MAG SILVER CORP.

(An exploration stage company)

Supplementary Information and
MD&A
For the period ended
June 30, 2007

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

VANCOUVER OFFICE
Suite 328 | 604 630 1399 phone
550 Burrard Street | 866 630 1399 toll free
Vancouver, BC V6C 2B5 | 604 484 4710 fax

TSX.V: MAG
AMEX: MVG
www.magsilver.com
info@magsilver.com

Management Discussion & Analysis
June 30, 2007

1. DESCRIPTION OF BUSINESS OF MAG SILVER CORP.

The Company was originally incorporated under the *Company Act* (British Columbia) on April 21, 1999 under the name "583882 B.C. Ltd.". On June 28, 1999, in anticipation of becoming a capital pool company, the Company changed its name to "Mega Capital Investments Inc.". On April 22, 2003, the Company changed its name to "MAG Silver Corp." to reflect its new business upon the completion of its Qualifying Transaction. The principal business of the Company is the acquisition, exploration and development of mineral properties.

The Company is a "reporting" company in the Provinces of British Columbia, Alberta and Ontario. The Company's Common Shares were listed and posted for trading on the TSX Venture Exchange (TSXV: MGA) on April 19, 2000. Concurrent with the Company's name change to MAG Silver Corp. on April 22, 2003, the trading symbol was changed to "MAG".

The Company received formal approval to list its common shares on the American Stock Exchange (“AMEX”). Effective July 9, 2007 the Company’s shares were listed for trading on the AMEX under the symbol **MVG**. The Company will continue to trade on the TSX Venture Exchange under the symbol **MAG**.

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

Except for historical information contained in this MD&A, the following disclosures 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 listed from time-to-time in the Company’s Annual Information Form. Additional information about The Company and its business activities is available on SEDAR at www.sedar.com.

On April 15, 2003, concurrent with the completion of its Qualifying Transaction, the Company raised gross proceeds of $5,750,000 from the sale of 11,500,000 units at a price of $0.50 per unit.

On July 8, 2005, the Company established an exploration agreement with Industrias Peñoles, S.A. de C.V. (Peñoles) on our Juanicipio Property in Zacatecas State. This agreement (effective date of July 01, 2005) was the culmination of extensive negotiations carried out during the first half of 2005, fuelled by the Company’s 2003 & 2004 exploration program at Juanicipio and Peñoles exploration success at the nearby El Saucito vein discovery.

Peñoles acquired a right to earn a 56% interest in the Juanicipio property upon completion of exploration expenditures of US $5.0 million on or before the end of year four of the agreement. During the quarter ended June 30, 2007 this expenditure requirement was completed by Peñoles. To June 30, 2007 Peñoles had in fact spent approximately US 5.95 million on qualified expenditures for the property, including the completion of 25,758 metres of diamond drilling, and the payment of US

$2.9 million for the purchase of surface rights over portions of the property. At June 30, 2007 the Company has recorded a Joint Venture Commitment of US $418,000 (C$444,500) payable to Peñoles for the Company's 44% share of expenditures in excess of US $5.0 million. Under the terms of the agreement Peñoles agreed to make two $500,000 US investments (completed) in common shares of the Company. On May 2, 2005 the TSX Venture exchange approved the first Peñoles private placement, which consisted of 621,577 common shares at $0.967. On March 2, 2006 the Company closed the private placement subscribed to by Peñoles which consisted of 245,716 common shares of the Company at $2.35. This equates to a cumulative investment of $1,178,498 (US$1,000,000).

To the end of the 2005 year Peñoles had completed 7 diamond drill holes for a total of about 7,562 metres of drilling. In early 2006 the Company announced that a new, high grade silver / gold vein, the Valdecañas Vein, has been intersected in two holes on the Juanicipio property. On May 9, 2006 the Company announced that Peñoles was commencing further exploration drilling on the Juanicipio project in an area 1.8 kilometres west of the new discovery. In August 2006 the company announced that Peñoles had purchased the surface rights to an area covering the projection of the new discovery for US$1.5 million. Subsequent to the land purchase drilling commenced on the "Valdecañas Vein" in October and by year end 2006 Peñoles had drilled another 10,758 metres and completed a total of US $3.36 million in exploration expenditures. To date (2007) Juanicipio drilling has identified the Valdecañas Vein, as a significant high grade silver / gold vein that has been traced over a minimum strike length of 1,300 metres and down dip for at least 450 metres. The average grade of twelve widely spaced holes (out of fifteen) that have intersected the vein is 1,267 grams per tonne (37.7 ounces per ton) silver, 2.76 grams per tonne gold and 8.32% lead and zinc combined. The vein still remains open to the east, to the west and down dip.

In June 2007 Peñoles and the Company announced that they have purchased more land covering the Juanicipio Project. Peñoles paid the surface owners US $1.4 million for the purchase of this additional land and applied this cost to their earn-in requirements under the terms of the Juanicipio Agreement. This new land purchase is located to the west of the Valdecañas Vein Discovery and ties directly to the west of the land purchased for US $1.5 million last year. Combined with last years purchase the joint venture now has uninterrupted coverage of 4.5 kilometres of the strike projection of the Valdecañas Vein from east to west.

During 2005 the Company renegotiated the property agreements at Don Fippi and Guigui. Under the new terms of the property agreements The Company purchased 100% interest in both properties through the issuance of 750,000 common shares per property (1,5000,000 in aggregate). As a result of the purchases the Company has extinguished the exposure to cash payments and work commitments on both properties and reduced the number of shares required to be issued under the previous agreement. Both properties are a significant part of the Company's portfolio of properties.

On December 22, 2005, the Company raised gross proceeds of $6,494,749 from the sale of 6,494,749 units at a price of $1.00 per unit in a brokered, non-brokered financing. Each unit consisted of one common share and one-half of one share purchase warrant, with each whole warrant entitling the holder to purchase one share at a price of $1.35 per share for a period of 18 months until June 21, 2007. The Agents were granted broker warrants to purchase up to 295,190 shares of the Company at a price of $1.35 in partial payment of services rendered in connection with their portion of the financing. The Agents were also paid a commission of $295,190, equal to 7% of the gross proceeds of the Offering, comprising of $210,340 in cash and $84,850 in units of the offering. Each unit consisted of one common share and one half share purchase warrant. Corporate finance fees, legal fees, TSXV filing fees and related expenditures totalled $113,802. The net proceeds to the Company from the financing were $6,170,607.

On February 14, 2007 the Company closed a brokered private placement for 2,550,000 units at $7.25 a unit for gross proceeds of $18,487,500. Each unit is comprised of one common share and one-half of one common share purchase warrant, with each whole warrant exercisable for one common share at a price of $10.00 for a period of 12 months until February 14, 2008. The Company paid 6.0% cash commission to the underwriters on this placement aggregating $1,109,250. Legal costs and syndicate expenses, and TSXV filing fees cost the Company an additional $136,077.

On February 14, 2007 the Company closed a non-brokered private placement for 195,000 units; while a further 15,000 units were closed February 15, 2007 for a total of 210,000 at $7.25 a unit for gross proceeds of $1,522,500. Each unit is comprised of one common share and one-half of one common share purchase warrant, with each whole warrant exercisable for one common share at a price of $10.00 for a period of 12 months until February 14, and 15, 2008. The Company paid a 6.0% finder’s fee on this placement comprised of $91,350 in cash.

Various drill programs over the past four years (2003 through 2006) at Juanicipio, Batopilas Lagartos, Guigui, and Cinco de Mayo have been successful in moving these projects from early conceptual exploration plays to new mineral discoveries deserving of further exploration follow up. This is best exemplified by drilling results in 2005 to 2007 at Juanicipio (by Peñoles) and at Batopilas (by the Company in 2005, 2006 and 2007) and Guigui (2005), Cinco de Mayo (2006) where there were significant new silver vein and silver/base metal discoveries demanding further drilling follow up and exploration focus.

New district scale targets were also identified at Lagartos NW, Lagartos SE, and at Sierra Ramirez. A first pass drill program was completed at Cinco de Mayo property in 2006 for 3,795 metres. Lagartos NW was investigated with a 13 hole, 7,365 metre drill program also in 2006. Airborne Magnetic and electromagnetic surveys were flown at Cinco de Mayo and Guigui for 1,250 line kilometres in late 2006. Surveys were completed in mid 2007 at Sierra Ramirez, Juanicipio, Lagartos SE and Batopilas, for a total of 3,760 line kilometres. Preliminary results have been received with final reports due later in the year. Follow up work will commence shortly thereafter.

The Company has increased land positions in a number of areas (Lagartos NW, Lagartos SE, Cinco de Mayo and Sierra Ramirez). Active exploration programs continue on all of our land holdings with the directive to advance these projects towards drill programs.

2. DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION

a) Results of Operations

At June 30, 2007 the Company had cash of $21,936,720 (2006 – $5,907,541).

After deducting interest earned of $316,557 (2006 - $115,522), the operating loss for the period was ($3,683,589) (2006 – ($2,477,382)). The 2007 second quarter loss includes $2,747,555 as a non-cash charge for Stock compensation expense (2006 - $1,719,706). General and administrative expenses amounted to $4,000,146 (2006 - $2,592,904) during the period. General and administrative expenses in 2007 increased when compared to 2006 due to the Company becoming more active, resulting in generally higher expenses. During the period the Company also wrote off property acquisition costs and deferred exploration costs related to the Adargas property in the amount of $750,277 (Nil for the same period in 2006).

Office and telephone expense of $193,484 was slightly lower than the amount of $207,959 in 2006. Travel and accommodation expenses for the period totaled $129,724 which is higher than $64,965 in 2006. Management and personnel traveled to and from Mexico more times during the period, than in the same period as 2006. Management also attended trade shows. Management and consulting fees and salaries of $422,544 were higher than the $249,785 incurred in 2006 as more management personnel have been hired. Consulting and management fees have been paid to several individuals including non-independent directors and an officer. (See related party transactions).

During the period ended June 30, 2007 legal fees amounted to $129,381 (2006 - $56,618), filing and transfer agent fees totaled $129,381 (2006 - $56,618), shareholder relations totaled $238,907 (2006 - $126,590) while accounting and audit expenses totaled $34,945 (2006 - $104,059). Accounting and audit expenses include amounts incurred in connection with the Company's annual United States Securities and Exchange Commission ("SEC") Registration Form 20F. Legal expenses were lower in 2006 as the Company had fewer property transactions during the year. Shareholder relations expenses increased in 2007 to date as the Company made greater efforts to raise awareness of the Company. Other smaller expense items account for the balance of general and administrative costs for the period. The Company occupies office space and receives administrative services on a contract basis.

Second quarter net loss for the three months ended June 30, 2007 was $2,181,524 (2006 - $1,485,493) compared to $2,252,342 (2006 - $991,889) for the first quarter. If one removed the stock compensation expense, a non-cash item, of $1,017,521 (2006 - $1,092,079) for the second quarter ($1,730,034; 2006 -$627,627 for the first) then the second quarter net loss would be $1,164,003 (2006 - $393,414) which is higher than the net loss of $522,308 (2006 - $364,262) for the first quarter. The main difference between the first and second quarter losses in the current period is the mineral property write-off of $750,277 in the second quarter of 2007.

The following tables set forth selected financial data from the Company's Financial Statements and should be read in conjunction with these financial statements.

	Period ended June 30, 2007	**Year ended Dec. 31, 2006**	**Year Ended Dec. 31, 2005**
Revenues	$316,557	$208,593	$80,432
Net Loss	($4,433,866)	($3,866,567)	($1,810,838)
Net Loss per Share	($0.11)	($0.10)	($0.06)
Total Assets	$40,385,445	$18,930,558	$18,075,406
Long Term Debt	Nil	Nil	Nil
Dividends	Nil	Nil	Nil

Net loss during the period ended June 30, 2007 increased as compared to the previous year mainly as a result of writing-off the Adargas mineral property.

The following table sets forth selected quarterly financial information for each of the last eight (8) quarters.

Quarter Ending	Revenue	Net Loss	Net Loss per share
June 30, 2007	$200,002	$(2,181,524)	$(0.05)
March 31, 2007	$116,555	$(2,252,342)	$(0.06)
December 31, 2006	44,407	(818,389)	(0.02)
September 30, 2006	48,664	(570,796)	(0.015)
June 30, 2006	70,804	(1,485,493)	(0.035)
March 31, 2006	44,718	(991,889)	(0.03)
December 31, 2005	16,409	(483,824)	(0.015)
September 30, 2005	29,780	(320,422)	(0.01)
June 30, 2005	12,042	(256,515)	(0.01)

At the end of 2006, the Company had completed its initial drilling program at the Cinco de Mayo property, results of which were released in February 2007. The Company conducted exploration work in Mexico on its other properties and assessed past results in preparation for its 2007 drill programs. To date the Company has completed 2,907 metres of diamond drilling at the Batopilas (Don Fippi) property during 2007. Work at Batopilas was suspended in June for the rainy season and is expected to gear up once again in the fall. The Company is continuing its drilling program at the Lagartos SE property, just north of the Panuc district and at the time of writing have completed 6,240 metres of diamond drilling during 2007. Results are pending.

The Company has not declared nor paid dividends on its common shares. The Company has no intention of paying dividends on its common shares in the near future, as it anticipates that all available funds will be invested to finance the growth of its business.

b) Trend Information

Other than the obligations under the Company's property option agreements set out in “Tabular Disclosure of Contractual Obligations”, there are no identifiable trends, 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 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. The need to make such payments is a “Trend” as it is unlikely that all such obligations will be eliminated from the Company’s future business activities. The Company intends to utilize cash on hand in order to meet its obligations under property option agreements until at least March 31, 2009. The scale and scope of the Juanicipio Joint Venture could change this timeline as exploration progresses. It is unlikely that the Company will generate sufficient operating cash flow to meet these ongoing obligations in the foreseeable future. Accordingly the Company will likely need to raise additional capital by issuance of equity in the future. At this time the Company has no plan or intention to issue any debt in order to raise capital for future requirements.

At the time of writing there is a noted favourable trend with regard to the market for metal commodities and related companies, however, it is the opinion of the Company that its own liquidity will be most affected by the results of its exploration activities. The 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 find one may have a negative effect.

c) Risk Factors

The following is a brief discussion of those distinctive or special characteristics of the Company's operations and industry that may have a material impact on, or constitute risk factors in respect of, the Company's future financial performance.

The Company, and thus the securities of the Company, should be considered a highly speculative investment and investors should carefully consider all of the information disclosed in this Annual Report prior to making an investment in the Company. In addition to the other information presented in this Annual Report, the following risk factors should be given special consideration when evaluating an investment in the Company's securities.

General

Resource exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits, which, though present, are insufficient in quantity and quality to return a profit from production.

The Company's business is subject to exploration and development risks

All of the Company's properties are in the exploration stage of development and no known reserves have been discovered on such properties. There is no certainty that the expenditures to be made by the Company or its joint venture partners in the exploration of its properties described herein will result in discoveries of precious metals in commercial quantities or that any of the Company's properties will be developed. Most exploration projects do not result in the discovery of precious metals and no assurance can be given that any particular level of recovery of precious metals will in fact be realized or that any identified resource will ever qualify as a commercially mineable (or viable) resource which can be legally and economically exploited. Estimates of reserves, mineral deposits and production costs can also be affected by such factors as environmental permit regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grade of precious metals ultimately discovered may differ from that indicated by drilling results. There can be no assurance that precious metals recovered in small-scale tests will be duplicated in large-scale tests under on-site conditions or in production scale.

Political and economic instability may affect the Company's business

The Company's activities in Canada and Mexico are subject to risks common to operations in the mining industry in general, as well as certain political and economic uncertainties related specifically to operating in Mexico. The Company's operations in general may also be affected in varying degrees by political and economic instability, terrorism, crime, extreme fluctuations in currency exchange rates and inflation.

The Company is subject to the risk of fluctuations in the relative values of the Canadian dollar as compared to the Mexican Peso

The Company may be adversely or favorably affected by foreign currency fluctuations. The Company is primarily funded through equity investments into the Company denominated in Canadian Dollars. Several of the Company's options to acquire properties in Mexico may result in option payments by the Company denominated in Mexican Pesos or in U.S. dollars over the next three years. Exploration and development programs to be conducted by the Company in Mexico will also be funded in Mexican Pesos or in U.S. dollars. Fluctuations in the exchange rate between the Canadian dollar and both the U.S. dollar and Mexican Peso may have an adverse or favorable affect on the Company.

The Company's properties are subject to title risks

The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties, and properties that it has the right to acquire or earn an interest in, are in good standing. However, the Company's properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. These defects could adversely affect the Company's title to such properties or delay or increase the cost of the development of such properties.
The Company's properties may also be subject to aboriginal or other historical rights that may be claimed on Crown properties or other types of tenure with respect to which mineral rights have been conferred. The Company is not aware of any aboriginal land claims having been asserted or any legal actions relating to native issues having been instituted with respect to any of the mineral properties in which the Company has an interest. The Company is aware of the mutual benefits afforded by co-operative relationships with indigenous people in conducting exploration activity and is supportive of measures established to achieve such co-operation.

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

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

Environmental Risk

Environmental legislation on a global basis is evolving in a manner that will ensure stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessment of proposed development and a higher level of responsibility for companies and their officers, directors and employees. There is no assurance that future changes to environmental legislation in Canada or Mexico will not adversely the Company's operations. Environmental hazards may exist on properties in which the Company holds interests which are unknown at present and which have been caused by previous or existing owners or operators.

Furthermore, future compliance with environmental reclamation, closure and other requirements may involve significant costs and other liabilities. In particular, the Company's operations and exploration activities are subject to Canadian and Mexican national and provincial laws and regulations governing protection of the environment. Such laws are continually changing and, in general, are becoming more restrictive.

The mineral exploration industry is extremely competitive

The resource industry is intensely competitive in all of its phases, and the Company competes with many companies possessing greater financial resources and technical facilities than itself. Competition could adversely affect the Company's ability to acquire suitable new producing properties or prospects for exploration in the future. Competition could also affect the Company's ability to raise financing to fund the exploration and development of its properties or to hire qualified personnel.

Metal prices affect the success of the Company's business

The mining industry in general is intensely competitive and there is no assurance that, even if commercial quantities of mineral resources are developed, a profitable market will exist for the sale of such product. Factors beyond the control of the Company may affect the marketability of any minerals discovered. No assurance may be given that metal prices will remain stable. Significant price fluctuations over short periods of time may be generated by numerous factors beyond the control of the Company, including domestic and international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The effect of these factors on the price of minerals and therefore the economic viability of any of the Company's exploration projects cannot accurately be predicted. As the Company is in the exploration stage, the above factors have had no material impact on present operations or income.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

d) Exploration Programs and Expenditures

During the period ended June 30, 2007 the Company incurred $491,459 in property acquisition costs, comprised of $491,459 in cash and $Nil in shares issued, (2006 - $39,897 ($39,897 in cash and $Nil in shares,)) in property acquisition costs. Exploration expenditures in cash for the period amounted to $2,835,060 (2006 - $2,027,865). During the period the Company terminated its option agreement on the Adargas property, and consequently, costs of $750,277 were written-off.

On April 4, 2005 the Company announced the signing of a letter agreement for the establishment of an exploration Joint Venture covering the Company's wholly-owned 7,679 hectare ***Juanicipio*** Property in Zacatecas, Mexico with Peñoles. The formal agreement was signed in early October 2005 with the effective date and anniversary date of July 01, 2005.

The principal features of the agreement are:

(i) Peñoles acquired a right to earn a 56% interest in the Juanicipio property upon completion of exploration expenditures of US $5.0 million on or before the end of year four of the agreement. During the quarter ended June 30, 2007 this expenditure requirement was completed by Peñoles. To June 30, 2007 Peñoles had in fact spent approximately US $5.95 million on qualified expenditures for the property, including the completion of 25,758 metres of diamond drilling, and the payment of US $3.04 million for the purchase of surface rights over portions of the property. At June 30, 2007 the Company has recorded a Joint Venture Commitment of US $418,000 (C$444,500) payable to Peñoles for the Company's 44% share of expenditures in excess of US $5.0 million.

(ii) On signing of the agreement Peñoles subscribed for a required US$500,000 private placement for a total of 621,577 shares of the Company at a price of C$0.967 per share. Later, on March 2, 2006, Peñoles subscribed for a second required US$500,000 private placement for a total of 245,716 the Company shares, at a price of C$2.35 per share.

Peñoles initiated their exploration program in August of 2005 which included geophysical orientation surveys, geological and structural mapping programs and diamond drilling of seven holes for a total of about 7,562 metres of core recovery by December 31, 2005. Results of this program include the significant discovery of a new high grade silver / gold vein, the Valdecañas Vein, in the extreme north east corner of the property.

Assay results from the second hole (discovery hole) in the Valdecañas Vein discovery, Hole 16, returned high-grade silver – gold values over 6.35 metres (20.8 feet) (5.50 metres true thickness = 18 feet) of 1,798 grams per tonne silver (57.8 ounces), 2.91 grams per tonne gold, 3.43% lead and 5.51% zinc. The new vein intersection lays approximately 1,000 metres north of the Juanicipio Vein, the initial vein discovery drilled by The Company in 2003 and recently confirmed by Peñoles drilling.

After the initial release of information in January of 2006 confirming the discovery at Juanicipio, follow up work was curtailed until August 2006. In August Peñoles, on behalf of the joint venture, purchased the surface rights within the Juanicipio Joint Venture centered on the Valdecañas Vein.

In an agreement with the land owners Peñoles paid MP$ 15,862,500 (US$ 1,469,648) for the surface rights. This payment will be applied to Peñoles' earn in expenditure as per the joint venture agreement with the Company.

Drilling at Juanicipio started in August 2006 on a fence of 5 drill holes along a line located almost 2 kilometres to the west of the Valdecañas discovery hole 16. Four holes were completed, two of which were on Peñoles 100% owned property. Results have yet to be released. An airborne electromagnetic and magnetic survey, flown in mid 2007 will help in future exploration of the Valdecañas structure to the west and the Juanicipio property in general.

Peñoles began work on the Valdecañas discovery by initiating an eighteen hole, fifteen thousand metre definition drill program in October 2006. Peñoles drilled a further 10,758 metres in 2006 and proposed an additional 28,000 metres utilizing a minimum of 4 drills going into the 2007 program. The definition drill program is designed to delineate the Valdecañas Vein over a 1.2 kilometre section of potential strike length, along 100 metre sections and at 100 metre separation up and down dip. This program was ongoing at the end of June 2007.

To date (2007) Juanicipio drilling has identified the Valdecañas Vein, as a significant high grade silver / gold vein that has been traced over a minimum strike length of 1,300 metres and down dip for at least 450 metres. The average grade of twelve widely spaced holes (out of fifteen) that have intersected the vein is 1,267 grams per tonne (37.7 ounces per ton) silver, 2.76 grams per tonne gold and 8.32% lead and zinc combined. The vein still remains open to the east, to the west and down dip.

The drilling to date clearly demonstrates that Valdecañas is a low-sulphidation vein typical of the Fresnillo District. The vein exhibits the characteristic metal zoning over a 350 metre vertical height as seen in all of the principal veins at Fresnillo. Peñoles continues to operate the drill program directed at delineating the extent of the Valdecañas vein.

The Company had spent a total of $2,218,004 to its own account in exploration costs at Juanicipio to June 30, 2007 (2006 - $2,077,620).

At ***Batopilas*** a ten-hole 2500 metre drill program was initiated in the fall of 2005 to test preliminary drill targets and help refine the exploration methods the Company was developing to explore its holdings in the Batopilas silver district. This program was expanded to 12 holes and 3,025 metres were drilled to March 31, 2006. In the current period to date the Company has completed an additional 2,907 metres of diamond drilling.

The second hole in the 2005 program, BA05-02, intercepted 1.7 metres of 2,357 grams per tonne Ag (75.8 opt) as well as a second 1.7 metre intercept further down the hole containing 132 grams per tonne Ag (4.2 opt). Other nearby intercepts define a north 070 west striking, 78^{o} southwest dipping vein (The "Don Juan") that shows a distinct geochemical signature containing high silver along with anomalous Arsenic, Molybdenum and plus or minus anomalous Cobalt and Nickel. This new discovery has not been tested to the south-southeast and remains open along strike in both directions and at depth.

Five holes BA06-08 through BA06-012 focused on the Pastrana Vein to evaluate this historic past producing structure beyond its' productive zones. Drilling to date has identified the northern extension of Pastrana Vein with 4 intersections over a strike length of 140 metres and a vertical distance of 40 metres. Best intercept was in Hole 10 with 0.73 metres of 47 grams per tonne Ag (1.5 opt).

Other work in 2006 and to date in 2007 at Batopilas included: underground topographic surveys of the old workings; a detailed 590 line kilometre airborne geophysical (magnetics and electromagnetics) survey focusing on delimiting structures over the entire 40 square kilometre land package (initiated in late February 2007); a detailed stream sediment and ridge and spur soil sampling program that focused on the signature multi-element suite defined during the drill program and a detailed geological re-mapping of the entire project area. The Pastrana tunnel has been re-opened and mapping and sampling was completed prior to the drill program which began in February 2007.

The 2007 exploration program in the Batopilas Native Silver District has encountered high grade silver in: a) drilling in the Roncesvalles – Todos Santos area, b) drilling in the Las Animas area (The Cobriza Veins) and c) a series of drill roads and trenches in the Las Animas Ridge area. A seven hole 2,907 metre drill program that started in mid-February has been completed and crews have demobilized from Batopilas for the rainy season.

Highlights of the program include Hole BA07-15 at Todos Santos which intersected 1.0 metre of 3,070 grams per tonne (g/t) silver (89.5 ounces per ton), 3.6% lead and 0.63% zinc. This intercept is located on the east side of the Roncesvalles Fault Zone (RFZ) in the footwall of the Todos Santos – San Roberto vein system. The intercept is interpreted to be a parallel footwall vein or splay of the historically highly productive "Todos Santos Vein" that was last worked around 1915. This intercept and last year's "Don Juan" intercept (1.7 m of 2,357g/t Silver or 68.7 ounces per ton) are on opposite sides of the major Roncesvalles Fault Zone and their relationship to each other is under additional study.

Other significant drilling highlights include two intercepts in the Las Animas Area of 1.0 metre of 156 g/t (4.54 ounces per ton) and 1.0 metre of 186 g/t (5.42 ounces per ton) silver respectively in Holes BA07-17 and BA07-18. Both represent about 200 metre down dip intersections from the veins and vein structures discovered by a series of roads and trenches constructed this year to follow up on silt and soil geochemical anomalies. The drill intercepts provide important information to help in determining the strike and dip continuity of these mineralized structures. Results for the third hole in this area, BA07-19 are still pending.

A highlight from the trench and road program includes the discovery and exposure of the Cobriza North vein structure. This vein is exposed in a 4.0 metre high road-cut and is from 0.25 to 1.0 metres wide. Eleven samples totalling 281.54 kilograms (620 pounds) of bulk material was collected for analysis. Metallic screen analysis has returned an average minimum grade for this bulk sample of 11,158 grams per tonne silver (325.4 ounces per ton). This analysis does not include the 2,776 grams (89.3 ounces) of native silver that was hand collected from this location as well.

This 2,495 metre program of trench and road building, at Las Animas Ridge has also discovered at least two mineralized structures, the northern extension of the Cobriza (as described above) and a silver sulphide-bearing structure 225 metres farther south east. This work has also uncovered entrances to several old 1850's era workings on Roads 1 and 3, as well as cutting numerous and previously undocumented silver, lead and zinc mineralized structures.

A 1.0 metre, 828 g/t silver (24.1 ounces per ton) rock chip sample on road 1 led to the discovery of the extension of the Cobriza Structure, described as a native Silver bearing, manganese-oxide rich zone. Another rock chip sample located 225 m southeast on this same road returned 1.0 metre of 851 g/t silver (24.8 ounces per ton) and revealed a previously unknown structure containing acanthite, a high silver sulphide. This discovery was a follow-up of an 11.4 g/t silver soil sample collected only 13.0 metres away.

The results of this phase of work at Las Animas suggests that the mineralization may represent one single north east-trending and northwest-dipping mineralized structural zone with a strike length in excess of 500 m.

The district-scale exploration implications of the recent work program are significant. The airborne geophysics clearly reveals the overall patterns of the quartz latite-Monzonite dike swarm and can be used to trace the most favorable host stratigraphy and structures. This has quickly revealed several large areas outside the initial exploration focus area with the same combination of stratigraphy, structure and igneous dikes. It is now possible to quickly apply the field geochemical protocol of stream sediment, ridge and spur soil sampling, and detailed follow-up examination to these areas to generate multiple drill targets in a wide range of areas throughout the district.

This work was also successful in identifying a number of important exploration control vectors at Batopilas that included: a better understanding of the Lithological controls of the native silver mineralization; the structural history and structural ore host controls; the vein and structural geochemistry as well as the lateral and vertical metal zoning characteristics of the vein mineralization.

Work is continuing. The Company had spent a total of $3,063,333 in exploration costs at Don Fippi (Batopilas) to June 30, 2007 (2006 - $1,874,784).

At ***Lagartos North West***, (Cerro Cacalote) the Company began their exploration for covered Fresnillo-style epithermal veins with compilation of regional geological data, air photo and satellite image analysis and interpretation. This led to the Company staking the Lagartos properties because they lay along the trend, close to the Fresnillo and Zacatecas mining districts, and show strong geological similarities to those districts. The success of the Valdecañas Vein discovery at Juanicipio has greatly enhanced the understanding of this highly productive and under explored region and management believes that lessons learned at Juanicipio should help the Company make additional discoveries in the Fresnillo trend.

A drill program was initiated in January of 2006, with a total of 13 drill holes completed for 7,365 metres drilled to December 31, 2006. Drilling tested a variety of targets consisting of NSAMT, magnetic, biogeochemical, structural and geological anomalies. Though no major veins were intersected valuable geological and structural information for exploration programs going forward was obtained. Anomalous silver mineralization was intersected in hole 06-03 which returned 2.15 metres grading 40.1 grams per tonne silver.

The Company also continued to enlarge its land position by claiming strategically located properties in 2005 as they became eligible for acquisition. To that end the Company added an additional 12,534 hectares to its Lagartos NW land package east of the El Saucito discovery and West of the Zacatecas District.

The Lagartos Southeast or Zacatecas North block covers the broad plain lying between Fresnillo and the historic Zacatecas mining district. In 2006, the Company staked all of the open ground surrounding Zacatecas and purchased numerous claims over past producing veins within the district. This gives the Company the potential projections of the E-W trending district veins as well as the San Gabriel vein field (Panuco North) in the northernmost part of the district.

Work at San Gabriel in 2006 identified a number of significant vein structures that appear exposed at a very high level where further work is focused. A 2,072 line kilometre airborne survey has been completed that has contributed to designing and directing a drill program for the North Zacatecas area that is presently in progress.

This diamond drill program will focus on the northern extension of the Panuco Vein Field. The Company has identified a number of broad hydrothermal alteration and structural zones, up to 4 kilometres long and ten’s of metres wide. Within the associated alteration halo there are quartz veins containing iron oxides and sulphides of zinc, lead and silver. In addition there are other veins and zones characterized by iron rich carbonates, druzy quartz, iron oxides and sulphides of lead and zinc. These zones have retuned anomalous silver values ranging from one half ounce up to 2.3 kilograms silver (67 ounces) in selected grab samples from a number of old pit workings and low lying outcrop. These zones are also characterized by a suite of highly anomalous metal values for arsenic, mercury and antimony. These zones are thought to represent an upper level manifestation of a deeper epithermal vein system very much like those found in the Zacatecas and Fresnillo (Juanicipio) districts. As at Juanicipio, these prospective zones lie mostly buried under alluvial cover and as a result have yet to be explored with modern exploration techniques and drilling technologies. The current program is designed to drill test to depth on a number of these vein targets.

At this time the program has completed 6,240 metres of drilling. Assay results are awaited. Work is continuing.

The Company had spent a total of $3,070,470 in exploration costs at Lagartos to June 30, 2007 (2006 - $1,569,651).

At ***Guigui***, the 2005 drill program followed up on the intersections of extensive alteration, structure and mineralization encountered in the 2004 program. (i.e. 131 ppm Ag over 8.30m or 4.2 opt Ag over 27 feet). The drill area is located about 1.2km south of Grupo Mexico’s operating San Antonio Mine and about 650m south of their nearest underground infrastructure. The target area is situated within the San Antonio Graben, a prominent N-S structural feature that hosts and controls the mineralization at the San Antonio Mine.

Hole 07 cut the highest grade silver mineralization intersected to date within Guigui at 1.40 metres of 242 grams per tonne silver (7.8 ounces). The best values were associated with members of a felsite dike swarm that also produces mineralization in Grupo Mexico’s San Antonio Mine at a location 1800 metres farther to the north along the same structure.

The results from Hole 08 indicate that the dikes cut in holes 06 and 07 are sourced farther to the west within the Guigui property. The Company also drilled a single hole into the upper zones of the East Fault of the San Antonio Graben (Hole 09) and cut four narrow felsite dikes with anomalous silver values.

We continue to cut strong indications of silver and base metal mineralization in the same structures and intrusions and within a broad alteration halo, not unlike the upper reaches of the East Camp deposits. This important development leads management to contend that these intersections demonstrate that mineralization similar to the rich deposits of the San Antonio Mine, north of our drill area and East Camp can be traced to the south and onto the Company’s Guigui property.

A contract to fly an eight hundred line kilometre EM and Magnetic survey was signed and the survey was completed by the end of December 2006. Preliminary results are very encouraging and were integrated in early 2007 with the substantial data base we have accumulated at Guigui. Further work will be designed to follow up on this integration leading to a drill plan. The Company had spent a total of $1,443,443 in exploration costs at Guigui to June 30, 2007 (2006 - $1,278,605).

Cinco de Mayo, located in Chihuahua State, occurs proximal to the highly favorable western edge of the Chihuahua trough which hosts several large (all greater than 25 million tonnes), operating mining districts including Naica, Santa Eulalia and Bismarck.

Early exploration work included a 45 line-kilometre NSAMT geophysical survey testing historically exploited mineralization, geological features identified in nearby outcrop and through cover utilizing a biogeochemical survey. Additional biogeochemical sampling, both expanding on the strongest anomalies revealed by the orientation survey and coincident with each NSAMT detector point, accompanied the NSAMT survey.

Results detected a significant electromagnetic anomaly coincident with biogeochemical anomalies and consistent with the proposed exploration model. A contract to fly a four hundred and fifty line kilometre EM and Magnetic survey was signed and the survey was completed by the end December 2006.

Drilling began on this property in the third quarter of 2006, with a total of 9 drill holes completed for 3,795 metres drilled to December 31, 2006. Six of the nine holes were drilled over a strike length of 2.0 kilometres along a very prominent NW trending fault zone that cuts strongly folded massive limestone and limestone-rich sedimentary rocks. Structurally controlled replacement style massive to semi-massive sulphide mineralization occurring within broad mineralized and altered zones was intercepted in all six of the holes. Mineralization is open in all directions. At least trace mineralization was encountered in the remaining 3 holes.

Hole number	From m	To m	Interval m	Ag (g/Tonne)	Ag Ounces	Pb %	Zn %
Hole-01	318.09	324.20	6.11	22.5	0.65	1.4	5.7
including	320.57	321.84	1.27	4.6	0.13	1.6	11.6
Hole-01	355.30	357.18	1.88	190.9	5.56	4.3	7.9
Hole-02	253.47	253.89	0.42	130	3.79	0.5	3.1
Hole-05	292.4	292.7	0.30	124	3.60	6.7	2.7
Hole-06	198.7	199.0	0.23	463	13.5	17.5	0.3
Hole-07	321.87	326.17	4.30	82	2.39	3.0	2.6
Hole-08	317.68	324.18	6.50	27.4	0.80	1.2	2.2
Including	319.8	323.3	3.51	45	1.31	1.9	3.1

Early systematic regional exploration work and the results of this first phase drill program clearly show that Cinco de Mayo has many geological and mineralogical characteristics in common with the largest CRDs in Mexico. Management contends that successfully locating completely blind mineralization in initial drilling confirms that we are applying the right techniques in the right geological setting and that a mineralizing carbonate replacement system of significant strength and size may be present.

The intersections occur within broader zones of dispersed lead, zinc and iron sulphides developed in the surrounding sedimentary rocks. For example, the intercept in Hole 7 occurs within a 65 metre wide zone of stringer and dispersed lead and zinc sulphides. In addition, Hole 09 intersected over 68 metres of strong hornfels (alteration related to an igneous heat source) with widespread associated dispersed and veinlet zinc and lead sulphide mineralization. Hole 09 lies at the northernmost end of the 2 km long drilling pattern and was drilled on a geophysical anomaly detected in the initial processing of a 450 line kilometre airborne electromagnetic and magnetic survey. This structure can be traced for kilometres in either direction with this detailed magnetic survey. Significantly, intersecting hornfels in the Hole 09 airborne survey anomaly suggests that buried mineralization-related igneous heat sources can be detected geophysically, which will be a valuable ingredient in focusing ongoing exploration programs.

The Company also claimed approximately 2,500 hectares of open ground to the north of its original land package along a major regional fault zone revealed through detailed satellite image analysis.The Company had spent a total of $1,342,189 in exploration costs at Cinco de Mayo to June 30, 2007 (2006 - $265,517).

At ***Adargas*** a total of 4 line kilometres of NSAMT geophysics was run in late 2005 to test a strong conductive anomaly revealed by a Down-Hole UTM geophysical survey run in the Company's AD04-01 drill hole. The survey confirmed the presence of a conductive body below the level of current drilling. Management feels that the deeper targets, modeled on treating the surface mineralization as leakages from a larger system trapped beneath a relatively impermeable unit remain untested and viable targets. The Company had spent a total of $318,216 in exploration costs at Adargas to June 30, 2007 (2006 - $310,421). During the period ended June 30, 2007 the Company terminated its option agreement, and consequently, costs of $750,277 were written-off.

At ***Sierra de Ramirez***, located in Durango State, this 15,000 hectare property has seen little modern exploration. A historical producer of high grade silver and base metals, this district is emerging for The Company as a large scale CRD target. Metal zoning studies have identified three mineralized zones where work is presently underway to better define these zones through mapping, geochemical sampling in tandem with structural and alteration studies. This resulted in the recognition that acquisition of additional land is desirable before higher profile exploration work can begin. This acquisition was underway by period's end.

In order to make up for lost time due to weather and access delays in the past we were able to renegotiate the terms of our option agreement with Minera Rio Tinto to earn 100% interest in the property. In effect we were able to roll the agreement back two years and continue with the payment schedule as outlined in the original agreement. This allowed us the time to fly an airborne survey and conduct the appropriate follow up programs. A contract to fly an eleven hundred and twenty line kilometre EM and Magnetic survey was signed and the survey was completed by mid February 2007. In examining the results of the survey several features are revealed that have enhanced the exploration potential of the district. To that end we have accelerated efforts to consolidate the entire Sierra Ramirez District. Exploration field programs are expected to commence in late 2007. The Company had spent a total of $378,942 in exploration costs at Sierra de Ramirez to June 30, 2007 (2006 - $114,738).

The ***Sello*** property is located in Zacatecas State. The Company entered into letter of intent agreements to acquire a 100% interest in the Sello, Sello Uno, and El Oro claims making up the Sello property. A small Airborne and Electromagneteic survey was flown in mid 2007 for a total of 220 line kilometres. Preliminary results have identified several major structures coincident with the known silver / gold mineralization at Sello. The Company had spent a total of $4,536 in exploration costs at the Sello property to June 30, 2007 (2006 - $Nil).

Other Properties - In the period ending June 30, 2007 the Company optioned some exploration concessions on mining claims for a cost of US$435,091 plus applicable value added tax.

All of the costs incurred on property acquisition and exploration to date have been deferred. During the period $750,277 in mineral properties costs were written down (2006 - $Nil). A complete table of mineral property costs can be found in Note 7 of the Company's Financial Statements for the period ended June 30, 2007.

e) Administration Expenses

General and administrative expenses for the period totaled $4,000,146 (2006 - $2,477,382), before interest income of $316,557 (2006 - $115,522). Shareholder relations expense, web site hosting and maintenance, investor calls, mail outs, printing and news releases totaled $238,907 (2006 - $126,590). Management consulting fees, and salaries to June 30, 2007 totaled $422,544 (2006 - $249,785). Office and telephone totaled $193,484 (2006 - $207,959). Stock compensation expense, a non-cash item, amounted to $2,747,555 for the period (2006 - $1,719,706).

During the period ended June 30, 2007 legal fees amounted to $129,381 (2006 - $56,618), and accounting and audit expenses totaled $34,945 (2006 - $104,059). Legal opinions, securities regulations follow up, legal preparatory work pursuant to the Company's listing applicant to a senior U.S. exchange, and contract preparation for property acquisitions in 2007 led to higher legal expenses. Accounting and audit expenses related to normal course of business audit and accounting work in Canada and Mexico as well as the preparation of the Company's United States Securities and Exchange Commission ("SEC") Registration (Form 20-F) in 2007 and 2006.

During the period ended June 30, 2007 the Company paid stock exchange, filing fees and transfer agent fees of $78,389 (2006 - $27,886), the filing fees are much higher in 2007 as the Company listed on the AMEX. A foreign exchange loss of $17,013 (2006 – $17,788) was incurred during the period, which is attributed to the fluctuations in the US dollar and Mexican pesos, which the Company uses to pay for acquisition and exploration expenditures through the Company's Mexican subsidiary Minera Los Lagartos. Travel, lodging and related expenses for the management of the Company amounted to $129,724 (2006 - $64,965). Such costs are incurred for corporate, property and exploration related travel and for attendance at trade shows and conferences.

f) Related Party Transactions

For the period ended June 30, 2007 the Company's president received $127,064 in compensation for management services (2006 - $65,400).

For the period ended June 30, 2007 a company controlled by an officer of the Company received $101,920 in compensation for consulting services (2006 - $84,000).
The Company paid non-executive directors fees of $50,000 to five non-executive directors during the period (2006 - $Nil).

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"). As of January 2006, these companies have a common director with the Company. During the period ended June 30, 2007 the Company accrued or paid Cascabel and IMDEX consulting, administration and travel fees totaling $62,401 (2006 - $64,334) and exploration costs totaling $521,747 (2006 - $565,735) under the Field Services Agreement.

During the year ended December 31, 2003, the Company entered into an office services agreement with Platinum Group Metals Ltd. ("PTM"), a company with a common director and common officer.

During the period ended June 30, 2007 the Company accrued or paid PTM $68,195 under the common service agreement (2006 - $67,768).

During the year ended December 31, 2004, the Company entered into an office lease agreement with Anthem Works Ltd. ("Anthem"), a company with a common director. During the period ended June 30, 2007 the Company accrued or paid Anthem $31,167 under the office lease agreement (2006 - $31,167).

These transactions are in the normal course of business and are measured at the exchange amount which is the consideration established and agreed to by the noted parties.

g) Shareholder Relations' Expenses

Shareholder relations expense during the period totaled $238,907 (2006 - $126,590). Since 2003 the Company has managed its shareholder relations as an internal function. Since September 2005 Contact Financial had been contracted at a rate of $6,000 per month to provide distribution of the Company's information. As of June 15, 2007 this fee has been reduced to $500.00 per month. The Company attends seminars and conferences related to its business and from time to time do visit brokers, market analysts and investors who request information about the Company's business. Since December 2006 Mr. Tony Mahalski of LM Associates in London, U.K., has been engaged for a fee of GBP 1,000 per month for the purpose of general business development and the raising of the Company's profile in Europe.

h) Travel and Promotion Expenses

Travel and promotion expenses for the period amounted to $129,724 (2006 - $64,965). These activities relate to corporate business development, the supervision of ongoing exploration operations, new property investigations and meetings with potential joint venture partners and institutional and sophisticated investors.

i) Property Acquisition Expenses

Property acquisition expenditures during the period totaled $491,459 (2006 - $39,897) in cash.

During the year ended December 31, 2006, the Company and Minera Rio Tinto, S.A. de C.V. amended terms of the Sierra de Ramirez option agreement. Under the amended terms, the Company issued Minera Rio Tinto, S.A. de C.V. 20,000 common shares of the Company on October 6, 2006 and will make scheduled cash payments totaling US$1,300,000 (US$100,000 paid) to December 14, 2010, with a final payment of US$650,000 of which up to US$500,000 may be paid in the common shares of the Company. Under the amended terms all exploration work commitments were also eliminated. To June 30, 2007 the Company has incurred a total of $555,451 (2006 - $359,062) in acquisition costs on the property.

During the year ended December 31, 2006, the Company and an individual entered into a "letter of intent" agreement to acquire the Sello Property. The Company paid $28,143 on signing the letter of intent, and doing due diligence to complete a deal for the property. During the current period the Company entered into a letter of intent agreement to acquire a 100% interest in the El Oro claims located in Zacatecas State. The Company has paid $28,562 on signing the letter of intent. This claim will become part of the Sello Property.

During the period ended June 30, 2007 the Company has acquired more exploration concession on mining claims on the Fresnillo trend to the northwest and southeast of the Juanicipio property. These exploration concessions enables the Company to explore the mining claim covered by the concession to December 2009, subject to the Company paying any applicable annual tax or other regulatory charges. To June 30, 2007 the Company has incurred a total of $435,091 (2006 - $Nil) in acquisition costs on these claims.

The sum of all payments required to maintain all of the Company's mineral rights are less than its currently available working capital. The Company evaluates its property interests on an ongoing basis and intends to abandon properties that fail to remain prospective. The Company is confident that it will be able to meet its earn-in obligations on those properties which management considers being of merit.

3. CRITICAL ACCOUNTING POLICIES

The Company's accounting policies are set out in Note 2 of its Consolidated Financial Statements for the period ended June 30, 2007.

The preparation of financial statements in conformity with Canadian GAAP 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) future income tax provision and (iv) stock based compensation as the main estimates for the following discussion. Please refer to Note 2 of the Company's consolidated financial statements for a description of all of the significant accounting policies.

Under Canadian GAAP, the Company deferred all costs relating to the acquisition and exploration of its mineral properties. 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 regularly reviews 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.

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 does 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 future income tax provision is based on the liability method. Future 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 a valuation allowance against any portion of those future income tax assets that it believes will, more likely than not, fail to be realized.

For its 2004 fiscal year, The Company adopted CICA Handbook Section 3870 – Stock-Based Compensation and other Stock-Based Payments, which requires the fair value method of accounting for stock options. Under this method, The Company is required to recognize a charge to the income statement based on an option-pricing model based on the following assumption –no dividends were paid, a weighted average volatility of the Company's share price of 85 per cent, a weighted average annual risk free rate of 4.05 per cent and an expected life of 3 years. The resulting weighted average option related to an expense for stock options in the period ending June 30, 2007 of $2,747,555 (2006 - $1,719,706).

4. LIQUIDITY AND CAPITAL RESOURCES

The Company issued a total of 5,597,786 (2006 – 914,548) common shares during the period. Of these 5,597,786 shares (2006 – 914,548) were issued for cash proceeds of $22,441,949 (2006 - $1,213,801). A further Nil shares (2006 – Nil) were issued for mineral properties for a value of $Nil (2006 - $Nil). Cash proceeds are to be spent on mineral property acquisitions, exploration and development as well as for general working capital purposes. The Company's primary source of capital has been from the sale of equity. At June 30, 2007 the Company had cash and cash equivalents on hand of $21,936,720 compared to cash and cash equivalents of $5,907,541 at June 30, 2006. The primary use of cash during the period was for acquisition and exploration expenditures, being approximately $2,882,919 (2006 - $2,067,762), management and consulting fees of $422,544 (2006 - $249,785) and other general and administrative expenses of $823,162 (2006 - $615,391). The Company had $21,769,521 in working capital as at June 30, 2007 compared to $5,710,791 at June 30, 2006.

Current liabilities of the Company at June 30, 2007 amounted to $1,049,617 (2006 - $476,630) mostly being attributable to accrued exploration expenses.
The Company currently has sufficient working capital to maintain all of its properties for the next eight months, 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 certain properties to complete purchase arrangements on. The Company expects to raise equity capital as it is needed. However, there is no assurance that additional funding will be available to the Company and it may again become dependent upon the efforts and resources of its directors and officers for future working capital. Management refers the reader to the contents of the Unaudited Financial Statements for the period ended June 30, 2007; the Audited Financial Statements for the year ended December 31, 2006, as well as the subsequent events section.

In the normal course of business the Company enters into transactions for the purchase of supplies and services denominated in Mexican Pesos. The Company also has cash and certain liabilities denominated in United States dollars. As a result, the Company is subject to foreign exchange risk from fluctuations in foreign exchange rates.

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:

Tabular Disclosure of Contractual Obligations

(Property expenditures in U.S. dollars, as per agreement)

Option Payments and Exploration Expenditures	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
Sierra Ramirez Property [(1)]	$1,200,000	$100,000	$425,000	$675,000	Nil
Cinco de Mayo Property [(2)]	$775,000	$175,000	$600,000	Nil	Nil
Sello Property	$1,075,000	$50,000	$450,000	$575,000	Nil
Other Properties	$100,000	Nil	$100,000	Nil	Nil
Total (US $)	$3,150,000	$325,000	$1,575,000	$1,250,000	Nil
Office Lease (Cdn $)	$15,584	$15,584	Nil	Nil	Nil

[(1)] Of the final payment in the amount of US$650,000 due December 14, 2010, up to US$500,000 may be paid in Common Shares of the Company. See Item 4 - Information on the Company - The Sierra de Ramirez Property.

[(2)] Comprised of US$775,000 in option payments. Half of each of the remaining option payments may be paid in Common Shares at a deemed price per share equal to the average trading price of MAG's Common Shares for 30 calendar days prior to the date of the payment. See Item 4 - Information on the Company - The Cinco de Mayo Property.

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 obligations.

5. CORPORATE GOVERNANCE

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings made pursuant to Multilateral Instrument 52-109 is recorded, processed, summarized and reported in the manner specified by the relevant securities laws applicable to the Company. The consolidated Company operates in both Canada and Mexico and work is ongoing to improve and modernize these controls and to ensure that they remain consistently applied in both jurisdictions. The Chief Executive Officer and the Chief Financial Officer have evaluated the Company's disclosure control procedures as of December 31, 2006 through inquiry, review, and testing, as well as by drawing upon their own relevant experience. The Company retained an independent third party specialist in 2006 to assist in the assessment of its disclosure control procedures. The Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure control procedures are effective. Management is also developing and implementing a plan to address disclosure controls and procedures on a forward looking basis as the Company continues to grow.

The Company also maintains a system of internal controls over financial reporting, as defined by

Multilateral 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 Canadian GAAP. The Company retained an independent third party specialist in 2006 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.

There have been no changes in internal control over financial reporting during the quarter ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

6. SUBSEQUENT EVENTS

Subsequent to June 30, 2007:

(a) The Company issued 50,000 common shares at $1.00 on the exercise of stock options; 50,000 common shares at $1.06 on the exercise of stock options; and 12,000 common shares at $4.04 on the exercise of stock options, for proceeds of $151,480;

(b) Peñoles on behalf of the Juanicipio Joint Venture, has completed a third surface land purchase covering a 2.5 kilometre westerly strike projection of the Juanicipio Vein.

Peñoles has paid the surface owners a total USD$3,642,258 for this third land purchase. The Company is responsible for 44% of this amount (USD$1,602,593) as per the terms of the Juanicipio Joint Venture Agreement. This new land purchase adjoins directly to the south, two earlier land purchases.

These three completed land purchases will become assets of a new company, to be named Minera Juanicipio, now being established to own and operate the Juanicipio Joint Venture. The process to formalize and register the company is in progress. The Company and Peñoles will be joint owners (through 100% owned subsidiaries) of this company with the Company having a direct 44% interest and Peñoles having a direct 56% interest in Minera Juanicipio. The terms and conditions of a shareholders agreement governing the operation of Minera Juanicipio were established as part of the original Juanicipio Agreement between the Company and Peñoles.

There are other subsequent events disclosed elsewhere in the notes to the consolidated financial statements.

MAG SILVER CORP.

(An exploration stage company)

Consolidated Interim Financial Statements
For the six month period ended June 30, 2007

Filed: August 27, 2007

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

The attached interim financial statements have not been reviewed by the Company’s auditor

MAG SILVER CORP.
(An exploration stage company)
Consolidated Balance Sheets

	June 30, 2007	Dec. 31, 2006
ASSETS		
CURRENT		
Cash and cash equivalents	$ 21,936,720	$ 3,506,930
Accounts receivable (Note 11)	504,981	273,035
Interest receivable	292,988	115,227
Prepaid expenses	84,449	40,965
TOTAL CURRENT ASSETS	22,819,138	3,936,157
EQUIPMENT AND LEASEHOLDS (Note 3)	26,096	31,332
MINERAL RIGHTS (Note 7)	5,563,535	5,504,137
DEFERRED EXPLORATION COSTS (Note 7)	11,976,676	9,458,932
TOTAL ASSETS	$ 40,385,445	$ 18,930,558
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 605,117	$ 350,368
Joint Venture Commitments	444,500	-
TOTAL LIABILITIES	1,049,617	350,368
SHAREHOLDERS' EQUITY		
Share capital (Note 4)		
Authorized - Unlimited common shares, without par value		
Issued and outstanding at June 30, 2007 - 43,526,396 common shares (December 31, 2006 - 37,928,610)	45,984,408	23,433,942
Contributed surplus (Note 5)	5,698,232	3,059,194
Deficit	(12,346,812)	(7,912,946)
TOTAL SHAREHOLDERS' EQUITY	39,335,828	18,580,190
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 40,385,445	$ 18,930,558

CONTINUING OPERATIONS (Note 1)

ON BEHALF OF THE BOARD

"Dan MacInnis"

Dan MacInnis, Director

"Eric Carlson"

Eric Carlson, Director

See accompanying notes to the consolidated financial statements.

MAG SILVER CORP.
(An exploration stage company)
Consolidated Statements of Operations

	For the three month period ended June 30, 2007	For the three month period ended June 30, 2006	For the six month period ended June 30, 2007	For the six month period ended June 30, 2006
EXPENSES				
Accounting and audit	$ 17,286	$ 60,423	$ 34,945	$ 104,059
Amortization	3,443	4,047	6,885	8,022
Bank charges and interest	745	513	1,319	1,156
Filing and transfer agent fees	23,433	9,497	78,389	27,886
Foreign exchange (gain) loss	11,664	15,991	17,013	17,788
Legal	63,287	26,984	129,381	56,618
Management and consulting fees	169,418	106,050	422,544	249,785
Non-resident corporation tax		8,370		8,370
Shareholder relations	141,812	70,220	238,907	126,590
Stock compensation expense	1,017,521	1,092,079	2,747,555	1,719,706
Telephone and office	109,362	126,326	193,484	207,959
Travel	73,278	35,797	129,724	64,965
	1,631,249	1,556,297	4,000,146	2,592,904
LOSS BEFORE THE FOLLOWING	(1,631,249)	(1,556,297)	(4,000,146)	(2,592,904)
INTEREST INCOME	200,002	70,804	316,557	115,522
MINERAL PROPERTY COSTS WRITTEN OFF	(750,277)	-	(750,277)	-
NET LOSS FOR THE PERIOD	$ (2,181,524)	$ (1,485,493)	$ (4,433,866)	$ (2,477,382)
BASIC AND DILUTED LOSS PER SHARE	$ (0.05)	$ (0.04)	$ (0.11)	$ (0.07)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	41,562,012	36,987,417	40,536,765	36,719,362

See accompanying notes to the consolidated financial statements.

MAG SILVER CORP.

(An exploration stage company)

Consolidated Statements of Shareholders' Equity

	Common shares without par value		Shares allotted but	Special warrants		Contributed	Deficit accumulated during the exploration	Total shareholders'
	Shares	Amount	not issued	Number	Amount	Surplus	stage	equity
Issued for cash	1,500,000	$ 150,000	$ -	-	$ -	$ -	$ -	$ 150,000
Net loss	-	-	-	-	-	-	(4,279)	(4,279)
Balance, October 31, 1999	1,500,000	150,000	-	-	-	-	(4,279)	145,721
Net loss	-	-	-	-	-	-	(3,787)	(3,787)
Balance, December 31, 1999	1,500,000	150,000	-	-	-	-	(8,066)	141,934
Issued for cash	1,500,000	240,222	-	-	-	-	-	240,222
Net loss	-	-	-	-	-	-	(5,641)	(5,641)
Balance, December 31, 2000	3,000,000	390,222	-	-	-	-	(13,707)	376,515
Net loss	-	-	-	-	-	-	(279,639)	(279,639)
Balance, December 31, 2001	3,000,000	390,222	-	-	-	-	(293,346)	96,876
Issued for cash			-	2,400,000	375,000	-	-	375,000
Net loss	-	-	-	-	-	-	(122,631)	(122,631)
Balance, December 31, 2002	3,000,000	390,222	-	2,400,000	375,000	-	(415,977)	349,245
Issued for cash	11,500,000	5,109,766	-	-	-	-	-	5,109,766
Conversion of special warrants	2,400,000	375,000	-	(2,400,000)	(375,000)	-	-	-
Agent's administration shares	10,000	5,000	-	-	-	-	-	5,000
Finders' fee shares	500,000	250,000	-	-	-	-	-	250,000
Issued to obtain mineral property option rights	200,000	100,000	-	-	-	-	-	100,000
Issued on acquisition of Lexington	200,000	180,000	-	-	-	-	-	180,000
Warrants exercised	5,183,995	3,068,996	-	-	-	-	-	3,068,996
Stock options exercised	100,000	26,000	-	-	-	-	-	26,000
Stock options granted to consultants	-	-	-	-	-	75,308	-	75,308
Net loss	-	-	-	-	-	-	(837,539)	(837,539)
Balance, December 31, 2003	23,093,995	9,504,984	-	-	-	75,308	(1,253,516)	8,326,776
Cumulative effect of change in accounting policy (Note 2 (j))	-	-	-	-	-	248,128	(248,128)	-
Issued to obtain mineral property option rights	1,358,793	1,578,752	-	-	-	-	-	1,578,752
Warrants exercised	1,236,750	480,562	-	-	-	-	-	480,562
Stock options exercised	140,000	68,070	-	-	-	(17,270)	-	50,800
Shares allotted to acquire mineral property option rights	-	-	9,467	-	-	-	-	9,467
Net loss	-	-	-	-	-	-	(733,897)	(733,897)
Balance, December 31, 2004	25,829,538	11,632,368	9,467	-	-	306,166	(2,235,541)	9,712,460
Issued for cash	7,201,176	6,771,672	-	-	-	-	-	6,771,672
Issued to obtain mineral property option rights	1,654,679	1,337,289	(9,467)	-	-	-	-	1,327,822
Warrants exercised	1,400,755	1,046,566	-	-	-	-	-	1,046,566
Stock options exercised	105,500	24,290	-	-	-	(1,540)	-	22,750
Stock options granted	-	-	-	-	-	611,353	-	611,353
Net loss	-	-	-	-	-	-	(1,810,838)	(1,810,838)
Balance, December 31, 2005	36,191,648	20,812,185	-	-	-	915,979	(4,046,379)	17,681,785
Issued for cash (Note 4 (a))	245,716	577,433	-	-	-	-	-	577,433
Issued to obtain mineral property option rights	85,043	204,431	-	-	-	-	-	204,431
Warrants exercised	944,503	1,275,079	-	-	-	-	-	1,275,079
Stock options exercised	461,700	564,814	-	-	-	(197,944)	-	366,870
Stock options granted	-	-	-	-	-	2,341,159	-	2,341,159
Net loss	-	-	-	-	-	-	(3,866,567)	(3,866,567)
Balance, December 31, 2006	37,928,610	23,433,942	-	-	-	3,059,194	(7,912,946)	18,580,190
Issued for cash (Note 4 (a))	2,760,000	18,673,323	-	-	-	-	-	18,673,323
Warrants exercised	2,640,486	3,564,656	-	-	-	-	-	3,564,656
Stock options exercised	197,300	312,487	-	-	-	(108,517)	-	203,970
Stock options granted	-	-	-	-	-	2,747,555	-	2,747,555
Net loss	-	-	-	-	-	-	(4,433,866)	(4,433,866)
Balance, June 30, 2007	43,526,396	$ 45,984,408	$ -	-	$ -	$ 5,698,232	$ (12,346,812)	$ 39,335,828

See accompanying notes to the consolidated financial statements.

MAG SILVER CORP.

(An exploration stage company)

Consolidated Statements of Cash Flows

	For the three month period ended June 30, 2007	For the three month period ended June 30, 2006	For the six month period ended June 30, 2007	For the six month period ended June 30, 2006
OPERATING ACTIVITIES				
Loss for the period	$ (2,181,524)	$ (1,485,493)	$ (4,433,866)	$ (2,477,382)
Items not involving cash:				
Amortization	3,443	4,047	6,885	8,022
Mineral property costs written-off	750,277		750,277	
Non-cash compensation expense	1,017,521	1,092,079	2,747,555	1,719,706
Changes in operating assets and liabilities				
Accounts receivable	(151,987)	29,156	(231,946)	(69,455)
Interest receivable	(183,488)	(35,200)	(177,761)	(64,788)
Prepaid expenses	17,274	7,106	(43,484)	8,082
Accounts payable and accrued liabilities	53,376	(97,078)	254,749	83,009
	(675,108)	(485,383)	(1,127,591)	(792,806)
INVESTING ACTIVITIES				
Purchase of equipment and leasehold improvements	-	(720)	(1,649)	(5,885)
Mineral rights	(180,860)	(29,208)	(491,459)	(39,897)
Deferred exploration costs	(1,259,112)	(914,261)	(2,391,460)	(2,027,865)
	(1,439,972)	(944,189)	(2,884,568)	(2,073,647)
FINANCING ACTIVITIES				
Issue of share capital	3,227,348	358,398	22,441,949	1,213,801
	3,227,348	358,398	22,441,949	1,213,801
INCREASE (DECREASE) IN CASH	1,112,268	(1,071,174)	18,429,790	(1,652,652)
CASH AND EQUIVALENTS, BEGINNING OF PERIOD	20,824,452	6,978,715	3,506,930	7,560,193
CASH AND EQUIVALENTS, END OF PERIOD (Note 2 (d))	$ 21,936,720	$ 5,907,541	$ 21,936,720	$ 5,907,541

See accompanying notes to the consolidated financial statements.

1. CONTINUING OPERATIONS

The Company was incorporated under the Company Act (British Columbia) on April 21, 1999 and its shares were listed on the TSX Venture Exchange on April 21, 2000.

The Company is an exploration company conducting work on mineral properties it has staked or acquired by way of option agreement principally in Mexico. The Company has not yet determined whether the properties on which it is conducting exploration contain any ore reserves that are economically recoverable. 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.

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assume that the Company will realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses from inception and does not currently have the financial resources to sustain operations in the long-term. The Company's ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and, in the meantime, to obtain the necessary financing to meet its obligations and repay its liabilities when they become due. External financing, predominantly by the issuance of equity to the public, will be sought to finance the operations of the Company.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and include the following significant policies outlined below.

(a) Principles of consolidation

The financial statements of entities which are controlled by the Company through voting equity interests, referred to as subsidiaries, are consolidated. Entities which are jointly controlled, referred to as joint ventures, are proportionately consolidated. Variable interest entities ("VIEs"), which include, but are not limited to, special purpose entities, trusts, partnerships, and other legal structures, as defined by the Accounting Standards Board in Accounting Guideline ("AcG") 15, *Consolidation of Variable Interest Entities* ("AcG 15"), are entities in which equity investors do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are subject to consolidation by the primary beneficiary who will absorb the majority of the entities'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Principles of consolidation (continued)

expected losses and/or expected residual returns. The Company does not believe that it has any VIEs subject to consolidation. All significant intercompany balances and transactions have been eliminated upon consolidation. The principal subsidiary at June 30, 2007 is Minera Los Lagartos, S.A. de C.V. which holds several properties in Mexico.

(b) Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles 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 of mineral properties and deferred exploration costs, asset retirement obligations, stock based compensation, income tax provisions and contingencies. Actual results may differ from those estimated.

(c) Asset retirement obligations

The Company records the present value of asset retirement obligations including reclamation costs when the obligation is incurred and it is recorded as a liability with a corresponding increase in the carrying value of the related mining assets. The carrying value is amortized over the life of the related 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 in the statement of operations.

(d) Financial instruments

The carrying values of cash and cash equivalents, amounts receivable, interest receivable and accounts payable and accrued liabilities reflected in the balance sheet approximate their respective fair values.

Price risk is the risk that the value of the Company's financial instruments will vary because of fluctuations in foreign exchange rates and the degree of volatility of these rates. Certain of the Company's accounts receivable, accounts payable and accrued liabilities are denominated in Mexican pesos. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign exchange rates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term money market instruments which are readily convertible into cash and have original maturities of 90 days or less.

Details of cash and cash equivalents are as follows:

	June 30, 2007	Dec. 31, 2006	Dec. 31, 2005
Cash	$ 2,811,470	$ 406,930	$ 6,210,193
Short-term deposits	19,125,250	3,100,000	1,350,000
	$ 21,936,720	$ 3,506,930	$ 7,560,193

(f) Mineral rights and deferred exploration costs

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 development 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 charged to operations on a units-of-production method based on proven and probable reserves. The carrying values related to abandoned interests are charged to operations at the time of any abandonment.

Mineral rights include costs to acquire options to acquire interests in unproven mineral properties.

Deferred exploration costs include direct exploration costs incurred by the Company in its effort to determine the existence of economically mineable ore including the cost of feasibility studies.

Management reviews the carrying value of mineral rights and deferred exploration costs at least quarterly for evidence of impairment. 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 a condition of impairment exists, the Company estimates the net 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 values of mining rights or deferred exploration costs are estimated to exceed their net recoverable amounts, a provision is made for the decline in value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Equipment and leaseholds

Equipment and leaseholds are recorded at cost and are amortized on the declining balance basis at the following annual rates:

Computer equipment and software	30%
Field equipment	30%

The leasehold improvements are depreciated on a straight-line basis to amortize the costs over the three year term of the related lease.

(h) Income taxes

Future income taxes relate to the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

(i) Foreign exchange translation

The accounts of the Company's foreign operations are considered to be integrated with the operations of the Company and are translated into Canadian dollars as follows:

- monetary assets and liabilities at the rate prevailing at the balance sheet date;
- non-monetary assets and liabilities at historical rates; and
- income and expenses at the average rate in effect during the year.

The resulting translation adjustment is included as a component of foreign exchange (gain) loss on the statement of operations.

(j) Stock-based compensation

Effective January 1, 2004, the Company adopted the amended recommendations of the CICA Handbook Section 3870, *Stock-based Compensation and Other Stock-based Payments*. Under the amended standards of this Section, the fair value of all stock-based awards granted are estimated using the Black-Scholes model and are recorded in operations over their vesting periods. The compensation cost related to stock options granted after January 1, 2004 is recorded in operations.

Previously, the Company provided note disclosure of pro forma net earnings and pro forma earnings per share as if the fair value based method had been used to account for share purchase options granted to employees, directors and officers after January 1, 2002. The amended recommendations have been applied retroactively from January 1, 2002.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Stock-based compensation (continued)

without restatement of prior periods. As a result, as of January 1, 2004, the deficit was increased by $248,128, and contributed surplus was increased by $248,128.

The total compensation expense recognized in the statement of operations for share purchase options granted during the period June 30, 2007 amount to $2,747,555 (2006 - $1,719,706). Please refer to Note 4 (b) for a summary of stock options granted in the current year and the related valuation assumptions.

(k) Earnings (loss) per common share

Basic earnings (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 are 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.

Potentially dilutive securities totalling 4,870,500 for the period ended June 30, 2007 (3,490,500 and 1,380,000 shares arising from outstanding and exercisable stock options and share purchase warrants, respectively) and 6,030,658 shares for the period ended June 30, 2006 (2,698,500 and 3,332,158 shares arising from outstanding exercisable stock options and share purchase warrants, respectively) were not included as their effect would be anti-dilutive.

(l) Comparative figures

Certain of the prior years' comparative figures have been reclassified to conform with the classifications used in 2007.

3. FIXED ASSETS AND LEASEHOLDS

	June 30, 2007			December 31, 2006
	Cost	Accumulated depreciation	Net book value	Net book value
Computer equipment and software	$ 31,776	$ 18,154	$ 13,622	$ 14,377
Field equipment	34,806	23,582	11,224	13,205
Leasehold improvements	15,000	13,750	1,250	3,750
	$ 81,582	$ 55,486	$ 26,096	$ 31,332

4. SHARE CAPITAL

(a) Issued and outstanding

At June 30, 2007 there were 43,526,396 shares outstanding.

On February 14, 2007 the Company closed a brokered private placement for 2,550,000 units at $7.25 a unit for gross proceeds of $18,487,500. Each unit is comprised of one common share and one-half of one common share purchase warrant, with each whole warrant exercisable for one common share at a price of $10.00 for a period of 12 months until February 14, 2008. The Company paid 6.0% cash commission to the underwriters on this placement aggregating $1,109,250. Legal costs, syndicate expenses, and TSX Venture Exchange filing fees cost the Company an additional $136,077.

On February 14, 2007 the Company closed a non-brokered private placement for 195,000 units, while a further 15,000 units were closed February 15, 2007 for a total of 210,000 at $7.25 a unit for gross proceeds of $1,522,500. Each unit is comprised of one common share and one-half of one common share purchase warrant, with each whole warrant exercisable for one common share at a price of $10.00 for a period of 12 months until February 14, and 15, 2008. The Company paid a 6.0% finder's fee on this placement comprised of $91,350 in cash.

During the year ended December 31, 2006 the Company issued 85,043 common shares in connection with the acquisition of mineral properties at a fair value of $204,431. During the year 944,503 share purchase warrants were exercised for proceeds of $1,275,079 and 461,700 stock options were exercised for cash proceeds of $366,870.

On March 2, 2006 the Company closed a private placement subscribed to by Industrias Peñoles S.A. de C.V. ("Peñoles") which consisted of 245,716 common shares of MAG Silver Corp. at $2.35. This equates to an investment of $577,433 (US$500,000). See Note 7 (a)(v).

On December 22, 2005, the Company raised gross proceeds of $6,494,749 from the sale of 6,494,749 units at a price of $1.00 per unit. Each unit consisted of one common share and one-half of one share purchase warrant, with each whole warrant entitling the holder to purchase one share at a price of $1.35 per share for a period of 18 months until June 21, 2007. The Agents were granted warrants to purchase up to 295,190 shares of the Company at a price of $1.35 in partial payment of services rendered in connection with their portion of the financing. The commission paid to the Agents was $295,190, equal to 7% of the gross proceeds of the Offering, comprising of $210,340 in cash and $84,850 in units of the offering. Each unit consisted of one common share and one-half of one share purchase warrant. Corporate finance fees, legal fees, TSX fees and related expenditures totalled $113,802. The net proceeds to the Company from the financing were $6,170,607.

4. SHARE CAPITAL (Continued)

(a) Issued and outstanding (continued)

On June 29, 2005, the Company issued 750,000 shares with a value of $607,500 to the former option holder of the Don Fippi property to complete the acquisition of the property. See Note 7 (b).

On June 29, 2005, the Company issued 750,000 shares with a value of $607,500 to the former option holder of the Guigui property to complete the acquisition of the property. See Note 7 (c).

On May 2, 2005 the Company closed the private placement subscribed to by Industrias Peñoles S.A. de C.V. ("Peñoles") which consisted of 621,577 common shares of MAG Silver Corp. at $0.967. This equates to an investment of $601,065 (US$500,000). See Note 7 (a)(v).

(b) Stock options

The Company has entered into Incentive Stock Option Agreements ("Agreements") with directors, officers and employees. The maximum number of stock options which may be granted is limited to 10% of the issued and outstanding shares.

The following table summarizes options outstanding and exercisable at June 30, 2007:

Exercise price	Number outstanding and exercisable at June 30, 2007	Weighted average remaining contractual life (years)	Weighted average exercise price
$ 0.50	298,500	0.79	$ 0.50
0.70	210,000	0.86	0.70
0.75	18,000	3.10	0.75
1.00	110,000	3.42	1.00
1.06	875,000	2.55	1.06
1.14	37,500	3.26	1.14
3.00	650,000	3.60	3.00
3.56	15,000	3.72	3.56
4.04	186,500	3.75	4.04
2.00	50,000	3.96	2.00
2.46	145,000	4.06	2.46
3.12	25,000	4.17	3.12
5.36	535,000	4.45	5.36
7.56	85,000	4.57	7.56
8.80	200,000	4.65	8.80
9.40	50,000	4.75	9.40
	3,490,500	3.19	$ 2.96

4. SHARE CAPITAL (Continued)

(b) Stock options (continued)

At the date the Agreements are entered into, the exercise price of each option is set at the fair value of the common shares at the date of grant. The following table summarizes the Company's options:

	Period ended June 30, 2007	Weighted average exercise price	Year ended December 31, 2006	Weighted average exercise price
Balance outstanding, beginning of year	3,352,800	$ 2.31	2,154,500	$ 0.84
Activity during the period				
Options granted	335,000	8.57	1,670,000	3.81
Options cancelled	-	-	(10,000)	4.04
Options exercised	(197,300)	1.03	(461,700)	0.79
Balance outstanding, end of period	3,490,500	$ 2.99	3,352,800	$ 2.31

During the current period the Company granted 335,000 stock options, (June 30, 2006 – 960,000) The Company has recorded $2,747,555 (2006 - $1,719,706) of compensation expense relating to stock options vested to employees and consultants in the period ended June 30, 2007.

For the period ended June 30, 2007, stock-based compensation expense was determined using an option pricing model assuming no dividends are to be paid, a weighted average volatility of the Company's share price of 85%, an annual risk free interest rate of 4.05% and expected lives of three years.

For the year ended December 31, 2006, stock-based compensation expense was determined using an option pricing model assuming no dividends are to be paid, a weighted average volatility of the Company's share price of 86%, an annual risk free interest rate of 4.04% and expected lives of three years.

4. SHARE CAPITAL (Continued)

(c) Share purchase warrants

	Number of warrants		Weighted average exercise price
Balance at December 31, 2005	3,584,989		1.35
Exercised and converted into common shares	(944,503)		1.35
Balance at December 31, 2006	2,640,486		1.35
Issued in connection with issuance of common shares	1,380,000		10.00
Exercised and converted into common shares	(2,640,486)		1.35
Balance at June 30, 2007	1,380,000	$	10.00

The following table summarizes information about the warrants outstanding at June 30, 2007:

Exercise price	Warrants outstanding	Expiry date
10.00	1,380,000	February 14, 2008

(d) Shares held in escrow

All remaining escrow shares had been released during the year ended December 31, 2006. At April 22, 2006, the final 45,000 of the of the originally escrowed common shares issued in connection with the finders fee and 225,000 of the original 1,500,000 common shares issued to directors and officers of the company were released.

5. CONTRIBUTED SURPLUS

The following table summarizes the Company's Contributed Surplus:

	Contributed Surplus
Balance at December 31, 2005	915,979
Stock options granted during the year	2,341,159
Stock options exercised during the year	(197,944)
Balance at December 31, 2006	$3,059,194
Stock options granted during the period	$2,747,555
Stock options exercised during the period	(108,517)
Balance at June 30, 2007	$5,698,232

6. INCOME TAXES

The provision for income taxes reported differs from the amounts computed by applying the cumulative Canadian federal and provincial income tax rates to the pre-tax loss due to the following:

	2006	2005	2004
Statutory tax rates	34.12%	34.87%	35.60%
Recovery of income taxes computed at statutory rates	$ 1,319,273	$ 631,439	$ 261,267
Non-deductible expenses	(804,815)	(215,930)	(4,116)
Lower effective tax rate on loss in foreign jurisdictions	(7,443)	(6,363)	(1,973)
Future tax benefits not recognized in the period that the loss arose	(507,015)	(409,146)	(255,178)
	$ -	$ -	$ -

The approximate tax effect of each type of temporary difference that gives rise to the Company's future income tax assets are as follows:

	2006	2005
Canadian operating loss carryforwards	$ 1,442,594	$ 1,023,908
Mexican operating loss carryforwards	2,632,441	1,669,599
Canadian capital losses carried forward	39,125	41,649
Share issuance costs and other	131,638	192,478
Total future income tax assets	4,245,798	2,927,634
Less valuation allowance	(1,528,129)	(1,130,648)
Net future income tax assets	2,717,669	1,796,986
Future income tax liability		
Excess of book value of mineral rights and deferred exploration costs over tax values	(2,717,669)	(1,796,986)
Net future income tax assets	$ -	$ -

At December 31, 2006, the Company has Canadian non-capital loss carryforwards aggregating $4,654,000, expiring between 2006 and 2026, available to offset future taxable income and capital loss carryforwards of $252,000 which are available only to offset future capital gains for tax purposes and may be carried forward indefinitely.

At December 31, 2006, the Company has Mexican tax loss carryforwards aggregating $9,077,382, expiring between 2012 and 2016, available to offset future taxable income.

MAG SILVER CORP.

(An exploration stage company)
Notes to the Consolidated Financial Statements

7. MINERAL RIGHTS AND DEFERRED EXPLORATION COSTS

Six Month Period ended June 30, 2007

	Juanicipio	(Batopilas) Don Fippi	Guigui	Lagartos	Sierra de Ramirez	Adargas	Cinco de Mayo	Sello	Other	Total
Acquisition costs of mineral rights										
Bal., beginning of year	$ 919,458	$ 1,422,672	$ 1,571,172	$ 174,376	$ 527,645	$ 432,061	$ 428,610	$ 28,143	$ -	$ 5,504,137
Incurred during period	-	-	-	-	27,806	-	-	28,562	435,091	491,459
Less amounts written off	-	-	-	-	-	(432,061)	-	-	-	(432,061)
Balance, end of period	$ 919,458	$ 1,422,672	$ 1,571,172	$ 174,376	$ 555,451	$ -	$ 428,610	$ 56,705	$ 435,091	$ 5,563,535
Deferred exploration costs										
Camp costs	$ 8,567	$ 100,401	$ -	$ 38,005	$ 669	$ -	$ 7,066	$ 287	$ -	$ 154,995
Drilling	-	357,851	-	491,467	-	-	3,744	-	-	853,062
Geochemical	-	50,864	-	11,851	-	-	25,990	-	-	88,705
Geological	49,617	301,878	5,700	97,039	6,237	-	25,905	2,212	15,638	504,226
Geophysical	5,257	108,293	52,819	105,492	199,219	875	43,757	1,002	-	516,714
Gov't fees and licenses	4,161	3,359	6,932	111,633	14,904	882	20,009	1,006	16,888	179,774
JV commitments	444,500	-	-	-	-	-	-	-	-	444,500
Site administration	1,736	21,129	1,016	9,920	89	-	859	29	-	34,778
Travel	2,348	35,632	-	7,075	8,694	-	1,385	-	-	55,134
Transport and shipping	-	1,081	683	627	-	1,681	-	-	-	4,072
	516,186	980,488	67,150	873,109	229,812	3,438	128,715	4,536	32,526	2,835,960
Bal., beginning of period	2,146,318	2,082,845	1,376,293	2,197,361	149,130	314,778	1,213,474	-	-	9,480,199
Less amounts written off	-	-	-	-	-	(318,216)	-	-	-	(318,216)
	$ 2,662,504	$ 3,063,333	$ 1,443,443	$ 3,070,470	$ 378,942	$ -	$ 1,342,189	$ 4,536	$ 32,526	$ 11,997,943
Recoveries										
Bal., beginning of year	(21,267)	-	-	-	-	-	-	-	-	(21,267)
Recoveries during period	-	-	-	-	-	-	-	-	-	-
Balance, end of period	$ 2,641,237	$ 3,063,333	$ 1,443,443	$ 3,070,470	$ 378,942	$ -	$ 1,342,189	$ 4,536	$ 32,526	$ 11,976,676

Three Month Period ended June 30, 2007

	Juanicipio	(Batopilas) Don Fippi	Guigui	Lagartos	Sierra de Ramirez	Adargas	Cinco de Mayo	Sello	Other	Total
Acquisition costs of mineral rights										
Bal., beginning of year	$ 919,458	$ 1,422,672	$ 1,571,172	$ 174,376	$ 527,645	$ 432,061	$ 428,610	$ 28,143	$ 310,599	$ 5,814,736
Incurred during period	-	-	-	-	27,806	-	-	28,562	124,492	180,860
Less amounts written off	-	-	-	-	-	(432,061)	-	-	-	(432,061)
Balance, end of period	$ 919,458	$ 1,422,672	$ 1,571,172	$ 174,376	$ 555,451	$ -	$ 428,610	$ 56,705	$ 435,091	$ 5,563,535
Deferred exploration costs										
Camp costs	$ 5,760	$ 45,239	$ -	$ 23,147	$ -	$ -	$ 3,929	$ 287	$ -	$ 78,362
Drilling	-	194,167	-	491,467	-	-	-	-	-	685,634
Geochemical	-	21,992	-	9,306	-	-	-	-	-	31,298
Geological	20,277	167,004	2,850	69,069	1,843	-	16,822	2,212	6,813	286,890
Geophysical	3,006	11,378	6,955	68,826	18,399	-	3,006	1,002	-	112,572
Gov't fees and licenses	-	493	-	2,478	-	-	-	-	1,862	4,833
JV commitments	444,500	-	-	-	-	-	-	-	-	444,500
Site administration	1,342	13,895	1,016	7,754	-	-	526	29	-	24,562
Travel	947	16,186	-	5,140	8,472	-	144	-	-	30,889
Transport and shipping	-	1,081	683	627	-	1,681	-	-	-	4,072
	475,832	471,435	11,504	677,814	28,714	1,681	24,427	3,530	8,675	1,703,612
Bal., beginning of period	2,165,405	2,591,898	1,431,939	2,392,656	350,228	316,535	1,317,762	1,006	23,851	10,591,280
Less amounts written off	-	-	-	-	-	(318,216)	-	-	-	(318,216)
	$ 2,641,237	$ 3,063,333	$ 1,443,443	$ 3,070,470	$ 378,942	$ -	$ 1,342,189	$ 4,536	$ 32,526	$ 11,976,676
Recoveries										
Bal., beginning of year	-	-	-	-	-	-	-	-	-	-
Recoveries during period	-	-	-	-	-	-	-	-	-	-
Balance, end of period	$ 2,641,237	$ 3,063,333	$ 1,443,443	$ 3,070,470	$ 378,942	$ -	$ 1,342,189	$ 4,536	$ 32,526	$ 11,976,676

7. MINERAL RIGHTS AND DEFERRED EXPLORATION COSTS (Continued)

(a) Juanicipio Property

The Company, through its subsidiary, Minera Los Lagartos, S.A. de C.V. ("Lagartos"), holds a 100% interest in an exploration concession on the Juanicipio property, located in the Fresnillo District, Zacatecas, Mexico.

On April 4, 2005 the Company announced the signing of a binding letter of agreement for the establishment of an exploration Joint Venture covering its wholly-owned 7,679 hectare Juanicipio Property in Zacatecas, Mexico with Industrias Peñoles, S.A. de C.V. ("Peñoles"). A formal agreement was later signed with an anniversary date of July 1, 2005.

The principal features of the agreement are:

(i) Peñoles acquired a right to earn a 56% interest in the Juanicipio property upon completion of exploration expenditures of US $5.0 million on or before the end of year four of the agreement. During the quarter ended June 30, 2007 this expenditure requirement was completed by Peñoles. To June 30, 2007 Peñoles had in fact spent approximately US $5.95 million on qualified expenditures for the property, including the completion of 25,758 metres of diamond drilling, and the payment of US $3.04 million for the purchase of surface rights over portions of the property. At June 30, 2007 the Company has recorded a Joint Venture Commitment of US $418,000 (C$444,500) payable to Peñoles for the Company's 44% share of expenditures in excess of US $5.0 million.

(ii) A flexible and staged exploration program is included in the contract. Exploration work will be supervised by a technical committee comprised of three representatives from Peñoles and two from MAG Silver. Peñoles and MAG Silver are obliged to share their information in the district. Part of the geological and exploration work will be conducted by MAG consultants and in-house personnel.

(iii) Exploration results from Juanicipio will be published as appropriate on an ongoing basis, with both companies to agree on the content.

(iv) On signing of the agreement Peñoles subscribed for a required US$500,000 private placement for a total of 621,577 shares of the Company at a price of C$0.967 per share. Later, on March 2, 2006, Peñoles subscribed for a second required US$500,000 private placement for a total of 245,716 MAG shares, at a price of C$2.35 per share.

7. MINERAL RIGHTS AND DEFERRED EXPLORATION COSTS (Continued)

(b) Don Fippi Property

Under the terms of a 2003 option agreement, the Company had the right to acquire a 100% interest in 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. Under the terms of the agreement the Company was required to incur exploration expenditures of US$4,000,000 to April 2008 (of which approximately US$590,000 was incurred) and make scheduled payments consisting of US$550,000 in cash (of which US$100,000 was paid) and 2,100,000 common shares of the Company (of which 676,178 were issued).

In 2005, the Company negotiated a termination and sale agreement whereby the Company issued the underlying agreement holders a one time final payment of 750,000 common shares in exchange for a 100% interest in the property. The purchase eliminated all remaining work commitments and the remaining payments of US$450,000 in cash and 673,822 in shares under the terms of the original option agreement. The property will remain subject to royalties and certain other terms of the original option agreement. To June 30, 2007 the Company has incurred $3,063,333 in exploration costs on the property.

(c) Guigui Property

Under the terms of a 2003 option agreement, the Company had the right to acquire a 100% interest in mining concessions located in the Santa Eulalia (Guigui), Chihuahua district of Mexico, subject to a royalty of 2.5% of the Net Smelter returns obtained from the property. Under the terms of the agreement the Company was required to incur exploration expenditures of US$2,500,000 to April 2007 (of which approximately US$660,000 was incurred) and make scheduled payments consisting of US$550,000 in cash (of which US$100,000 was paid) and 2,100,000 common shares of the Company (of which 745,997 were issued).

In 2005, the Company negotiated a termination and sale agreement whereby the Company issued the underlying agreement holders a one time final payment of 750,000 common shares in exchange for a 100% interest in the property. The purchase eliminated all remaining work commitments and the remaining payments of US$450,000 in cash and 604,003 in shares under the terms of the original option agreement. The property will remain subject to royalties and certain other terms of the original option agreement. To June 30, 2007 the Company has incurred $1,443,443 in exploration costs on the property.

7. MINERAL RIGHTS AND DEFERRED EXPLORATION COSTS (Continued)

(d) Lagartos Property

The Company has acquired an exploration concession on mining claims (Lagartos) on the Fresnillo trend to the northwest and southeast of the Juanicipio property. This exploration concession enables the Company to explore the mining claim covered by the concession to December 2009, subject to the Company paying any applicable annual tax or other regulatory charges. To June 30, 2007 the Company has incurred $3,070,470 in exploration costs on the property.

(e) Sierra Ramirez Property

On December 14, 2003 the Company entered into an option agreement to acquire a 100% interest in certain mining concessions located in the Sierra Ramirez district in Durango, Mexico. Under the terms of the option agreement, the Company was obligated to:

(i) make scheduled payments totalling US$1,505,000 plus applicable value added tax by December 14, 2008;

(ii) incur exploration expenditures totalling US$250,000 by July 26, 2009; and

(iii) issue a finder's fee of 25,000 common shares of the Company (all are issued).

During the period ended December 31, 2006, the Company and Minera Rio Tinto, S.A. de C.V. amended terms of the above referenced option agreement. Under the amended terms, the Company will issue Minera Rio Tinto, S.A. de C.V. 20,000 common shares of the Company (issued) and make scheduled cash payments totalling US$1,300,000 (of which US$100,000 has been paid) to December 14, 2010, with a final payment of US$650,000 of which up to US$500,000 may be paid in the common shares of the Company. Under the amended terms all exploration work commitments were also eliminated. To June 30, 2007 the Company has incurred $378,942 in exploration costs on the property.

(f) Adargas Property

On February 14, 2004 the Company entered into an option agreement to acquire a 100% interest in the Adargas property (the "Adargas Property"), subject to a 2.5% net smelter returns royalty. Under the terms of the agreement, the Company was obligated to:

(i) make scheduled payments totalling US$1,000,000 plus applicable value added tax (of which US$225,000 has been paid) by July 26, 2009;

(ii) issue 75,000 common shares of the Company (all have been issued); and

(iii) incur exploration expenditures totalling US$1,000,000 by July 26, 2009 (of which approximately US$260,000 has been incurred to June 30, 2007).

7. MINERAL RIGHTS AND DEFERRED EXPLORATION COSTS (Continued)

(f) Adargas Property (continued)

During the year ended December 31, 2005, the Company and Minera Cascabel, S.A. de C.V. amended terms of the above referenced option agreement. Under the amended terms, half of each of the remaining property payments totalling US$775,000 due on or before July 26, 2009, may be paid in shares at a deemed price per share equal to the average trading price of MAG for 30 calendar days prior to the date of payment. To that end MAG paid cash of US$62,500 and issued 30,840 shares (2005 - US$37,500 and issued 59,830 shares) for the property payment due July 26, 2006. During the period ended June 30, 2007 the Company terminated its option agreement, and consequently, costs of $750,277 were written-off.

(g) Cinco de Mayo Property

On February 26, 2004 the Company has entered into an option agreement to acquire a 100% interest in the Cinco de Mayo property (the "Cinco de Mayo Property"), subject to a 2.5% net smelter returns royalty. Under the terms of the agreement, the Company was obligated to:

(i) make scheduled payments totalling US$1,000,000 plus applicable value added tax (of which US$225,000 has been paid) by July 26, 2009;

(ii) issue 75,000 common shares of the Company (all have been issued); and

(iii) incur exploration expenditures totalling US$1,000,000 by July 26, 2009 (of which approximately US$1,176,000 has been incurred to June 30, 2007).

During the year ended December 31, 2005, the Company and Minera Cascabel, S.A. de C.V. amended the terms of the above referenced option agreement. Under the amended terms, half of each of the remaining property payments totalling US$775,000 (US$225,000 paid) due on or before July 26, 2009, may be paid in shares at a deemed price per share equal to the average trading price of MAG for 30 calendar days prior to the date of payment. To that end MAG paid cash of US$62,500 and issued 30,840 shares (2005 - US$37,500 and issued 59,830 shares) for the property payment due July 26, 2006.

(h) Sello Property

On December 8, 2006 the Company has entered into a letter of intent agreement to acquire a 100% interest in the Sello and Sello Uno claims located in Zacatecas State, by making scheduled option payments totalling US$1,000,000 plus applicable value added tax over a three year period (of which US$25,000 has been paid). During the current period the Company entered into a letter of intent agreement to acquire a 100% interest in the El Oro claims located in Zacatecas State, by making scheduled option payments totalling US$125,000 plus applicable value added tax over one year (of which US$25,000 has been paid).

7. MINERAL RIGHTS AND DEFERRED EXPLORATION COSTS (Continued)

(i) *Other Properties*

In the period ending June 30, 2007 the Company optioned some exploration concessions on mining claims for a cost of US$435,091 plus applicable value added tax.

8. 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.

9. RELATED PARTY TRANSACTIONS

For the period ended June 30, 2007 the Company's president received $127,064 in compensation for management services (2006 - $65,400).

For the period ended June 30, 2007 a company controlled by an officer of the Company received $101,920 in compensation for consulting services (2006 - $84,000).

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"). As of January 2006, these companies have a common director with the Company. During the period ended June 30, 2007 the Company accrued or paid Cascabel and IMDEX consulting, administration and travel fees totaling $62,401 (2006 - $64,334) and exploration costs totaling $521,747 (2006 - $565,735) under the Field Services Agreement.

During the year ended December 31, 2003, the Company entered into an office services agreement with Platinum Group Metals Ltd. ("PTM"), a company with a common director and common officer. During the period ended June 30, 2007 the Company accrued or paid PTM $68,195 under the common service agreement (2006 - $67,768).

During the year ended December 31, 2004, the Company entered into an office lease agreement with Anthem Works Ltd. ("Anthem"), a company with a common director. During the period ended June 30, 2007 the Company accrued or paid Anthem $31,167 under the office lease agreement (2006 - $31,167).

These transactions were incurred in the normal course of business and are measured at the exchange amount which was the consideration established and agreed to by the noted parties.

10. CONTINGENCIES AND COMMITMENTS

The Company's minimum payments under its office lease agreement which was entered into during the year ended December 31, 2004, is as follows:

2007		15,584
2008		-
	$	15,584

11. AMOUNTS RECEIVABLE

		June 30, 2007		Dec. 31, 2006
Goods and services tax recoverable	$	18,239	$	19,949
Mexican value added tax ("IVA") recoverable		486,742		251,919
Other		-		1,167
	$	504,981	$	273,035

12. SUBSEQUENT EVENTS

Subsequent to June 30, 2007:

(b) The Company issued 50,000 common shares at $1.00 on the exercise of stock options; 50,000 common shares at $1.06 on the exercise of stock options; and 12,000 common shares at $4.04 on the exercise of stock options, for proceeds of $151,480;

There are other subsequent events disclosed elsewhere in the notes to the consolidated financial statements.