consulting fees of \$390,398 (2011: \$378,291) were all comparable with the prior period in 2011.

Interest income earned for the period ended March 31, 2012 decreased to \$71,180 (2011: \$107,370), reflecting lower cash balances on hand during the current period. Interest earned correlates directly to the amount of cash on hand during the period and the prevailing interest rates. Currently, the Company is earning 1.15% (March 31, 2011: 1.15%) on its daily cash balances. During the period ended March 31, 2012, there was no unrealized gain or loss (2011: gain of \$121,752) on marketable securities held and designated as held for trading instruments.

During quarter ended March 31, 2012, the Company also recognized an unrealized gain of \$163,719 (2011: gain of \$245,622) in other comprehensive income ("OCI") on marketable securities held and designated as available-for-sale instruments.

The functional currency of MAG, the parent entity, is the Canadian dollar ("C\$") which differs from the US\$ presentation currency, resulting in a currency translation adjustment in Other Comprehensive Income of \$486,753 (2011: \$985,785).

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SUMMARY OF QUARTERLY RESULTS

The following table sets forth selected quarterly financial information for each of the last eight quarters (as determined under International Financial Reporting Standards as issued by the IASB):

Quarter Ending	Revenue ⁽¹⁾	Net Loss ⁽²⁾	Net Loss per share
March 31, 2012	\$71,180	\$(754,371)	\$(0.01)
December 31, 2011	\$77,005	\$(3,778,413)	\$(0.07)
September 30, 2011	\$89,338	\$(3,065,387)	\$(0.06)
June 30, 2011	\$98,275	\$44,639 ⁽³⁾	\$0.00
March 31, 2011	\$107,370	\$(1,451,582)	\$(0.03)
December 31, 2010	\$127,021	\$(4,725,155)	\$(0.09)
September 30, 2010	\$117,149	\$(4,047,245)	\$(0.07)
June 30, 2010	\$45,083	\$(1,352,990)	\$(0.03)

Notes:

- (1) The Company's only source of revenue during the quarters listed above was interest earned on bank cash balances. The amount of interest revenue earned correlates directly to the amount of cash on hand during the period referenced and prevailing interest rates. The Company has no operating revenues.
- (2) Net losses by quarter are often materially affected by the timing and recognition of large non-cash expenses (specifically share based payments and property write-offs) as described above in "Financial Performance".
- (3) Includes an arbitration award of \$1,858,120 received from Fresnillo plc.

RESULTS OF OPERATIONS

During the three months ended March 31, 2012, the Company's directly incurred joint venture expenditures on the Juanicipio property amounted to \$523,742 (2011: \$28,775), and its joint venture advances amounted to \$836,000 (2011: \$132,000). Exploration and evaluation on the Juanicipio property is being conducted by the project operator, Fresnillo plc ("Fresnillo") and the Company's share of costs is funded through its 44% interest in Minera Juanicipio S.A. de C.V. ("Minera Juanicipio") (see Juanicipio Property below). During the quarter ended March 31, 2012, the Company's exploration activity was focused on its 100% owned Cinco de Mayo property, where \$1,956,914 (2011: \$1,858,136) was incurred in exploration and evaluation expenditures and 11,154 metres (2011: 8,175) were drilled (see Cinco de Mayo Property below).

The following discussion is a summary of, and an update to, disclosure in documentation filed with regulatory agencies and available for viewing under MAG's profile on the SEDAR website at www.sedar.com and on SEC's EDGAR website at www.sec.gov.

Juanicipio Property

The Company owns 44% of Minera Juanicipio, a Mexican incorporated joint venture company, which owns and operates the Juanicipio property located in the Fresnillo District, Zacatecas State, Mexico. Fresnillo holds the remaining 56% interest in the joint venture and is the project operator. The Juanicipio Property hosts, at this time, three significantly identified high grade silver (gold, lead and zinc) veins: the Valdecañas Vein, with its footwall offshoot the Desprendido vein and the Juanicipio Vein.

Exploration of the Juanicipio Property is designed by the Minera Juanicipio Technical Committee, approved by the Minera Juanicipio Board of Directors and executed by the project operator Fresnillo. The Company's share of costs is funded primarily through its 44% interest in Minera Juanicipio, and to a lesser extent directly incurred by the

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Company to cover expenses related to parallel technical studies and analyses commissioned by the Company, as well as direct oversight of the drilling programs executed on the property. For the three months ended March 31, 2012, the Company's expenditures on the Juanicipio property amounted to \$1,359,742 (2011: \$160,775), and included \$836,000 (2011: \$132,000) as its 44% share of cash advances, and a further \$523,742 (2011: \$28,775) accrued or expended directly by the Company on project oversight. Cumulatively to March 31, 2012, the Company has spent on its own account or advanced Minera Juanicipio a total of \$16,282,692 (2011: \$12,518,367) for its 44% of acquisition and exploration costs.

In the three months ended March 31, 2012, Minera Juanicipio completed 8,330 metres of drilling on the property representing approximately 23% of the drilling budget proposed for the year (see 'Outlook' below). Drilling in the three months ended March 31, 2012 was designed to convert inferred mineral resources to indicated mineral resources on the Valdecañas Vein and delineate the high grade ore shoot emerging on the Juanicipio Vein. Additional drilling was also targeted on the Las Venadas vein and on searching for the next vein.

Currently, eight drills continue in operation on the property.

Updated Preliminary Economic Assessment ("UPEA")

A technical study commissioned by Minera Juanicipio for the development of a 'standalone' underground silver mine on the Juanicipio property is being prepared by AMC Mining Consultants (Canada) Ltd ("AMC" and the "AMC Study") is in the final review stages and results are expected to be released during the second quarter of 2012. The AMC Study was commissioned as one of the studies necessary to evaluate the manner in which the Juanicipio Property might be developed and MAG expects it to include a compilation of possible mine development scenarios and their associated economic advantages. The AMC Study will comply with Canadian NI 43-101 standards and will be issued as an Updated Preliminary Economic Assessment based on both Indicated and Inferred Resources. This high level economic assessment will provide an important catalyst for MAG and open a pathway for the next step in the development of the Valdecañas Vein and the Juanicipio property. It is anticipated that the 2012 Minera Juanicipio budget will be reviewed and amended to reflect the recommendations in the final AMC Study once completed.

Cinco de Mayo Property

The Cinco de Mayo Project is a 15,000 hectare district scale project owned 100% by the Company. Cinco de Mayo is located approximately 190 kilometres north of the city of Chihuahua, in northern Chihuahua State, Mexico, and is the most advanced of MAG's four Carbonate Replacement Deposit ("CRD") style targets. The project consists of three major parts: the Jose Manto silver-lead-zinc body; the Pozo Seco high grade molybdenum-gold resource area; and, the surrounding Cinco de Mayo exploration area.

The Company incurred \$1,956,914 in exploration and evaluation costs at Cinco de Mayo during the three months ended March 31, 2012 (2011: \$1,858,136), where drilling during the quarter totaled approximately 11,154 metres (2011: 8,175).

Jose Manto/Cinco Ridge (Bridge Zone)

The 2012 exploration program will consist of delineation drilling and offsets of the new high grade silver / lead / zinc intercepts discovered in 2011 to determine the width and continuity of mineralization in the "Bridge Zone" lying between the Jose Manto and Cinco Ridge areas. Exploration for the first quarter of 2012 began with two drill rigs focused on fleshing out the Bridge Zone to allow generation of a resource estimate by mid-year. A third rig was added in April and dedicated largely to seeking new mineralization along strike and to depth, and the intrusion system expected to lie at the centre of the system. As of early May 2012, drilling with four drill rigs is on going dedicated to the Jose Manto and its extensions. The drill sections are also designed to pin point where mineralization in the manto is thickest.

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Drilling in the Bridge Zone has resulted in significant massive sulphide intercepts. Ten holes were drilled on a section to test the up- and down-dip continuity of Hole CM11-380, the best of seven massive sulphide manto intercepts drilled in late 2011. The results demonstrate the lateral and vertical continuity of the mineralization in that section as well. These holes were drilled on 50 metre centres and eight of the ten holes intercepted massive sulphides (including hole CM11-380 which cut 386 g/t silver with 14.0% zinc and 8.2% lead over 3.98 metres), with assays pending on the remaining two holes. The combined drilling shows continuous mineralization over a 400 metre dip length, with mineralization remaining open down dip and along strike. All reported intercepts appear to be near true widths. The best hole was CM12-390 which cut 274 g/t (8.0 opt) silver with 17.2% zinc and 5.5% lead over 8.08 metres, including: 1.63 metres that grades 778 g/t (22.7 opt). This intercept is actually the sulphide portion of a 14.1 metre thick manto zone where the top 6.0 metres is partially to completely oxidized and leached sulphide. The remaining holes all cut massive sulphides ranging from 1.50 to 5.25 metres in thickness.

This series of holes drilled during the first quarter, has generated the first full cross-section across the "Bridge Zone" between the Jose Manto and Cinco Ridge and shows manto width, thickness and composition comparable to the well constrained body of the Jose Manto. The similarity of manto dimensions, composition and textures indicates that mineralization should maintain similar dimensions throughout the Bridge Zone and into the Jose Manto, which if confirmed will reveal continuous manto-style mineralization at least 4,000 metres long that plunges irregularly downwards to the northwest from 200 to 450 metres depth.

There are indications that the deepest intercepts in the latest drilling may be closely related to a major fault that may have acted as a major mineralizing fluid channel. This fault is also a significant exploration target for 2012.

Quality Assurance and Control – Cinco de Mayo: The Company has in place a quality control program to ensure best practices in sampling and analysis. Samples were collected by employees of consulting firm Minera Cascabel S.A. de C.V. on behalf of MAG Silver Corp. The diamond drill core samples are shipped directly in security sealed bags to ALS-Chemex Laboratories preparation facilities in Hermosillo, Sonora or Chihuahua City (Certification ISO 9001). Sample pulps are shipped from there to ALS-Chemex Laboratories in North Vancouver, Canada for analysis. All samples were assayed for gold by standard fire assay-ICP finish with a 50 gram charge. Gold values in excess of 3.00 g/t were re-analyzed by fire assay with gravimetric finish for greater accuracy. Silver, zinc, copper and lead values in excess of 100 ppm, 1%, 1% and 1% respectively are also repeated by fire assay and atomic absorption analysis.

Polaris Area

Drilling in 2011 in the "Polaris" area located in the northwestern part of the Cinco de Mayo property revealed a strong SE-NW trend that projects southeast through the range towards the northern end of the Jose Manto. Review and comparison of drilling results from this structure and the Jose Manto suggested that the two might be linked, with one fed from the other. This led to reexamination of the Jose Manto and to the discovery of mineralization in the Bridge Zone the fourth quarter of 2011. This raised the possibility that mineralization may be continuous from Polaris through the Jose Manto and beyond to Cinco Ridge, a distance of nearly 8 kilometres, with the shallowest mineralization at the southeastern end. Exploration is planned for second quarter 2012 in the Polaris area to focus on determining the extent and geometry of the dioritic-granodioritic intrusion and where skarn and sulphide mineralization is best developed along its contacts.

Pozo Seco Molybdenum-Gold Zone – Mineral Resource Estimate

In late 2009 the Company announced the discovery of a new zone of high grade molybdenum and gold mineralization named "Pozo Seco" in the western part of the Cinco de Mayo project area, and in 2010 the Company released an independently prepared first Mineral Resource estimate for the Pozo Seco deposit based on drill results available to July 12, 2010. Since that time, the Company has been working with three different respected metallurgical laboratories in order to find the best technical solution and associated flow sheet for recovering both oxidized molybdenum and free-milling gold from the Pozo Seco resource. Test work to date indicates that the gold at Pozo Seco is readily recovered with recoveries of over 90%, but at this time test work is focused on the recovery of molybdenum. Molybdenum at Pozo Seco occurs principally as the oxide mineral powellite (CaMoO₄), a semi-pioneering effort made more challenging by the fine grain size of the powellite particles and intimate locking with waste materials, particularly fluorite. Although the metallurgical testing is taking longer than initially planned,

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indications are positive and the Company intends to continue with the testing to attain positive metallurgical results and a flow-sheet, which would then allow generation of a Preliminary Economic Assessment (PEA).

Pozo Seco's molybdenum mineralization is comparable in style to molybdenum-bearing mineralization that occurs in the proximal parts of several of the largest Mexican CRD systems, but is many times more extensive than the largest known occurrence in the San Martin-Sabinas skarn-CRD system in Zacatecas. Further, Pozo Seco style gold-bearing silicified limestone breccias (jasperoids) are also common in Mexican CRD systems, but again the Pozo Seco gold mineralized jasperoid is substantially larger than the largest known occurrence in the Santa Eulalia CRD-skarn system in central Chihuahua.

Lagartos Properties

The Company owns a combined 135,000 hectare land package along the Fresnillo Silver Trend, a large regional structural zone that hosts the Guanajuato, Zacatecas and Fresnillo epithermal silver-gold vein districts. The package has two major claim groups: Lagartos NW and Lagartos SE. The Lagartos SE claims surround the Zacatecas Silver District, where a series of six major vein swarms have produced over a billion ounces of silver since 1546. Lagartos NW covers the immediate northwestern projection of the geology and structure of the Fresnillo Mining District into a broad alluvial valley punctuated by volcanic outcrops showing high-level alteration styles and mercury showings virtually identical to those that led to the Juancipio discovery.

During the three months ended March 31, 2012, the Company spent \$572,843 in exploration on the combined Lagartos properties (2011: \$270,833), primarily on the Lagartos SE claims where drilling on the 'LAG 5' claim during the quarter totaled 619 metres in 1 hole testing the El Orito Structure. More holes will be required to investigate the structure at depth, and further drilling is contemplated for later in 2012. The Company's exploration programs for these properties in 2012 are expected to total approximately \$1 million.

Mojina

The Mojina Property is located in northern Chihuahua State 5 kilometres from the town of Ricardo Flores Magon and 40 kilometres south of the Company's Cinco de Mayo property. Mojina is easily accessed from a paved highway and unpaved roads and tracks. Mojina lies along the main strand of the Mexican CRD Belt along the same structure and in the same stratigraphic section as Cinco de Mayo. A small mine is located on the property and reports limited but high grade past production, estimated at 125,000 tonnes grading 80-330 g/t (2.3 - 10 opt) silver, 2-4 g/t gold and 8-10% lead from oxidized manto ores between 1954 and 1972.

On March 30, 2010, the Company entered into an option agreement to earn a 100% interest in the Mojina Property, subject to a 2.5% net smelter returns royalty, half of which can be purchased at any time for \$1,250,000. Under the terms of the agreement, the Company paid \$35,000 upon signing the agreement and an additional \$65,000 in 2010, an additional \$61,181 in 2011, and an additional \$81,131 in January 2012. To earn its 100% interest, the Company is required to make additional scheduled cash payments totalling C\$810,000 through 2015, and incur cumulative qualifying exploration expenditures totalling \$2,500,000 over five years to 2015, including expenditures of \$350,000 by March 31, 2012. To March 31, 2012, the Company had incurred \$1,389,649 in exploration and evaluation costs, including \$1,081,400 in qualifying expenditures under the agreement.

On June 25, 2010, the Company acquired by concession an additional claim adjacent to the optioned claims.

During the three months ended March 31, 2012, the Company expended \$290,683 in exploration on the Mojina Property (2011: \$58,482) where drilling totaled approximately 891.54 metres in 2 holes testing a large scale magnetic high and further trace the felsic dyke contact. Neither of the holes encountered significant mineralization.

The Company's expected exploration and evaluation expenditures for the Mojina Property in 2012 are \$500,000.

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Esperanza Joint Venture

During the year ended December 31, 2010, the Company entered into an option agreement with Canasil Resources Inc. ("Canasil") to earn a 60% interest in certain mineral claims constituting the Esperanza Property, a silver-zinc-lead project covering 17,009 hectares, located 100 km SE of the city of Durango on the border between Durango and Zacatecas States. Pursuant to the agreement, the Company paid \$47,315 upon signing the agreement in 2010, and a further \$102,070 in 2011. To earn its 60% interest in the property, the Company must make additional cash payments of C\$350,000 in stages to September 1, 2013 and incur cumulative exploration expenditures of C\$5,000,000 in stages to September 1, 2014, including committed first year drilling of 1,500 metres and qualifying expenditures of C\$750,000. To March 31, 2012, the Company had incurred \$1,553,124 in exploration and evaluation costs, and had fulfilled its first year commitments.

The Esperanza property hosts quartz breccia epithermal veins with silver, lead and zinc mineralization associated with argentiferous galena, silver sulfosalts and sphalerite. There has been a history of past mining activity at Esperanza with direct shipments of reportedly high grade ore to local mills and smelters. The mine was last active in 1970, and was reportedly mined on three levels, using a main access shaft down to a depth of approximately 90 metres. There are a number of surface pits and dumps with ore left over from past mining operations around the vein and mine area.

Canasil had previously drilled nine diamond drill holes on the property for a total of 1,432 metres. This program had outlined a mineralized panel with a strike length of over 150 metres and depth of 100 metres, which is open in all directions, with vein widths of up to 10.30 metres carrying high grade silver mineralization. Seven drill holes intersected the main Esperanza vein (LE) and a hanging wall vein (HW) over significant widths. The weighted average grade of mineralization intersected in the Esperanza vein is 330 g/t (9.62 opt) silver, 0.93% zinc and 1.57% lead over an average width of 4.21 metres. This vein includes several intercepts with very high silver grades of up to 2,144 g/t (62.53 opt) silver over 0.75 metres.

The Esperanza Vein has been traced by mapping of the collapsed workings over a strike length of 260 metres. Significant alteration zones are observed along strike extensions of the Esperanza vein for over four kilometres on a northwest-southeast trend. Additional vein outcrops and mineralized structures are also observed to the northwest of the extended claim area at "Fatima" approximately 15 kilometres northwest of the Esperanza vein, indicating the potential for a large district scale epithermal system.

Drilling at Esperanza during the quarter ended March 31, 2012, totaled 2,714 metres in 9 holes where the Company expended \$556,479 in exploration on the property (2011: 113,148). On February 22, 2012, the company announced significant silver/lead/zinc vein intercepts in first three holes in a drill program initiated in late November of 2011. The holes were drilled on one section 100 metres Northwest along strike from previous drilling carried out by Canasil on the main La Esperanza Vein system. The best results were reported in the deepest hole ES12-03 which intersected 2.42 metres of 278 g/t (8.1 opt) silver, 2.8% lead and 5.8% zinc within a 10.28 metre (8.22 metres true width) section of quartz vein and breccia assaying 97 g/t silver (2.8 opt), 1.1% lead and 2.3% zinc. Hole ES11-02, drilled above the previous hole, intercepted 1.49 metres of 192 g/t (5.6 opt) silver, 1.8% lead and 5.7% zinc within a 12.53 metre (10.02 metres true width) wide breccia laced with intermittent veins that carried 87 g/t (2.5 opt) silver, 0.8% lead and 2.4% zinc over 4.01 metres. Near-surface hole ES11-01 hit three narrow intercepts with appreciable silver values ranging from 43 g/t (1.3 opt) to 74 g/t (2.2 opt), lead from 0.2% to 0.6% and zinc values from 1.0% to 1.9% over 0.85 metres to 0.86 metres.

The wide intercepts of quartz vein and breccia intercepted in the early drilling at Esperanza appear to reflect a NW-plunging mineralized zone, supporting the premise that the structure may host significant mineralization over favorable widths. Lateral offsets of these holes were undertaken in early 2012 with 8 holes, two of which were lost. No significant vein intercepts were made and geologic interpretation indicates that the drilled segment of the Esperanza Vein lies in an uplifted fault block bounded by NE-SW faults on either end. Drilling beyond the fault block did not encounter the vein where projected, so work is underway to determine direction and magnitude of offset on the faults to determine where to target the vein in drilling later this year. It is likely that if vein is found in the downthrown blocks it will be encountered at a high, silver-rich level with respect to typical epithermal vein zoning.

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Current effort on the Esperanza Joint Venture has shifted to the Fatima, Alamitos and San Pascual veins, which have never been drilled. Permits are expected for second quarter 2012 with drilling to resume once permits are finally approved.

The Company's expected exploration and evaluation expenditures for the Esperanza Property in 2012 are \$900,000.

The Don Fippi (Batopilas) Property

The 100%-owned Batopilas project covers 4,800 hectares in the historic Batopilas Silver District in southwestern Chihuahua. Previous work in 2010 included mapping and sampling along a new road being built across the property by the State of Chihuahua. Construction of the road was suspended during the 2011 rainy season and MAG is working with contacts in the state government to get the road work restarted. Until the road is advanced, MAG cannot move forward on drilling the high-quality targets that remain in this high priority area.

The Company expended \$18,668 (2011: \$18,151) in exploration costs at Batopilas during the quarter ended March 31, 2012, and the 2012 expected exploration relates primarily to property maintenance costs totaling approximately \$90,000.

Other Properties

The Company's remaining properties consist of the Nuevo Mundo claims, the Guigui claim options and the Lorena claims.

Nuevo Mundo

The Nuevo Mundo Property abuts the eastern side of Goldcorp's "Camino Rojo" property in northern Zacatecas State. According to public records, Camino Rojo is reported to contain a 2.3 million ounce gold resource. Although Camino Rojo was largely a blind discovery, it is known to have a strong and characteristic Induced Polarization signature. The Company is seeking possible Camino Rojo analogs on the Nuevo Mundo property. Outcrops are very sparse, so exploration needs to be guided by geophysics. A 390 square kilometre block was flown in late 2010 using the Geotech Ltd. ZTEM Airborne Survey System. The block is located 12 kilometres west of Huertecillas, San Luis Potosi. The geophysical surveys consisted of helicopter borne AFMAG Z-axis Tipper electromagnetic (ZTEM) system and aeromagnetics. A total of 1,867 line kilometres of geophysical data were acquired during the survey. The block was flown at an Azimuth of N60°E with a flight lines spacing of 200 metres. Final results were received in February 2011 and were used as the basis for planning an Induced Polarization/Resistivity ("IP/Res") survey. Surface access for the IP/Res survey was secured during second quarter of 2011. Lines were laid out and brushed and the survey was executed by Geophisica TMC during June and July 2011. No obvious drill targets were seen in the area of the surveyed lines. Options for this property are currently under review by the Company.

The Company spent \$55,117 in exploration costs at Nuevo Mundo during the quarter ended March 31, 2012 (2011: \$70,196), and expected exploration in 2012 is approximately \$130,000, relating primarily to property maintenance.

Guigui

The Guigui project is a 4,500-hectare property in the Santa Eulalia Mining District, home to the world's largest CRD camp. Strong aerial magnetic anomalies remain to be drilled. The Company incurred \$25,065 in exploration and holding costs on Guigui during the three months ended March 31, 2012 (2011: \$23,943). The 2012 expected exploration program is approximately \$65,000 relating primarily to property maintenance.

Lorena

The Lorena property is located just north of the Guanajuato Silver Mining District within the Fresnillo Silver Trend and was identified from field work as a Juancipio look-alike and staked in early 2008. No recent drilling or field work has been carried out and the claim group was reduced during 2010. One drill target has been identified, but

**Management's Discussion & Analysis
For the three months ended March 31, 2012**

surface access needs to be resolved first. Negotiations to access the principal drill target from a different direction are in process.

The Company expended \$44,578 in exploration costs at La Lorena during the quarter ended March 31, 2012 (2011: \$36,631), and the 2012 expected exploration relates primarily to holding costs and surface access acquisition totaling approximately \$80,000.

OUTLOOK

The Company continues to explore its properties in Mexico and intends to grow its independent project portfolio through successful exploration and acquisitions. Although the Company's working capital position remains strong, the Company continues to execute its business plan prudently. The Company reviews and assesses the carrying amount of its exploration and evaluation assets and of its investment in associates for impairment when facts or circumstances suggest that the carrying amount is not recoverable. Assessing the recoverability of these amounts requires considerable professional technical judgment, and is made with reference to the timing of exploration work, work programs proposed, exploration results achieved by the Company and by others in the related area of interest, and an assessment of the likely results to be achieved from performance of further exploration. Based on its analysis, and on current and expected metals prices and cost structures, management has determined that the values of the Company's exploration and evaluation assets and of its investment in associates, have not been impaired at this time. However, should current market conditions deteriorate and commodity prices decline for a prolonged period of time, an impairment of mineral properties may be required.

In 2012, MAG expects to drill over 58,000 metres on five separate projects, including the Juanicipio Joint Venture and Cinco de Mayo project area.

The Technical Committee and Board of Directors of Minera Juanicipio, comprised of representatives from both Fresnillo and the Company meet several times per year to discuss the business of Minera Juanicipio and to review and approve plans for the exploration and development of the Juanicipio property. In late December 2011, Fresnillo and MAG jointly approved a preliminary 2012 exploration budget based on the recommendation of Minera Juanicipio's Technical Committee totalling \$8.5 million, an increase of \$4 million or 89% over the 2011 budget. The 2012 budget calls for a 36,000 metre drill program which will see 10,000 metres earmarked for the Valdecañas Vein; an additional 6,500 metres targeted for the newly discovered vein and structure at Las Venadas; 4,000 metres planned to the West at the Juanicipio Vein; and, the remaining 15,500 metres heavily weighted to exploration in the search for new vein discoveries.

The finalization of the "stand alone" Updated Preliminary Economic Assessment (see "Juanicipio Property" above) by AMC is part of this approved budget. The AMC Study is in the final review stages and results are expected to be released during the second quarter of 2012. The AMC Study was commissioned as one of the studies necessary to evaluate the manner in which the Juanicipio Property might be developed and MAG expects it to include a compilation of possible mine development scenarios and their associated economic advantages. The AMC Study will comply with Canadian NI 43-101 standards and will be issued as an Updated Preliminary Economic Assessment based on both Indicated and Inferred Resources. This high level economic assessment will provide an important catalyst for MAG and open a pathway for the next step in the development of the Valdecañas Vein and the Juanicipio property. It is anticipated that the 2012 Minera Juanicipio budget will be reviewed and amended to reflect the recommendations in the final AMC Study once completed.

The Company originally expected to expend \$3.5 million in 2012 at Cinco de Mayo (including Pozo Seco and Jose Manto), representing 15,000 metres of drilling targeted at delineating the mineralized corridor between Jose Manto and Cinco Ridge. As current results continue to demonstrate continuity of massive sulphide mineralization in the 'Bridge Zone' along the Jose Manto-Cinco Ridge corridor, the Company now expects to expend a further \$2 million during the year (total of \$5.5 million) to determine the width and continuity of mineralization in the zone and to pin point where mineralization in the manto is thickest. This work will go towards a first resource estimate expected by the end of the third quarter of 2012, and the initiation of a PEA for this property.

MAG SILVER CORP.

Management's Discussion & Analysis For the three months ended March 31, 2012

OUTSTANDING SHARE DATA

The Company's authorized capital consists of an unlimited number of common shares without par value. As at May 14, 2012, the following common shares and stock options were outstanding:

	Number of Shares	Exercise Price (Canadian\$ / option)	Remaining Life (mos/years)
Capital Stock	55,667,139		
Stock Options	4,108,618	C\$5.32 to C\$14.15	0 months to 4.4 years
Diluted	59,775,757		

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2012 the Company had 55,667,139 common shares issued and outstanding (March 31, 2011: 55,345,887).

As at March 31, 2012, the Company had working capital of \$20,244,060 (compared to \$38,870,965 at March 31, 2011), including cash on hand of \$21,776,226 (compared to \$36,568,988 at March 31, 2011). Accounts receivable at March 31, 2012 totaled \$1,080,759 (2011: \$2,405,210) and was comprised primarily of value added taxes repayable to the Company by the Government of Mexico. Current liabilities at March 31, 2012 amounted to \$3,588,574 (2011: \$1,598,074) and are attributable primarily to accrued exploration (drilling) and legal expenses.

The primary use of cash during the period ended March 31, 2012 was for exploration and evaluation expenditures totaling \$2,145,769 (March 31, 2011: \$2,066,449), and the Company also expended on its own account and through advances to Minera Juanicipio \$1,127,156 (March 31, 2011: \$160,775) on the Juanicipio property. The Company makes cash deposits to Minera Juanicipio from time to time as cash called by operator Fresnillo. The Company's primary source of capital has been from the sale of equity.

During the quarter ended March 31, 2012, no stock options were exercised (2011: 184,273 stock options were exercised for cash proceeds of \$576,503). In the three months ended March 31, 2012 and 2011 there were no shares issued for mineral properties.

The Company currently has sufficient working capital (\$20.2 million) to maintain all of its properties and currently planned programs for a period extending beyond the current fiscal year. In management's opinion, the Company is able to meet its ongoing current obligations as they become due. Based on exploration results, the Company will select only certain properties to complete option and purchase arrangements on. However, the Company will likely require additional capital in the future to meet its project related expenditures, as it is unlikely that the Company will generate sufficient operating cash flow to meet all of its future expenditure requirements. Future liquidity will depend upon the Company's ability to arrange additional debt or equity financing, as the Company relies on equity financings to fund its exploration and corporate activities. While the Company has been successful in securing financings in the past, given the Company has incurred losses from inception and does not have any operating cash flow, there can be no assurance that additional capital or financing will be available if needed or that, if available, the terms of such financings will be favourable to the Company.

Contractual Obligations

The following table discloses the contractual obligations of the Company for optional mineral property acquisition payments, optional exploration work and committed lease obligations for office rent and equipment, as at the date of this MD&A:

MAG SILVER CORP.

**Management's Discussion & Analysis
For the three months ended March 31, 2012**

Option Payments Expenditures	Total	Less than 1			More than 5
		year	1-3 Years	3-5 Years	years
Mojina Property Option ⁽¹⁾	\$812,025	\$150,375	\$661,650	-	Nil
Cinco De Mayo ⁽²⁾	166,000	16,000	40,000	110,000	Nil
Esperanza Property ⁽³⁾	350,875	150,375	200,500	-	Nil
Subtotal - Option Payments	\$1,328,900	\$316,750	\$902,150	\$110,000	Nil
Option Payments -Exploration & Evaluation					
Mojina Property Option ⁽¹⁾	1,418,601	-	418,601	1,000,000	Nil
Esperanza Property ⁽³⁾	3,501,441	243,316	3,258,125	-	Nil
Subtotal - Exploration & Evaluation	\$4,076,401	\$633,500	\$2,222,901	\$1,220,000	\$ Nil
Option Payments and Exploration Expenditures – Total	\$5,405,301	\$950,250	\$3,125,051	\$1,330,000	Nil
Office Lease	417,926	160,220	257,706	-	Nil
Total Obligations	\$5,823,227	\$1,110,470	\$3,382,757	\$1,330,000	\$ Nil

⁽¹⁾ Mojina Property option consists of \$1,418,601 in further exploration commitments and C\$810,000 in property option payments.

⁽²⁾ Cinco De Mayo property option payments of \$166,000 on auxiliary claims acquired in 2010.

⁽³⁾ Esperanza Property option consists of C\$3,492,709 in further exploration commitments and C\$350,000 in property option payments.

Other contractual obligations include a 2.5% net smelter returns royalty under the terms of an agreement dated February 26, 2004, whereby the Company acquired a 100% interest in the Cinco de Mayo property, and a 4.5% net smelter returns royalty on the interest in the Don Fippi mining concessions located in the Batopilas, and a 2.5% net smelter returns royalty under the terms an agreement dated March 30, 2010, whereby the Company entered into an option agreement to earn a 100% interest in the Mojina Property.

The Company makes cash deposits to Minera Juanicipio from time to time as cash called by operator Fresnillo. The scale and scope of the Juanicipio project could require development capital in the years ahead exceeding the Company's on hand cash resources. It is unlikely that the Company will generate sufficient operating cash flow to meet these ongoing obligations in the foreseeable future. Accordingly the Company may need to raise additional capital by issuance of equity in the future.

Other Items

The Company is unaware of any undisclosed liabilities or legal actions against the Company and the Company has no legal actions or cause against any third party at this time.

The Company is unaware of any condition of default under any debt, regulatory, exchange related or other contractual obligation.

Management's Discussion & Analysis For the three months ended March 31, 2012

ADDITIONAL DISCLOSURE

Trend Information

Other than the Company's obligations under its property option agreements and the Minera Juanicipio joint venture (see "Contractual Obligations" above), there are no demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, the Company's liquidity either increasing or decreasing at present or in the foreseeable future. The nature of the Company's business is demanding of capital for property acquisition costs, exploration commitments and holding costs. The Company's liquidity is affected by the results of its own acquisition, exploration and development activities. The acquisition or discovery of an economic mineral deposit on one of its mineral properties may have a favourable effect on the Company's liquidity, and conversely, the failure to acquire or find one may have a negative effect. The Company will require sufficient capital in the future to meet its acquisition payments and other obligations under property option agreements for those properties it considers worthy to incur continued holding and exploration costs upon (see "Liquidity and Capital Resources" above).

RISKS AND UNCERTAINTIES

The Company's securities should be considered a highly speculative investment and investors should carefully consider all of the information disclosed in the Company's Canadian and U.S. regulatory filings prior to making an investment in the Company, including the risk factors discussed under the heading "Risk Factors" in the Company's most recent Annual Information Form ("AIF") dated March 30, 2012 available on SEDAR at www.sedar.com and www.sec.gov.

The volatile global economic environment has created market uncertainty and volatility since mid-year 2008. The Company remains financially strong and will monitor the risks and opportunities of the current environment carefully. These macro-economic events have in the past, and may again, negatively affect the mining and minerals sectors in general. The Company will consider its business plans and options carefully going forward.

In the normal course of business, the Company enters into transactions for the purchase of supplies and services denominated in Canadian dollars, US dollars or Mexican Pesos. The Company also has cash and certain liabilities denominated in Canadian dollars and Mexican Pesos. As a result, the Company is subject to foreign exchange risk from fluctuations in foreign exchange rates (see Note 10(c) in the unaudited condensed interim consolidated financial statements of the Company as at March 31, 2012).

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transactions

The Company is party to a Field Services Agreement, whereby it has contracted exploration services in Mexico with MINERA CASCABEL S.A. de C.V. ("Cascabel") and IMDEX Inc. ("IMDEX"). Since January 2006, these companies have had a common director with the Company. During the quarter ended March 31, 2012, the Company accrued or paid Cascabel and IMDEX consulting, administration and travel fees totaling \$80,175 (March 31, 2011: \$104,208) and exploration costs totaling \$503,246 (March 31, 2011: \$586,964) under the Field Services Agreement. Included in trade and other payables at March 31, 2012 is \$414,694 related to these services (March 31, 2011: \$497,189).

The Company is obligated to a 2.5% net smelter returns royalty to Cascabel under the terms of an option agreement dated February 26, 2004, whereby the Company acquired a 100% interest in the Cinco de Mayo property from Cascabel.

These transactions were incurred in the normal course of business, are measured at the exchange amount which was the consideration established and agreed to by the noted parties, and represents a fair market value for services

MAG SILVER CORP.

Management's Discussion & Analysis For the three months ended March 31, 2012

rendered. Any amounts due to related parties arising from the above transactions are unsecured, non-interest bearing and are due upon receipt of invoices.

The immediate parent and ultimate controlling party of the consolidated group is MAG Silver Corp. (incorporated in British Columbia, Canada).

The details of the Company's subsidiaries and ownership interests are as follows:

Significant subsidiaries of the Company are as follows:

Name	Country of Incorporation	Principal Activity	MAG' effective interest	
			2011 (%)	2010 (%)
Minera Los Lagartos, S.A. de C.V.	Mexico	Exploration	100%	100%
Minera Pozo Seco S.A. de C.V. ⁽¹⁾	Mexico	Exploration	100%	100%
Minera Sierra Vieja S.A. de C.V. ⁽¹⁾	Mexico	Exploration	100%	100%

⁽¹⁾ Incorporated in September 2010.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Minera Juanicipio, S.A. de C.V. ("Minera Juanicipio"), created for the purpose of holding and operating the Juanicipio Property, is held 56% by Fresnillo and 44% by the Company. Minera Juanicipio is currently governed by a shareholders agreement. All costs relating to the project and Minera Juanicipio are required to be shared by the Company and Fresnillo pro-rata based on their ownership interests in Minera Juanicipio.

Compensation of Key Management Personnel including Directors

During the period, compensation of key management personnel was as follows:

	Three months ended March 31,	
	2012	2011
Short term employee benefits	\$ 204,320	\$ 188,868
Share based payments	343,384	460,404
Other long term employee benefits	-	-
Termination and post employment benefits	-	-
	<u>\$ 547,704</u>	<u>\$ 649,272</u>

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and consists of its Directors, the Chief Executive Officer, the Chief Financial Officer and the Vice President of Operations.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), requires Management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Management has identified (i) mineral property acquisition and exploration deferred costs (ii) provision for reclamation and closure, (iii) deferred income tax provision and (iv) share based payments as the main estimates for the following discussion. Please refer to Note 2 of the Company's unaudited condensed interim consolidated financial statements of the Company as at March 31, 2012 for a description of all of the significant accounting policies.

Management's Discussion & Analysis For the three months ended March 31, 2012

Under IFRS, the Company defers all costs relating to the acquisition and exploration of its mineral properties ("exploration and evaluation" assets). Any revenues received from such properties are credited against the costs of the property. When commercial production commences on any of the Company's properties, any previously capitalized costs would be charged to operations using a unit-of-production method. The Company reviews when events or changes in circumstances indicate the carrying values of its properties to assess their recoverability and when the carrying value of a property exceeds the estimated net recoverable amount, provision is made for impairment in value. IFRS also allows the reversal of impairments if conditions that gave rise to those impairments no longer exist.

The existence of uncertainties during the exploration stage and the lack of definitive empirical evidence with respect to the feasibility of successful commercial development of any exploration property do create measurement uncertainty concerning the estimate of the amount of impairment to the value of any mineral property. The Company relies on its own or independent estimates of further geological prospects of a particular property and also considers the likely proceeds from a sale or assignment of the rights before determining whether or not impairment in value has occurred.

Reclamation and closure costs have been estimated based on the Company's interpretation of current regulatory requirements, however changes in regulatory requirements and new information may result in revisions to estimates. The Company recognizes the fair value of liabilities for reclamation and closure costs in the period in which they are incurred. A corresponding increase to the carrying amount of the related assets is generally recorded and depreciated over the life of the asset.

The deferred income tax provision is based on the liability method. Deferred taxes arise from the recognition of the tax consequences of temporary differences by applying enacted or substantively enacted tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of certain assets and liabilities. The Company records only those deferred tax assets that it believes will be probable, that sufficient future taxable profit will be available to recover those assets.

Under IFRS 2 - *Share-based Payments*, stock options are accounted for by the fair value method of accounting. Under this method, the Company is required to recognize a charge to the statement of loss based on an option-pricing model based on certain assumptions including dividends to be paid, historical volatility of the Company's share price, an annual risk free interest rate, forfeiture rates, and expected lives of the options.

CHANGES IN ACCOUNTING POLICIES

The condensed interim consolidated financial statements for the three months ended March 31, 2012 are prepared under International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, in accordance with IFRS as issued by the IASB. They do not include all of the information required for full annual IFRS financial statements and therefore should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011.

The accounting policies set out in the condensed interim consolidated financial statements for the three months ended March 31, 2012 have been applied consistently to all periods presented herein, and with the exception of the change in presentation currency effective January 1, 2012 (below), have not changed from the Company's first interim IFRS condensed consolidated financial statements for the quarter ended March 31, 2011 and the Company's accounting policies as disclosed in Note 2 to the audited consolidated financial statements for the year ended December 31, 2011. The accounting policies have been applied consistently by the Company and its subsidiaries.

Functional currency and change in presentation currency

The functional currency of parent company, MAG, is the Canadian dollar ("C\$") and the functional currency of its Mexican subsidiaries and investment in associate is the United States dollar ("US\$"). Each entity in the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Management's Discussion & Analysis For the three months ended March 31, 2012

Effective January 1, 2012, the Company changed its presentation currency from the C\$ to the US\$. The change in presentation currency is to better reflect the Company's business activities and to improve investors' ability to compare the Company's financial results with other publicly traded businesses in the mining industry. In making this change to the US\$ presentation currency, the Company followed the guidance in IAS 21 *The Effects of Changes in Foreign Exchange Rates* and have applied the change retrospectively as if the new presentation currency had always been the Company's presentation currency. In accordance with IAS 21, the financial statements for all years and periods presented have been translated to the new presentation currency as follows:

- All assets and liabilities have been translated from their functional currency into the new presentation currency using the closing current exchange rate at the date of each balance sheet;
- Income and expenses for each statement of comprehensive loss presented have been retranslated at average exchange rates prevailing during each reporting period;
- Equity balances have been retrospectively translated at historical rates prevailing during the period incurred; and
- All resulting exchange differences have been recognized in other comprehensive income and accumulated as a separate component of equity (cumulative translation adjustment).

RECENT ACCOUNTING PRONOUNCEMENTS

The Company has reviewed new accounting pronouncements that have been issued but are not yet effective. These include:

IAS 1, *Presentation of Financial Statements*, retains current IAS 1 presentation standards, but requires disclosure of Other Comprehensive Income (Loss) items distinguishing between those that are recycled to profit and loss and those that are not recycled. Retrospective application is required, and the standard is effective for annual periods beginning on or after July 1, 2012, with early application permitted.

The Company will be required to adopt **IFRS 9 *Financial Instruments***, which replaces the current standard, IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard replaces the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value, and is effective for annual periods beginning on or after January 1, 2015, with early application permitted.

IFRS 10 *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities* and is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 11 *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 12 *Disclosure of Involvement with Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

Management's Discussion & Analysis For the three months ended March 31, 2012

IFRS 13 Fair Value Measurement defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 *Share-based Payment*; leasing transactions within the scope of IAS 17 *Leases*; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IAS 27 Consolidated and Separate Financial Statements, as amended in May 2011, provides guidance on the accounting and disclosure requirements for subsidiaries, jointly controlled entities, and associates in separate, or unconsolidated, financial statements. It will have no impact on consolidated financial statements and is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IAS 28 Investments in Associates as amended in May 2011, provides detailed guidance on the application of the equity method to associates, subsidiaries and joint ventures (previously excluded from this standard), and is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 10, 11, and 12 and IAS 27 and 28 must be adopted concurrently. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that it is required to file or submit under applicable securities laws is recorded, processed, summarized and reported in the manner specified by such laws. The Chief Executive Officer and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's disclosure controls and procedures through inquiry, review, and testing, as well as by drawing upon their own relevant experience. The Company retained an independent third party specialist in each of the past three years to assist in the assessment of its disclosure controls and procedures. The Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as at March 31, 2012. There were no material changes in the design and operation of disclosure controls and procedures during the first quarter of 2012.

Internal Control Over Financial Reporting

The Company also maintains a system of internal controls over financial reporting, as defined by National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* in order to provide reasonable assurance that assets are safeguarded and financial information is accurate and reliable and in accordance with International Financial Reporting Standards. The Company retains an independent third party specialist annually to assist in the assessment of its internal control procedures. The Board of Directors approves the financial statements and ensures that management discharges its financial responsibilities. The Board's review is accomplished principally through the audit committee, which is composed of independent non-executive directors. The audit committee meets periodically with management and auditors to review financial reporting and control matters. The Board of Directors has also appointed a compensation committee composed of non-executive directors whose recommendations are followed with regard to executive compensation. From time to time the board may also form special sub-committees, which must investigate and report to the Board on specific topics.

The Chief Executive Officer and Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting and have concluded that the Company's internal control over financial reporting is effective. There have been no changes in internal controls over financial reporting during the period ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



MAG SILVER CORP.

*Unaudited Condensed Interim Consolidated Financial
Statements (expressed in US\$)*

For the three months ended March 31, 2012

Dated: May 14, 2012

A copy of this report will be provided to any shareholder who requests it.

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MAG SILVER CORP.**Condensed Consolidated Statements of Financial Position** *(Unaudited)*

(expressed in US\$ dollars unless otherwise stated (Note 2 (k)))

March 31, 2012 December 31, 2011

ASSETS**CURRENT**

Cash	\$ 21,776,226	\$ 26,217,409
Accounts receivable (Note 3)	1,080,759	805,106
Marketable securities (Note 4)	660,084	496,365
Prepaid expenses	315,565	106,755
TOTAL CURRENT ASSETS	23,832,634	27,625,635
EQUIPMENT AND LEASEHOLD IMPROVEMENTS (Note 5)	134,522	140,195
INVESTMENT IN ASSOCIATE (Note 6)	16,282,692	14,910,985
EXPLORATION AND EVALUATION ASSETS (Note 7)	64,553,818	60,952,340
TOTAL ASSETS	\$ 104,803,666	\$ 103,629,155

LIABILITIES**CURRENT**

Trade and other payables	\$ 3,588,574	\$ 1,845,968
COMMITMENTS (Notes 7 and 14)		
DEFERRED INCOME TAXES (Note 15)	-	840,052
TOTAL LIABILITIES	3,588,574	2,686,020

SHAREHOLDERS' EQUITY

Share capital (Note 8)

Authorized - unlimited common shares, without par value		
Issued and outstanding common shares at March 31, 2012 - 55,667,139 (Dec.31, 2011 - 55,667,139)	139,021,383	139,021,383
Share option reserve	13,625,968	13,250,112
Accumulated other comprehensive income	3,579,716	2,929,244
Deficit	(55,011,975)	(54,257,604)
TOTAL SHAREHOLDERS' EQUITY	101,215,092	100,943,135
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 104,803,666	\$ 103,629,155

See accompanying notes to the condensed interim consolidated financial statements.

MAG SILVER CORP.**Condensed Interim Consolidated Statements of Comprehensive Loss (Unaudited)**

(expressed in US\$ dollars unless otherwise stated (Note 2(k)))

	For the three month period ended March 31, 2012	For the three month period ended March 31, 2011
EXPENSES		
Accounting and audit	\$ 103,530	\$ 145,726
Amortization	10,941	13,926
Filing and transfer agent fees	125,002	139,373
Foreign exchange gain	(53,582)	(48,353)
General office and property investigation	178,909	180,035
Legal	244,144	252,821
Management and consulting fees	390,398	378,291
Shareholder relations	209,691	57,733
Share based payment expense (Note 8)	375,856	501,005
Travel	80,714	60,147
	<u>1,665,603</u>	<u>1,680,704</u>
INTEREST INCOME	71,180	107,370
GAIN ON WARRANT MARK-TO-MARKET (Note 4)	-	121,752
LOSS FOR THE PERIOD BEFORE INCOME TAXES	\$ (1,594,423)	\$ (1,451,582)
DEFERRED INCOME TAX RECOVERY (Note 15)	840,052	-
LOSS FOR THE PERIOD	<u>\$ (754,371)</u>	<u>\$ (1,451,582)</u>
OTHER COMPREHENSIVE INCOME		
CURRENCY TRANSLATION ADJUSTMENT	486,753	985,785
UNREALIZED GAIN ON MARKETABLE SECURITIES, NET OF TAX (Note 4)	163,719	245,622
	<u>650,472</u>	<u>1,231,407</u>
TOTAL COMPREHENSIVE LOSS	<u>\$ (103,899)</u>	<u>\$ (220,175)</u>
BASIC AND DILUTED LOSS PER SHARE	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	<u>55,667,139</u>	<u>55,272,754</u>

See accompanying notes to the condensed interim consolidated financial statements.

MAG SILVER CORP.
Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

(expressed in US\$ unless otherwise stated - Note 2(k))

	Common shares without par value		Share Option Reserve	Currency translation adjustment	Unrealized gain (loss) on marketable securities	Accumulated other comprehensive income (loss) ("AOCL")	Deficit	Total shareholders' equity
	Shares	Amount						
Balance, January 1, 2011	55,161,614	\$ 136,022,148	\$ 11,301,061	\$ 3,687,605	\$ 366,443	\$ 4,054,048	\$ (46,006,861)	\$ 105,370,396
Stock options exercised (Note 8b)	505,525	2,999,235	(1,021,061)	-	-	-	-	1,978,174
Share based payment expense (Note 8b)	-	-	2,970,112	-	-	-	-	2,970,112
Currency translation adjustment	-	-	-	(643,233)	-	(643,233)	-	(643,233)
Unrealized loss on marketable securities (Note 4)	-	-	-	-	(481,571)	(481,571)	-	(481,571)
Net loss	-	-	-	-	-	-	(8,250,743)	(8,250,743)
Total Comprehensive Loss								(9,375,547)
Balance, December 31, 2011	55,667,139	\$ 139,021,383	\$ 13,250,112	\$ 3,044,372	\$ (115,128)	\$ 2,929,244	\$ (54,257,604)	\$ 100,943,135
Share based payment expense (Note 8b)	-	-	375,856	-	-	-	-	375,856
Currency translation adjustment	-	-	-	486,753	-	486,753	-	486,753
Unrealized gain on marketable securities (Note 4)	-	-	-	-	163,719	163,719	-	163,719
Net loss	-	-	-	-	-	-	(754,371)	(754,371)
Total Comprehensive Loss								(103,899)
Balance, March 31, 2012	55,667,139	\$ 139,021,383	\$ 13,625,968	\$ 3,531,125	\$ 48,591	\$ 3,579,716	\$ (55,011,975)	\$ 101,215,092
<i>Three Month Comparative:</i>								
Balance, January 1, 2011	55,161,614	\$ 136,022,148	\$ 11,301,061	\$ 3,687,605	\$ 366,443	\$ 4,054,048	\$ (46,006,861)	\$ 105,370,396
Stock options exercised (Note 8b)	184,273	927,606	(351,101)	-	-	-	-	576,505
Share based payment expense (Note 8b)	-	-	501,005	-	-	-	-	501,005
Currency translation adjustment	-	-	-	985,785	-	985,785	-	985,785
Unrealized gain on marketable securities (Note 4)	-	-	-	-	245,622	245,622	-	245,622
Net loss	-	-	-	-	-	-	(1,451,582)	(1,451,582)
Total Comprehensive Loss								(220,175)
Balance, March 31, 2011	55,345,887	\$ 136,949,754	\$ 11,450,965	\$ 4,673,390	\$ 612,065	\$ 5,285,455	\$ (47,458,443)	\$ 106,227,731

See accompanying notes to the condensed interim consolidated financial statements.

MAG SILVER CORP.**Condensed Interim Consolidated Statements of Cash Flows** *(Unaudited)*

(expressed in US dollars unless otherwise stated (Note 2(k)))

	For the three month Period ended March 31, 2012	For the three month Period ended March 31, 2011
OPERATING ACTIVITIES		
Loss for the period	\$ (754,371)	\$ (1,451,582)
Items not involving cash:		
Amortization (Note 5)	10,941	13,926
Gain on warrant mark-to-market (Note 4)	-	(121,752)
Deferred income tax recovery (Note 15)	(840,052)	-
Share based payment expense (Note 8)	375,856	501,005
Changes in operating assets and liabilities		
Accounts receivable	(275,653)	(184,456)
Prepaid expenses	(208,810)	(338,987)
Trade and other payables	54,308	(1,171,233)
Net cash provided by (used in) operating activities	(1,637,781)	(2,753,079)
INVESTING ACTIVITIES		
Investment in associate (Note 6)	(1,127,156)	(160,775)
Exploration and evaluation expenditures (Note 7)	(2,145,769)	(2,066,449)
Purchase of equipment and leasehold improvements (Note 5)	(2,569)	(3,370)
Net cash used in investing activities	(3,275,494)	(2,230,594)
FINANCING ACTIVITIES		
Issuance of common shares upon exercise of stock options (Note 8)	-	576,503
Net cash from financing activities	-	576,503
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	472,092	936,087
DECREASE IN CASH	(4,441,183)	(3,471,083)
CASH, BEGINNING OF YEAR	26,217,409	40,040,071
CASH, END OF PERIOD	\$ 21,776,226	\$ 36,568,988

See accompanying notes to the condensed interim consolidated financial statements.

MAG SILVER CORP.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2012 (expressed in US dollars unless otherwise stated)

1. NATURE OF OPERATIONS

MAG Silver Corp. (the “Company” or “MAG”) was incorporated on April 21, 1999 under the Company Act of the Province of British Columbia and its shares were listed on the TSX Venture Exchange on April 21, 2000 and subsequently moved to the TSX on October 5, 2007.

The Company is an exploration and predevelopment company working on mineral properties it has staked or acquired by way of option agreement, principally in Mexico. The Company has not yet determined whether these mineral properties contain any economically recoverable ore reserves. The Company defers all acquisition, exploration and development costs related to the properties on which it is conducting exploration. The recoverability of these amounts is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of the interests, and future profitable production, or alternatively, upon the Company’s ability to dispose of its interests on a profitable basis.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

Address of registered offices of the Company:

1600 – 925 West Georgia Street
Vancouver, British Columbia,
Canada V6C 3L2

Head office and principal place of business:

770 – 800 West Pender Street
Vancouver, British Columbia,
Canada V6C 2V6

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These condensed interim consolidated financial statements are prepared under International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*, in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). They do not include all of the information required for full annual IFRS financial statements and therefore should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011.

The accounting policies set out below have been applied consistently to all periods presented herein, and with the exception of the change in presentation currency effective January 1, 2012 (*Note 2 (k)* below), have not changed from the Company’s first interim IFRS condensed consolidated financial statements for the quarter ended March 31, 2011 and the Company’s accounting policies as disclosed in Note 2 to the audited consolidated financial statements for the year ended December 31, 2011. The accounting policies have been applied consistently by the Company and its subsidiaries.

MAG SILVER CORP.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2012 (expressed in US dollars unless otherwise stated)

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments, which are stated at their fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(a) *Basis of consolidation*

These consolidated financial statements include the accounts of the Company and the entities controlled by the Company (its subsidiaries, including special purpose entities). Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from the entity's activities. Subsidiaries are included in the consolidated financial results of the Company from the effective date that control is obtained up to the effective date of disposal or loss of control. The principal subsidiaries as at March 31, 2012 are Minera Los Lagartos, S.A. de C.V., Minera Pozo Seco S.A. de C.V., and Minera Sierra Vieja S.A. de C.V. All intercompany balances, transactions, revenues and expenses have been eliminated upon consolidation.

These consolidated financial statements also include the Company's 44% interest in the Juanicipio Joint Venture (Note 6), a significant investment in an associate (Note 2(b)) accounted for using the equity method.

A special purpose entity ("SPE"), as defined by SIC 12 – *Consolidation – Special Purpose Entities* ("SIC 12"), is consolidated by the Company when the Company controls the SPE. The Company has determined that none of the entities in which it has interests meet the definition of an SPE.

Where necessary, adjustments have been made to the financial statements of the Company's subsidiaries and associates prior to consolidation, to conform the significant accounting policies used in their preparation to those used by the Company.

(b) *Investments in Associates*

The Company conducts a portion of its business through equity interests in associates. An associate is an entity over which the Company has significant influence, and is neither a subsidiary nor a joint venture. The Company has significant influence when it has the power to participate in the financial and operating policy decisions of the associate but does not have control or joint control over those policies.

The Company accounts for its investments in associates using the equity method. Under the equity method, the Company's investment in an associate is initially recognized at cost and subsequently increased or decreased to recognize the Company's share of earnings and losses of the associate and for impairment losses after the initial recognition date. The Company's share of earnings and losses of associates are recognized in profit or loss during the period. Distributions received from an associate are accounted for as a reduction in the carrying amount of the Company's investment.

At the end of each reporting period, the Company assesses whether there is any evidence that an investment in associate is impaired. This assessment is generally made with reference to the timing of exploration work, work programs proposed, exploration results achieved, and an assessment of the likely results to be achieved from performance of further

MAG SILVER CORP.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2012 (expressed in US dollars unless otherwise stated)

exploration by the associate. When there is evidence that an investment in associate is impaired, the carrying amount of such investment is compared to its recoverable amount. If the recoverable amount of an investment in associate is less than its carrying amount, the carrying amount is reduced to its recoverable amount and an impairment loss, being the excess of carrying amount over the recoverable amount, is recognized in the period of impairment. When an impairment loss reverses in a subsequent period, the carrying amount of the investment in associate is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized in net earnings in the period the reversal occurs.

(c) *Significant Estimates*

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Significant estimates used in preparation of these financial statements include estimates of the net realizable value and any impairment of exploration and evaluation assets and of investment in associates, recoveries of receivable balances, provisions including closure and reclamation, share based payment expense, and income tax provisions. Actual results may differ from those estimated.

(d) *Critical judgments*

The Company reviews and assesses the carrying amount of exploration and evaluation assets and of its investment in associates for impairment when facts or circumstances suggest that the carrying amount is not recoverable. Assessing the recoverability of these amounts requires considerable professional technical judgement, and is made with reference to the timing of exploration work, work programs proposed, exploration results achieved by the Company and by others in the related area of interest, and an assessment of the likely results to be achieved from performance of further exploration (see notes 2 (b) and 2 (g)).

The Company has performed analysis of the functional currency for each subsidiary, and noted the majority of operating expenditures were either denominated in the United States dollar (“US\$”) or determined by the US\$. Consequently, the Company concludes that the US\$, with the exception of the parent entity which has a Canadian dollar (“C\$”) functional currency, is the currency that mainly influences the cost of providing goods and services in each of the Mexican subsidiaries of the Company, and in its Mexican Associate. The Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.

(e) *Financial instruments*

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. The Company classifies financial instruments as either held-to-maturity, available-for-sale, fair value through profit or loss (“FVTPL”), loans and receivables, or other financial liabilities. Financial assets held to maturity, loans and receivables and other financial liabilities, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and

MAG SILVER CORP.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2012 (expressed in US dollars unless otherwise stated)

losses recognized in other comprehensive income (“OCI”). Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in the statement of comprehensive loss.

The Company has designated its cash as FVTPL, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Trade and other payables are classified as other liabilities, which are measured at amortized cost.

Marketable securities that meet the definition of a derivative are classified as FVTPL and are measured at fair value with unrealized gains and losses recognized in the statement of comprehensive loss. All of the Company’s other marketable securities have been designated as available-for-sale, and are reported at fair value. Other comprehensive income includes the gains and losses from available-for-sale securities which are not included in profit or loss until realized, and currency translation adjustments on its net investment in foreign operations.

(f) *Cash*

Due to the low market interest rate on deposits and the need to maintain resources liquid for the Company’s ongoing exploration activities, management has maintained the Company’s cash in high interest savings accounts.

(g) *Exploration and evaluation assets*

The Company is in the exploration stage with respect to its activities and accordingly follows the practice of capitalizing all costs relating to the acquisition, exploration and evaluation of its mining rights and crediting all revenues received against the cost of the related interests. At such time as commercial production commences, these costs will be depleted on a units-of-production method based on proven and probable reserves. If a mineable ore body is discovered, exploration and evaluation costs are reclassified to mining properties. If no mineable ore body is discovered, such costs are expensed in the period in which it is determined the property has no future economic value.

Exploration and evaluation expenditures include acquisition costs of rights to explore; topographical, geological, geochemical and geophysical studies; exploratory drilling; trenching and sampling; and activities involved in evaluating the technical feasibility and commercial viability of extracting mineral resources. This includes the costs incurred in determining the most appropriate mining/processing methods and developing feasibility studies.

Management reviews the carrying amount of exploration and evaluation assets for impairment when facts or circumstances suggest that the carrying amount is not recoverable. This review is generally made with reference to the timing of exploration work, work programs proposed, exploration results achieved by the Company and by others in the related area of interest, and an assessment of the likely results to be achieved from performance of further exploration. When the results of this review indicate that indicators of impairment exist, the Company estimates the recoverable amount of the deferred exploration costs and related mining rights by reference to the potential for success of further exploration activity and/or the likely proceeds to be received from sale or assignment of the rights. When the carrying amounts of exploration and evaluation assets

MAG SILVER CORP.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2012 (expressed in US dollars unless otherwise stated)

are estimated to exceed their recoverable amounts, an impairment loss is recorded in the statement of comprehensive loss. The cash-generating unit for assessing impairment is a geographic region and shall be no larger than the operating segment. If conditions that gave rise to the impairment no longer exist, a reversal of impairment may be recognized in a subsequent period, with the carrying amount of the exploration and evaluation asset increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized in profit or loss in the period the reversal occurs.

(h) *Equipment and leasehold improvements*

Equipment is recorded at cost less accumulated amortization and impairment losses if any, and is amortized at the following annual rates:

Computer equipment	30% declining balance
Field equipment	30% declining balance
Leasehold improvements	straight line over lease term

When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment, and depreciated over their respective useful lives.

(i) *Income taxes*

Deferred income taxes relate to the expected future tax consequences of unused tax losses and unused tax credits and differences between the carrying amount of statement of financial position items and their corresponding tax values. Deferred tax assets, if any, are recognized only to the extent that, in the opinion of management, it is probable that sufficient future taxable profit will be available to recover the asset. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of substantive enactment.

(j) *Provisions*

Provisions are liabilities that are uncertain in timing or amount. The Company records a provision when and only when:

- (i) The Company has a present obligation (legal or constructive) as a result of a past event;
- (ii) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (iii) A reliable estimate can be made of the amount of the obligation.

Constructive obligations are obligations that derive from the Company's actions where:

- (i) By an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and

MAG SILVER CORP.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2012 (expressed in US dollars unless otherwise stated)

(ii) As a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Provisions are reviewed at the end of each reporting period and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Provisions are reduced by actual expenditures for which the provision was originally recognized. Where discounting has been used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase (accretion expense) is included in profit or loss for the period.

There were no provisions as at March 31, 2012 or December 31, 2011.

Closure and reclamation

The Company records a provision for the present value of the estimated closure obligations, including reclamation costs, when the obligation (legal or constructive) is incurred, with a corresponding increase in the carrying value of the related assets. The carrying value is amortized over the life of the mining asset on a units-of-production basis commencing with initial commercialization of the asset. The liability is accreted to the actual liability on settlement through charges each period to profit or loss.

The provision for closure and reclamation is reviewed at the end of each reporting period for changes in estimates and circumstances. There was no provision for closure and reclamation as at March 31, 2012 or December 31, 2011.

(k) *Functional currency and change in presentation currency*

The functional currency of MAG is the Canadian dollar ("C\$") and the functional currency of its Mexican subsidiaries and investment in associate is the United States dollar ("US\$"). Each entity in the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Effective January 1, 2012, the Company changed its presentation currency from the C\$ to the US\$. The change in presentation currency is to better reflect the Company's business activities and to improve investors' ability to compare the Company's financial results with other publicly traded businesses in the mining industry. In making this change to the US\$ presentation currency, the Company followed the guidance in IAS 21 *The Effects of Changes in Foreign Exchange Rates* and have applied the change retrospectively as if the new presentation currency had always been the Company's presentation currency. In accordance with IAS 21, the financial statements for all years and periods presented have been translated to the new US\$ presentation currency as follows:

- All assets and liabilities have been translated from their functional currency into the new US\$ presentation currency using the closing current exchange rate at the date of each balance sheet;
- Income and expenses for each statement of comprehensive loss presented have been retranslated at average exchange rates prevailing during each reporting period;

MAG SILVER CORP.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2012 (expressed in US dollars unless otherwise stated)

- Equity balances have been retrospectively translated at historical rates prevailing during the period incurred; and
- All resulting exchange differences have been recognized in other comprehensive income and accumulated as a separate component of equity (cumulative translation adjustment).

(l) *Foreign currency transactions*

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

(m) *Loss per common share*

Basic loss per share calculations are based on the weighted average number of common shares outstanding.

The Company uses the treasury stock method for the calculation of diluted earnings per share. Diluted earnings per share is computed using the weighted average number of common and common equivalent shares outstanding during the year. Common equivalent shares consist of the incremental common shares upon the assumed exercise of stock options and warrants, but are excluded from the computation if their effect is anti-dilutive.

For the quarter ended March 31, 2012, the Company had 4,108,618 (March 31, 2011 – 3,783,933) common share equivalents consisting of the common shares issuable upon the exercise of outstanding exercisable stock options. These common share equivalents were not included for the purpose of calculating diluted earnings per share as their effect would be anti-dilutive.

(n) *Share based payments*

The fair value of all stock-based compensation and other stock-based payments are estimated as of the date of the grant using the Black-Scholes-Merton option valuation model and are recorded in profit and loss over their vesting periods. Stock options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of awards that will eventually vest are accounted for prospectively.

MAG SILVER CORP.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2012 (expressed in US dollars unless otherwise stated)

(o) *Changes in Accounting Standards*

The Company has reviewed new accounting pronouncements that have been issued but are not yet effective. These include:

IAS 1, *Presentation of Financial Statements*, retains current IAS 1 presentation standards, but requires disclosure of Other Comprehensive Income (Loss) items distinguishing between those that are recycled to profit and loss and those that are not recycled. Retrospective application is required, and the standard is effective for annual periods beginning on or after July 1, 2012, with early application permitted.

The Company will be required to adopt **IFRS 9 *Financial Instruments***, which replaces the current standard, IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard replaces the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value, and is effective for annual periods beginning on or after January 1, 2015, with early application permitted.

IFRS 10 *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities* and is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 11 *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 12 *Disclosure of Involvement with Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 *Share-based Payment*; leasing transactions within the scope of IAS 17 *Leases*; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

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Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2012 (expressed in US dollars unless otherwise stated)

IAS 27 Consolidated and Separate Financial Statements, as amended in May 2011, provides guidance on the accounting and disclosure requirements for subsidiaries, jointly controlled entities, and associates in separate, or unconsolidated, financial statements. It will have no impact on consolidated financial statements and is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IAS 28 Investments in Associates as amended in May 2011, provides detailed guidance on the application of the equity method to associates, subsidiaries and joint ventures (previously excluded from this standard), and is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 10, 11, and 12 and IAS 27 and 28 must be adopted concurrently. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

3. ACCOUNTS RECEIVABLE

	Mar. 31, 2012	Dec. 31, 2011
Harmonized sales tax ("HST") recoverable	\$ 314,382	\$ 186,430
Mexican value added tax ("IVA") recoverable	732,962	582,302
Interest receivable	21,768	24,950
Other	11,647	11,424
	<u>\$ 1,080,759</u>	<u>\$ 805,106</u>

All amounts are current and expected to be recovered within a year.

4. MARKETABLE SECURITIES

At March 31, 2012, the Company holds the following marketable securities:

	March 31, 2012				Dec. 31, 2011
	Number of Shares	Cost	Accumulated Unrealized Gains (losses)	Fair Value	Fair Value
Available-for-sale securities					
Fresnillo PLC	(1) 1,000	\$ 9,915	\$ 16,087	\$ 26,002	\$ 23,153
Canasil Resources Inc. Common Shares	(2) 2,750,000	605,345	28,737	634,082	473,212
		615,260	44,824	660,084	496,365
Fair value through profit or loss					
Canasil Resources Inc. Warrants	(2) 250,000	3,102	(3,102)	-	-
		3,102	(3,102)	-	-
		<u>\$ 618,362</u>	<u>\$ 41,722</u>	<u>\$ 660,084</u>	<u>\$ 496,365</u>

MAG SILVER CORP.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2012 (expressed in US dollars unless otherwise stated)

⁽¹⁾ In 2008, the Company purchased 1,000 shares of Fresnillo plc, a company which holds a 56% interest in Minera Juanicipio, S.A. De C.V. (Note 6).

⁽²⁾ In 2010, the Company acquired, by way of private placement, 1.5 million units of Canasil Resources Inc. ("Canasil") as required under the Esperanza Option agreement (Note 7d), for total consideration of \$139,869. The units were comprised of one common share and one-half of one common share purchase warrant. Each whole warrant entitled the holder to purchase one common share of Canasil at a price of \$C \$0.15 until August 27, 2011. On May 16, 2011, the Company exercised the 750,000 warrants at a deemed cost including cash and the fair value of the warrants, totaling \$261,758.

In 2011, the Company further subscribed to 500,000 units of Canasil, at a price of C\$0.40 per unit for total consideration of \$206,820, fulfilling an obligation under the Esperanza Option agreement (Note 7d). The units were comprised of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of Canasil at a price of C\$0.60 on or prior to May 6, 2012. Subsequent to the quarter ended March 31, 2012, the 250,000 warrants expired unexercised.

During the quarter ended March 31, 2011, the Company recorded an unrealized gain, net of tax, of \$163,719 (March 31, 2011: \$245,622) in other comprehensive income on the above marketable securities designated as available-for-sale instruments.

5. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	Computer equipment	Field equipment	Leasehold improvements	Total
Cost				
Balance as at January 1, 2011	\$ 223,716	\$ 162,893	\$ 7,707	\$ 394,316
Additions	22,623	-	-	22,623
Translation adjustment	(4,919)	(3,581)	(169)	(8,669)
Balance as at December 31, 2011	\$ 241,420	\$ 159,312	\$ 7,538	\$ 408,270
Additions	2,569	-	-	2,569
Translation adjustment	4,714	3,111	147	7,972
Balance as at March 31, 2012	\$ 248,703	\$ 162,423	\$ 7,685	\$ 418,811
Accumulated depreciation				
Balance as at January 1, 2011	\$ 111,539	\$ 99,481	\$ 1,926	\$ 212,946
Additions	40,694	19,070	1,544	61,308
Translation adjustment	(3,446)	(2,653)	(80)	(6,179)
Balance as at December 31, 2011	\$ 148,787	\$ 115,898	\$ 3,390	\$ 268,075
Additions	7,251	3,308	383	10,942
Translation adjustment	2,930	2,274	68	5,272
Balance as at March 31, 2012	\$ 158,968	\$ 121,480	\$ 3,841	\$ 284,289
Carrying amounts				
At January 1, 2011	\$ 112,177	\$ 63,412	\$ 5,781	\$ 181,370
At December 31, 2011	\$ 92,633	\$ 43,414	\$ 4,148	\$ 140,195
At March 31, 2012	\$ 89,735	\$ 40,943	\$ 3,844	\$ 134,522

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6. INVESTMENT IN ASSOCIATE (“MINERA JUANICIPIO S.A. DE C.V.”)

Pursuant to an original option agreement dated July 18, 2002 and subsequent corporate acquisitions the Company initially acquired a 100% interest in the Juanicipio Property. 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 granted Peñoles or any of its subsidiaries an option to earn a 56% interest in the Juanicipio Property in Mexico in consideration for Peñoles conducting \$5,000,000 of exploration on the property over four years and Peñoles purchasing \$1,000,000 of Common Shares of the Company in two tranches for \$500,000 each.

In mid 2007, Peñoles met all of the earn-in requirements of the Agreement. In December 2007, the Company and Peñoles created an operating company named Minera Juanicipio, S.A. de C.V. (“Minera Juanicipio”) for the purpose of holding and operating the Juanicipio Property. In 2008, MAG was notified that Peñoles had transferred its 56% interest of Minera Juanicipio to Fresnillo plc (“Fresnillo”) pursuant to a statutory merger. Minera Juanicipio is held 56% by Fresnillo and 44% by the Company. In December 2007 all mineral rights and surface rights relating to the Juanicipio project held by the Company and Peñoles, respectively, were ceded into Minera Juanicipio. Minera Juanicipio is currently governed by a shareholders agreement. All costs relating to the project and Minera Juanicipio are required to be shared by the Company and Fresnillo pro-rata based on their ownership interests in Minera Juanicipio.

The Company has recorded its investment in Minera Juanicipio using the equity basis of accounting. The cost of the investment includes the carrying value of the deferred exploration and mineral and surface rights costs incurred by the Company on the Juanicipio Property and contributed to Minera Juanicipio plus the required net cash investment to establish and maintain its 44% interest.

The Company’s investment relating to its interest in the Juanicipio property and Minera Juanicipio is detailed as follows:

	Mar. 31, 2012	Dec. 31, 2011
Joint venture oversight expenditures incurred 100% by MAG	523,742	431,767
Cash contributions to Minera Juanicipio ⁽¹⁾	836,000	2,151,600
Total for the current period	1,359,742	2,583,367
Balance, beginning of year (January 1, 2012 and 2011)	14,910,985	12,341,390
	\$ 16,270,727	\$ 14,924,757
Translation adjustment	11,965	(13,772)
Balance, end of period	\$ 16,282,692	\$ 14,910,985

⁽¹⁾ Represents the Company's 44% share of Minera Juanicipio cash contributions for the year

Summary of the unaudited financial information of Minera Juanicipio:

Evaluation and exploration expenditures directly incurred by Minera Juanicipio for the three months ended March 31, 2012 amounted to \$1,632,953 (March 31, 2011: \$864,748).

At March 31, 2012, the assets of Minera Juanicipio consisted of cash and short term investments in the amount of \$261,000, value added taxes recoverable and other receivables in the amount of \$988,000 and mineral, surface rights and exploration expenditures in the amount of \$33 million. Payables to Peñoles and other vendors for exploration work amounted to \$108,000, deferred income

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taxes of \$540,000 and shareholders' equity was \$33.6 million. There are no expenses or income in Minera Juanicipio, as all mineral, surface rights and exploration expenditures are capitalized.

7. EXPLORATION AND EVALUATION ASSETS

At March 31, 2012, the Company has the following exploration and evaluation assets:

	Three months ended March 31, 2012						
	(Batopilas)	Lagartos	Cinco de	Esperanza (d)	Mojina (e)	Other (f)	Total
	Don Fippi (a)	Properties (b)	Mayo (c)				
Exploration and evaluation assets							
Acquisition costs of mineral & surface rights	\$ -	\$ -	\$ -	\$ -	\$ 81,132	\$ -	\$ 81,132
Camp costs	1,758	12,050	56,855	22,291	38,667	22	131,643
Drilling	-	96,509	1,429,465	448,120	107,291	-	2,081,385
Geochemical	-	25,096	150,712	4,594	46,755	-	227,157
Geological	3,321	29,436	223,656	59,996	65,975	2,475	384,859
Geophysical	-	-	-	-	-	-	-
Gov't fees and licenses	11,683	405,917	45,285	12,399	13,900	120,789	609,973
Metallurgical	-	-	13,888	-	-	-	13,888
Site administration	635	1,673	10,001	4,248	8,205	360	25,122
Transport and shipping	1,271	1,175	13,786	2,850	6,699	-	25,781
Travel	-	987	13,266	1,981	3,191	1,113	20,538
	18,668	572,843	1,956,914	556,479	371,815	124,759	3,601,478
Balance January 1, 2012	6,135,507	12,017,484	35,603,077	996,645	1,017,834	5,181,793	60,952,340
Less amounts written off	-	-	-	-	-	-	-
Balance, March 31, 2012	\$ 6,154,175	\$ 12,590,327	\$ 37,559,991	\$ 1,553,124	\$ 1,389,649	\$ 5,306,552	\$ 64,553,818

	Year ended December 31, 2011						
	(Batopilas)	Lagartos	Cinco de	Esperanza	Mojina	Other	Total
	Don Fippi	Properties	Mayo				
Exploration and evaluation assets							
Acquisition costs of mineral & surface rights	\$ -	\$ -	\$ 53,906	\$ 185,968	\$ 83,475	\$ -	\$ 323,349
Camp costs	10,205	61,724	390,188	40,125	46,948	20,010	569,200
Drilling	-	647,251	3,562,696	88,793	230,537	761	4,530,038
Geochemical	-	12,495	669,300	22,043	9,719	3,640	717,197
Geological	18,311	241,651	1,189,495	194,411	160,782	70,265	1,874,915
Geophysical	-	1,753	9,335	-	16,341	51,244	78,673
Gov't fees and licenses	20,672	440,212	98,187	50,081	15,777	214,405	839,334
Metallurgical	-	-	68,742	-	-	-	68,742
Site administration	3,201	11,058	75,545	9,157	7,463	5,699	112,123
Transport and shipping	3,992	9,602	90,983	4,831	8,170	1,805	119,383
Travel	1,146	12,066	62,695	7,296	4,130	12,916	100,249
	57,527	1,437,812	6,271,072	602,705	583,342	380,745	9,333,203
Balance January 1, 2011	6,077,980	10,579,672	29,332,005	393,940	434,493	5,332,562	52,150,652
Less amounts written off	-	-	-	-	-	(531,515)	(531,515)
Balance, December 31, 2011	\$ 6,135,507	\$ 12,017,484	\$ 35,603,077	\$ 996,645	\$ 1,017,835	\$ 5,181,792	\$ 60,952,340

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Included in exploration and evaluation assets at March 31, 2012 are trade and other payables of \$2,680,791 (December 31, 2011: \$1,595,000), a non-cash investing activity.

(a) *Don Fippi (Batopilas) Property*

The Company has a 100% interest in the Don Fippi mining concessions located in the Batopilas, Chihuahua district of Mexico, subject to a royalty of 4.5% of the net smelter returns obtained from the property. To March 31, 2012, the Company has incurred \$6,154,175 on exploration and evaluation costs on the property.

(b) *Lagartos Properties*

The Company has acquired a 100% interest in exploration concessions on mining claims (Lagartos) on the Fresnillo trend to the northwest ("Lagartos NW") and southeast ("Lagartos SE") of the Juancipio property. To March 31, 2012, the Company has incurred \$12,590,327 on exploration and evaluation costs on the Lagartos properties.

(c) *Cinco de Mayo Property*

Under the terms of an agreement dated February 26, 2004, the Company has acquired a 100% interest in the Cinco de Mayo property (the "Cinco de Mayo Property"), subject to a 2.5% net smelter returns royalty. During the year ended December 31, 2008, the Company acquired a 100% interest in certain additional mining concessions internal to the Cinco de Mayo property from two separate vendors. The Company made a one-time payment of \$350,000 for these mining concessions. During the year ended December 31, 2009, the Company acquired a 100% interest in certain additional mining concessions internal or adjacent to the Cinco de Mayo property from three separate vendors. The Company made a one-time payment of \$362,000 for these mining concessions. During the year ended December 31, 2009, the Company purchased surface rights in the Cinco de Mayo area for \$660,000. During the year ended December 31, 2010, the Company entered into two option agreements to earn a 100% interest in five additional mining concessions adjacent to the Cinco de Mayo property. The Company paid \$40,000 upon executing the agreements, and in order to earn its 100% interest on these additional claims, the Company must pay an additional \$166,000 in stages through 2015 (Note 14).

To March 31, 2012, the Company has incurred \$37,559,991 on exploration and evaluation costs on the property.

(d) *Esperanza*

During the year ended December 31, 2010, the Company entered into an option agreement with Canasil Resources Inc. ("Canasil") to earn a 60% interest in certain mineral claims constituting the Esperanza Property, a silver-zinc-lead project covering 17,009 hectares, located 100 km SE of the city of Durango on the border between Durango and Zacatecas States. Pursuant to the agreement, the Company paid \$47,315 upon signing the agreement in 2010, and a further \$102,070 in 2011. To earn its 60% interest in the property, the Company must make additional cash payments of C\$350,000 in stages to September 1, 2013 and incur cumulative exploration expenditures of C\$5,000,000 in stages to September 1, 2014 (Note 14), including committed first year drilling of 1,500 metres and qualifying expenditures of C\$750,000. To March 31, 2012, the Company had incurred \$1,553,124 in exploration and evaluation costs, including \$1,507,291 in qualifying expenditures, and had fulfilled its first year drilling commitment of 1,500 metres.

Under the terms of the agreement, MAG also agreed to subscribe to two placements in Canasil shares, both of which have been completed as at March 31, 2012 (see Note 4).

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(e) *Mojina Property*

On March 30, 2010, the Company entered into an option agreement to earn a 100% interest in the Mojina Property, subject to a 2.5% net smelter returns royalty, half of which can be purchased at any time for \$1,250,000. Under the terms of the agreement, the Company paid \$35,000 upon signing the agreement and an additional \$65,000 in 2010, an additional \$61,181 in 2011, and an additional \$81,132 in January 2012. To earn its 100% interest, the Company is required to make additional scheduled cash payments totalling C\$810,000 through 2015, and incur cumulative qualifying exploration expenditures totalling \$2,500,000 over five years to 2015, including expenditures of \$350,000 by March 31, 2012 (Note 14). To March 31, 2012, the Company had incurred \$1,389,649 in exploration and evaluation costs, including \$1,081,400 in qualifying expenditures under the agreement.

On June 25, 2010, the Company acquired by concession an additional claim adjacent to the optioned claims.

(f) *Other Properties*

Other properties consist of the Lorena claims, the Nuevo Mundo claims, and the Guigui claim options, all in Mexico. To March 31, 2012, the Company had incurred \$5,306,552 in exploration and evaluation costs on these remaining other properties.

There were no exploration and evaluation assets written off in the quarter ended March 31, 2012 (March 31, 2011 – nil). During the year ended December 31, 2011, the Company wrote down exploration and evaluation assets totalling \$531,515 relating to the San Ramone claims. After an evaluation of the property's potential against the required exploration expenditures required to keep the property option in good standing (under the option agreement, a further \$1.5 million in expenditures would have been required by July 2012), results did not warrant further work on the property.

8. SHARE CAPITAL

(a) *Issued and outstanding*

At March 31, 2012, there were 55,667,139 shares outstanding (December 31, 2011 – 55,667,139).

During the quarter ended March 31, 2012, no stock options were exercised (for the quarter ended March 31, 2011, 184,273 stock options were exercised for cash proceeds of \$576,503).

During the year ended December 31, 2011, 505,525 stock options were exercised for cash proceeds of \$1,978,173.

(b) *Stock options*

The Company has entered into Incentive Stock Option Agreements (“Agreements”) with directors, officers, employees and consultants. At the Annual General and Special Meeting of the Shareholders held on September 15, 2011 the Shareholders approved an amendment

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to the Company's Stock Option Plan (the "Plan") to convert it into a rolling stock option plan that sets the number of shares issuable thereunder at a maximum of 8% of the common shares of the Company issued and outstanding at the time of any grant. As at March 31, 2012, 200,000 inducement options are outstanding outside of the Plan, 3,908,618 stock options are outstanding under the Plan, and 544,753 stock options remain available for grant under the Plan.

The following table summarizes the Company's options:

	Period ended March 31 2012	Weighted average exercise price (C\$/option)	Year ended December 31, 2011	Weighted average exercise price (C\$/option)
Balance outstanding, beginning of year	4,123,618	\$ 9.25	3,968,206	\$ 8.42
Options granted ⁽¹⁾	-	-	750,000	10.44
Options forfeited	(15,000)	7.56	(89,063)	12.79
Options exercised ⁽²⁾	-	-	(505,525)	3.84
Balance outstanding, end of period	4,108,618	\$ 9.26	4,123,618	\$ 9.25

⁽¹⁾ During the quarter ended March 31, 2012, no stock options were granted (March 31, 2011 – nil). During the year ended December 31, 2011, the Company granted 750,000 stock options with a weighted average exercise price of C\$10.44 and a fair value of \$2,909,109 or \$3.88 per option as of the grant date. The fair value was determined for the year ended December 31, 2011 using an option pricing model assuming no dividends are to be paid, a weighted average historical volatility of the Company's share price of 58%, an annual risk free interest rate of 1.92% and expected lives of three years.

Stock option grants are approved, in accordance with the terms of the Plan, by the Compensation Committee consisting of three independent members of the Board of Directors. Stock option grants are made without reference to current market conditions of the common shares, and at the time of the stock option grant, the exercise price of each option is set no lower than the market value of the common shares at the date of grant.

During the quarter ended March 31, 2012, the Company recorded share based payment expense of \$375,856 (March 31, 2011: \$501,005) relating to stock options vested to employees and consultants in the period. During the year ended December 31, 2011, the Company recorded share based payment expense of \$2,970,112 relating to stock options vested to employees and consultants in the year.

⁽²⁾ During the quarter ended March 31, 2012, no stock options were exercised. During the quarter ended March 31, 2011, 184,273 stock options were exercised, with a weighted average market share price at the time of exercise of C\$9.72 per share. During the year ended December 31, 2011, 505,525 stock options were exercised, with a weighted average market share price at the time of exercise of C\$10.45 per share.

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The following table summarizes options outstanding and exercisable as at March 31, 2012:

Exercise price (\$/option)	Number outstanding at March 31 2012	⁽²⁾ Number exercisable at March 31 2012	Weighted average remaining contractual life (years)	Weighted average exercise price (\$C)
5.32	176,193	176,193	2.23	
5.36	252,500	252,500	-	
5.54	244,923	244,923	2.06	
6.32	153,266	153,266	2.71	
6.87	50,000	50,000	2.92	
6.95	185,000	185,000	3.40	
7.42	325,000	325,000	2.99	
7.56	20,000	20,000	-	
⁽¹⁾ 8.15	200,000	200,000	3.40	
8.80	200,000	200,000	-	
9.40	35,000	35,000	-	
9.92	589,285	⁽²⁾ 392,856	3.73	
10.01	230,576	230,576	1.25	
10.44	740,000	⁽²⁾ 323,000	4.42	
11.89	15,000	15,000	3.74	
12.91	266,875	266,875	0.87	
14.15	425,000	425,000	0.54	
	4,108,618	3,495,189	2.44	\$ 9.26

⁽¹⁾ Inducement options issued outside the Company's Plan in 2010 as an incentive to attract a senior officer.

⁽²⁾ Unvested options as at March 31, 2012 include:
196,429 options priced at \$9.92, which vest on November 15, 2012; and,
417,000 options priced at \$10.44, which vest half on July 28, 2012, and half on July 28, 2013.

9. CAPITAL RISK MANAGEMENT

The Company's objectives in managing its liquidity and capital are to safeguard the Company's ability to continue as a going concern and to provide financial capacity to meet its strategic objectives. The capital structure of the Company consists of its shareholders' equity comprising of share capital, share option reserve, accumulated other comprehensive income and deficit.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including

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successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. The Company does not pay out dividends.

As at March 31, 2012, the Company does not have any long-term debt and is not subject to any externally imposed capital requirements.

The Company currently has sufficient working capital (\$20.2 million) to maintain all of its properties and currently planned programs for a period extending beyond the current fiscal year. In management's opinion, the Company is able to meet its ongoing current obligations as they become due. However, the Company will likely require additional capital in the future to meet its project related expenditures, as it is unlikely that the Company will generate sufficient operating cash flow to meet all of its future expenditure requirements. Future liquidity will depend upon the Company's ability to arrange additional debt or equity financing, as the Company relies on equity financings to fund its exploration and corporate activities. While the Company has been successful in securing financings in the past, given the Company has incurred losses from inception and does not have any operating cash flow, there can be no assurance that additional capital or financing will be available if needed or that, if available, the terms of such financings will be favourable to the Company.

10. FINANCIAL RISK MANAGEMENT

The Company's operations consist of the acquisition, exploration and development of district scale projects in the Mexican silver belt. The Company examines the various financial risks to which it is exposed and assesses the impact and likelihood of occurrence. These risks may include credit risk, liquidity risk, currency risk, interest rate risk and other price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

(a) Credit risk

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes any cash amounts owed to the Company by those counterparties, less any amounts owed to the counterparty by the Company where a legal right of set-off exists and also includes the fair values of contracts with individual counterparties which are recorded in the financial statements.

(i) Trade credit risk

The Company is in the exploration stage and has not yet commenced commercial production or sales. Therefore, the Company is not exposed to significant trade credit risk and overall the Company's credit risk has not changed significantly from the prior year.

(ii) Cash

In order to manage credit and liquidity risk the Company's policy is to invest only in highly rated investment grade instruments that have maturities of three months or less. Limits are also established based on the type of investment, the counterparty and the credit rating.

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(iii) *Mexican value added tax*

As at March 31, 2012, the Company had a receivable of \$732,962 from the Mexican government for value added tax. The balance is all current and a full recovery is expected by management.

The Company's maximum exposure to credit risk as at March 31, 2012 is the carrying value of its cash and accounts receivable, and the value of its 44% proportionate cash and accounts receivable held in Minera Juanicipio (Note 6), as follows:

	<u>March 31, 2012</u>	<u>Dec. 31, 2011</u>
Cash	\$ 21,776,226	\$ 26,217,409
Accounts receivable	1,080,759	805,106
44% share of Minera Juanicipio cash and receivables	549,819	404,915
	<u>\$ 23,406,804</u>	<u>\$ 27,427,430</u>

(b) *Liquidity risk*

The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements, its exploration and development plans, and its various optional property and other commitments (see Notes 7 and 14). The annual budget is approved by the Board of Directors. The Company ensures that there are sufficient cash balances to meet its short-term business requirements.

The Company's overall liquidity risk has not changed significantly from the prior year.

(c) *Currency risk*

The Company is exposed to the financial risks related to the fluctuation of foreign exchange rates, both in the Mexican Peso relative to the US\$, and in the US\$ relative to the C\$. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign exchange rates. The Company is also exposed to inflation risk in Mexico.

Mexican Peso relative to the US\$

Although the majority of operating expenses in Mexico are both determined and denominated in US\$, an appreciation in the Mexican peso relative to the US\$ will slightly increase the Company's cost of operations in Mexico related to those operating costs denominated and determined in Mexican pesos.

A depreciation in the Mexican peso against the US\$ will result in a loss to the extent that the Company holds net monetary assets in pesos. Specifically, the Company's foreign currency exposure is comprised of peso denominated cash and value added taxes receivable, net of accounts payable and accrued liabilities. The carrying amount of the Company's net peso denominated monetary assets at March 31, 2012 is 7,661,554 Mexican pesos (December 31, 2011 is 17,874,871 pesos). A 10% depreciation in the peso relative to the US\$ would result in a loss as at March 31, 2012 of \$59,628 (December 31, 2011 of

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\$127,872). A 10% appreciation in the peso against the US\$ would result in an equivalent decrease in net loss.

US\$ relative to the C\$ and the Cumulative Translation Adjustment

Each entity in the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency, and then translated to the US\$ presentation currency. The functional currency of MAG, the parent entity, is the C\$ which differs from the US\$ presentation currency. It therefore translates its results and financial position into the US\$ presentation currency in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, whereby assets and liabilities are translated to the reporting currency using the exchange rate at period end, and income, expenses and cash flow items are translated using the rate that approximates the exchange rates at the dates of the transactions (i.e. the average rate for the period), with the resulting exchange differences reported as a cumulative translation adjustment in other comprehensive income.

The sensitivity of the Company's other comprehensive loss for the quarter ended March 31, 2012 due to changes in the C\$ exchange rate in relation to the US\$ is summarized as follows: a 10% appreciation in the Canadian dollar against the US\$ would decrease the comprehensive loss for the period by \$2,208,624 and a 10% depreciation in the Canadian dollar against the US\$ would increase the comprehensive loss for the period by \$2,208,624.

During the quarter ended March 31, 2012, the Company recognized a currency translation adjustment in other comprehensive income of \$470,350 (March 31, 2011 – \$985,785) resulting from the translation to US\$ of the Company's parent entity, which has a C\$ functional currency. This currency translation income in the current quarter is due to a strengthening of the Canadian dollar as measured against the US\$, from an exchange rate of 0.9833 US\$/C\$ at December 31, 2011 to 1.0025 US\$/C\$ at March 31, 2012.

(d) Interest rate risk

The Company's interest revenue earned on cash is exposed to interest rate risk. A decrease in interest rates would result in lower relative interest income and an increase in interest rates would result in higher relative interest income.

11. FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES

The Company's financial instruments include cash, accounts receivable, marketable securities including warrants, and trade and other payables. The carrying values of cash, accounts receivable, interest receivable, and accounts payable and accrued liabilities reported in the consolidated statement of financial position approximate their respective fair values due to the relatively short-term nature of these instruments.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar

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assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

The Company's financial assets or liabilities as measured in accordance with the fair value hierarchy described above are:

<u>Fair Value Hierarchy</u>	<u>March 31, 2012</u>	<u>Dec. 31, 2011</u>
Level 1	⁽¹⁾ \$ 660,084	\$ 496,365
Level 2	⁽²⁾ -	-
Level 3	⁽³⁾ -	-
	<u>\$ 660,084</u>	<u>\$ 496,365</u>

⁽¹⁾ The fair value of available-for-sale marketable securities (Note 4) is determined based on a market approach reflecting the closing price of each particular security as at the statement of financial position date. The closing price is a quoted market price obtained from the exchange that is the principal active market for the particular security, and therefore available-for-sale securities are classified within Level 1 of the fair value hierarchy.

⁽²⁾ The fair value of FVTPL warrants that are not traded in an active market is determined using a Black-Scholes model based on assumptions that are supported by observable current market conditions and as such are classified within Level 2 of the fair value hierarchy (Note 4). The use of possible alternative reasonable assumptions would not significantly affect the Company's results.

The Company's 250,000 FVTPL warrants as at March 31, 2012 have been valued at \$nil, using a pricing model assuming no dividends are to be paid, a weighted average volatility of Canasil's share price of 45%, an annual risk free interest rate of 1.1% and expected life of 0.1 years. Subsequent to the quarter ended March 31, 2012, the warrants expired unexercised.

⁽³⁾ There were no financial instruments fair valued within Level 3 of the fair value hierarchy as at March 31, 2012 or December 31, 2011.

12. SEGMENTED INFORMATION

The Company operates in one segment, being the exploration of mineral properties in Mexico. Substantially all of the Company's long term assets are located in Mexico and the Company's executive and head office is located in Canada.

13. RELATED PARTY TRANSACTIONS

The Company is party to a Field Services Agreement, whereby it has contracted exploration services in Mexico with MINERA CASCABEL S.A. de C.V. ("Cascabel") and IMDEX Inc. ("IMDEX"). Since January 2006, these companies have had a common director with the Company. During the quarter ended March 31, 2012, the Company accrued or paid Cascabel and IMDEX

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consulting, administration and travel fees totaling \$80,175 (March 31, 2011: \$104,208) and exploration costs totaling \$503,246 (March 31, 2011: \$586,964) under the Field Services Agreement. Included in trade and other payables at March 31, 2012 is \$414,694 related to these services (March 31, 2011: \$497,189).

The Company is obligated to a 2.5% net smelter returns royalty to Cascabel under the terms of an option agreement dated February 26, 2004, whereby the Company acquired a 100% interest in the Cinco de Mayo property from Cascabel.

These transactions were incurred in the normal course of business, are measured at the exchange amount which was the consideration established and agreed to by the noted parties, and represents a fair market value for services rendered. Any amounts due to related parties arising from the above transactions are unsecured, non-interest bearing and are due upon receipt of invoices.

The immediate parent and ultimate controlling party of the consolidated group is MAG Silver Corp. (incorporated in British Columbia, Canada).

The details of the Company's subsidiaries and ownership interests are as follows:

Significant subsidiaries of the Company are as follows:

Name	Country of Incorporation	Principal Activity	MAG' effective interest	
			2011 (%)	2010 (%)
Minera Los Lagartos, S.A. de C.V.	Mexico	Exploration	100%	100%
Minera Pozo Seco S.A. de C.V. ⁽¹⁾	Mexico	Exploration	100%	100%
Minera Sierra Vieja S.A. de C.V. ⁽¹⁾	Mexico	Exploration	100%	100%

⁽¹⁾ Incorporated in September 2010.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Minera Juanicipio, S.A. de C.V. ("Minera Juanicipio"), created for the purpose of holding and operating the Juanicipio Property, is held 56% by Fresnillo plc ("Fresnillo") and 44% by the Company. Minera Juanicipio is currently governed by a shareholders agreement. All costs relating to the project and Minera Juanicipio are required to be shared by the Company and Fresnillo pro-rata based on their ownership interests in Minera Juanicipio (see Note 6).

Compensation of Key Management Personnel including Directors

During the period, compensation of key management personnel was as follows:

	Three months ended March 31,	
	2012	2011
Short term employee benefits	\$ 204,320	\$ 188,868
Share based payments	343,384	460,404
Other long term employee benefits	-	-
Termination and post employment benefits	-	-
	<u>\$ 547,704</u>	<u>\$ 649,272</u>

MAG SILVER CORP.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2012 (expressed in US dollars unless otherwise stated)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and consists of its Directors, the Chief Executive Officer, the Chief Financial Officer and the Vice President of Operations.

14. COMMITMENTS

As at March 31, 2012, the Company's minimum lease payments under its office lease agreement, and its contractual obligations for optional mineral property acquisition payments and optional exploration work are as follows:

	<u>Office Lease</u>	<u>Property Option Payments</u> (Note 7)	<u>Exploration Commitments</u> (Note 7)	<u>Total</u>
2012	\$ 118,803	\$ 316,750	\$ 633,500	\$ 1,069,053
2013	162,762	902,150	2,222,901	3,287,813
2014	162,762	110,000	1,220,000	1,492,762
2015	-	-	-	-
	<u>\$ 444,327</u>	<u>\$ 1,328,900</u>	<u>\$ 4,076,401</u>	<u>\$ 5,849,628</u>

As these consolidated financial statements have been prepared using the accrual basis of accounting (except for cash flow information), these commitments are not recorded as liabilities until incurred or until due under the terms of the option agreement.

The Company could be subject to various investigations, claims and legal and tax proceedings covering matters that arise in the ordinary course of business activities. Each of these matters would be subject to various uncertainties and it is possible that some matters may be resolved unfavourably to the Company. Certain conditions may exist as of the date of the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company is not aware of any such claims or investigations, and as such has not recorded any related provisions and does not expect such matters to result in a material impact on the results of operations, cash flows and financial position.

Other contractual obligations include a 2.5% net smelter returns royalty under the terms of an agreement dated February 26, 2004, whereby the Company acquired a 100% interest in the Cinco de Mayo property, and a 4.5% net smelter returns royalty on the interest in the Don Fippi mining concessions located in the Batopilas, and a 2.5% net smelter returns royalty under the terms an agreement dated March 30, 2010, whereby the Company entered into an option agreement to earn a 100% interest in the Mojina Property (Note 7).

The Company makes cash deposits to Minera Juanicipio from time to time as cash called by operator Fresnillo (Note 6). The scale and scope of the Juanicipio project could require development capital in the years ahead exceeding the Company's on hand cash resources. It is unlikely that the Company will generate sufficient operating cash flow to meet these ongoing obligations in the foreseeable future. Accordingly the Company may need to raise additional capital by issuance of equity in the future.

MAG SILVER CORP.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

As at March 31, 2012 (expressed in US dollars unless otherwise stated)

15. INCOME TAXES

The income taxes recognized in profit or loss is as follows:

	For the three month period ended March 31, 2012	For the three month period ended March 31, 2011
Current tax expense	\$ -	\$ -
Deferred tax recovery	840,052	-
Total income tax recovery for the period	\$ 840,052	\$ -

The Company incurred a loss before tax for the quarter ended March 31, 2012 of \$1,594,423 (March 31, 2011: \$1,451,582). As insufficient evidence exists to support current or future realization of the tax benefits associated with this loss, the benefit of certain tax assets have not been recognized in the three months ended March 31, 2012 and 2011.

The \$840,052 deferred tax recovery for the quarter ended March 31, 2012 (March 31, 2011 – Nil) is related to the reversal of a deferred tax liability that was set up at December 31, 2011 in relation to temporary differences between the book and tax base of its Mexican non-monetary assets. The tax base of these non-monetary assets is determined in a different currency (Mexican Peso) than the functional currency (US\$), and changes in the exchange rate can give rise to temporary differences that result in a deferred tax liability in accordance with IAS 12 *Income Taxes*. With the strengthening of the Mexican Peso against the US\$ from 13.98 Pesos/US\$ on December 31, 2011 to 12.85 Pesos/US\$ on March 31, 2012, the previously recognized deferred tax liability was entirely reversed in the period.