



MAG SILVER CORP.

(An exploration stage company)

Consolidated Interim Financial Statements
For the nine month period ended September 30, 2006

Filed: November 27, 2006

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

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

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

	Sept. 30, 2006	Dec. 31, 2005
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 4,611,501	\$ 7,560,193
Accounts receivable (Note 10)	279,170	105,071
Interest receivable	106,000	26,412
Prepaid expenses	93,075	22,237
TOTAL CURRENT ASSETS	5,089,746	7,713,913
EQUIPMENT AND LEASEHOLDS (Note 3)	35,731	39,914
MINERAL RIGHTS (Note 6)	5,211,141	4,858,108
DEFERRED EXPLORATION COSTS (Note 6)	8,443,603	5,463,471
TOTAL ASSETS	\$ 18,780,221	\$ 18,075,406
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 470,753	\$ 393,621
TOTAL LIABILITIES	470,753	393,621
SHAREHOLDERS' EQUITY		
Share capital (Note 4)		
Authorized - 1,000,000,000 common shares, without par value		
Issued and outstanding at September 30, 2006		
- 37,441,410 common shares (December 31, 2005 - 36,191,648)		
	22,698,793	20,812,185
Contributed surplus	2,705,232	915,979
Deficit	(7,094,557)	(4,046,379)
TOTAL SHAREHOLDERS' EQUITY	18,309,468	17,681,785
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 18,780,221	\$ 18,075,406

CONTINUING OPERATIONS (Note 1)

ON BEHALF OF THE BOARD

(Signed) Dan MacInnis

Dan MacInnis, Director

(Signed) R. Michael Jones

Michael Jones, 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 Sept. 30, 2006	For the three month period ended Sept. 30, 2005	For the nine month period ended Sept. 30, 2006	For the nine month period ended Sept. 30, 2005
EXPENSES				
Accounting and audit	\$ 23,048	\$ 23,548	\$ 127,107	\$ 63,383
Amortization	4,399	4,640	12,421	13,717
Bank charges and interest	288	509	1,444	1,347
Filing and transfer agent fees	5,223	9,422	33,109	35,325
Foreign exchange (gain) loss	4,949	4,611	22,737	(16,085)
Legal	8,797	25,086	65,415	123,248
Management and consulting fees	107,593	73,263	357,378	221,348
Non-resident corporation tax	-	-	8,370	-
Shareholder relations	76,889	29,292	203,479	81,450
Stock compensation expense	234,592	104,745	1,954,298	578,745
Telephone and office	68,942	46,252	276,901	192,125
Travel	84,740	28,834	149,705	84,392
	619,460	350,202	3,212,364	1,378,995
LOSS BEFORE THE FOLLOWING	(619,460)	(350,202)	(3,212,364)	(1,378,995)
INTEREST INCOME	48,664	29,780	164,186	64,023
NET LOSS FOR THE PERIOD	\$ (570,796)	\$ (320,422)	\$ (3,048,178)	\$ (1,314,972)
BASIC AND DILUTED				
LOSS PER SHARE	\$ (0.02)	\$ (0.01)	\$ (0.08)	\$ (0.05)
WEIGHTED AVERAGE NUMBER				
OF SHARES OUTSTANDING	37,163,688	29,570,440	36,869,098	27,688,899

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 not issued	Special warrants		Contributed Surplus	Deficit accumulated during the exploration stage	Total shareholders' equity
	Shares	Amount		Number	Amount			
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 (Note 4 (a))	10,000	5,000	-	-	-	-	-	5,000
Finders' fee shares (Note 7 (a))	500,000	250,000	-	-	-	-	-	250,000
Issued to obtain mineral property option rights	200,000	100,000	-	-	-	-	-	100,000
Issued on acquisition of Lexington (Note 7 (b))	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 (h))	-	-	-	-	-	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 (Note 4 (a))	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	65,043	149,431	-	-	-	-	-	149,431
Warrants exercised	507,003	684,454	-	-	-	-	-	684,454
Stock options exercised	432,000	475,290	-	-	-	(165,045)	-	310,245
Stock options granted	-	-	-	-	-	1,954,298	-	1,954,298
Net loss	-	-	-	-	-	-	(3,048,178)	(3,048,178)
Balance, September 30, 2006	37,441,410	\$ 22,698,793	\$ -	-	\$ -	\$ 2,705,232	\$ (7,094,557)	\$ 18,309,468

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 Sept 30, 2006	For the three month period ended Sept. 30, 2005	For the nine month period ended Sept. 30, 2006	For the nine month period ended Sept. 30, 2005
OPERATING ACTIVITIES				
Loss for the period	\$ (570,796)	\$ (320,422)	\$ (3,048,178)	\$ (1,314,972)
Items not involving cash:				
Amortization	4,399	4,640	12,421	13,717
Non-cash compensation expense	234,592	104,745	1,954,298	578,745
Changes in operating assets and liabilities				
Accounts receivable	(104,644)	333,482	(174,099)	444,294
Interest receivable	(14,800)	(10,750)	(79,588)	6,444
Prepaid expenses	(78,920)	(28,511)	(70,838)	(17,497)
Accounts payable and accrued liabilities	(5,877)	(95,836)	77,132	(4,023)
	(536,046)	(12,652)	(1,328,852)	(293,292)
INVESTING ACTIVITIES				
Purchase of equipment and leasehold improvements	(2,353)	-	(8,238)	(16,868)
Mineral rights	(163,705)	(99,286)	(203,602)	(129,917)
Deferred exploration costs	(952,267)	(494,307)	(2,980,132)	(972,365)
	(1,118,325)	(593,593)	(3,191,972)	(1,119,150)
FINANCING ACTIVITIES				
Issue of share capital	358,331	2,750	1,572,132	1,670,381
Issue of special warrants	-	-	-	-
	358,331	2,750	1,572,132	1,670,381
INCREASE (DECREASE) IN CASH	(1,296,040)	(603,495)	(2,948,692)	257,939
CASH AND EQUIVALENTS, BEGINNING OF PERIOD	5,907,541	2,727,794	7,560,193	1,866,360
CASH AND EQUIVALENTS, END OF PERIOD (Note 2 (d))	\$ 4,611,501	\$ 2,124,299	\$ 4,611,501	\$ 2,124,299
Issue of shares in exchange for mineral property option rights	\$ 149,431	\$ 100,109	\$ 149,431	\$ 1,327,822

See accompanying notes to the consolidated financial statements.

MAG SILVER CORP.

(An exploration stage company)

Period ended September 30, 2006 and 2005

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.

MAG SILVER CORP.

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Period ended September 30, 2006 and 2005

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

On January 15, 2003, the Company completed its acquisition of Minera Los Lagartos, SA de CV (Note 7 (a)) and on July 16, 2003, its acquisition of Lexington Capital Group Inc. (Note 7 (b)). 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’ 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 September 30, 2006 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.

MAG SILVER CORP.

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Period ended September 30, 2006 and 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) *Financial instruments*

The carrying values of cash and cash equivalents, accounts 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.

(d) *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:

	<u>Sept. 30, 2006</u>	<u>Dec. 31, 2005</u>	<u>Dec. 31, 2004</u>
Cash	\$ 611,501	\$ 6,210,193	\$ 66,360
Short-term deposits	4,000,000	1,350,000	1,800,000
	<u>\$ 4,611,501</u>	<u>\$ 7,560,193</u>	<u>\$ 1,866,360</u>

(e) *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.

MAG SILVER CORP.

(An exploration stage company)

Period ended September 30, 2006 and 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) *Mineral rights and deferred exploration costs (continued)*

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.

(f) *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.

(g) *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.

MAG SILVER CORP.

(An exploration stage company)

Period ended September 30, 2006 and 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) 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 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 2006 amount to \$1,954,298 (2005 - \$578,745).

Had the same basis been applied to share purchase options granted in 2004 and 2003, net earnings for the year would have been as follows:

	2004	2003
Net loss	\$ 733,897	\$ 837,539
Additional compensation expense	-	248,128
Pro forma net loss	\$ 733,897	\$ 1,085,667
Pro forma basic and diluted loss per share	\$ (0.03)	\$ (0.08)

For the year ended December 31, 2003, 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 63%, an annual risk free interest rate of 3.76% and expected lives of five years. The weighted average fair value of share purchase options granted in 2003 was \$0.33 per share.

No stock options were issued in the year ended December 31, 2004 and the fair value of the stock options issued in 2005 are described in Note 4 (b).

MAG SILVER CORP.

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Period ended September 30, 2006 and 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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) *Earnings (loss) per common share*

Basic earnings (loss) per share calculations are based on the weighted average number of common shares outstanding, after excluding the shares held in escrow for which the conditions for their release were not satisfied (Note 4 (d)).

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 5,920,487 for the period ended September 30, 2006 (2,842,500 and 3,077,987 shares arising from outstanding and exercisable stock options and share purchase warrants, respectively) and 1,974,500 shares for the period ended September 30, 2005 (1,974,500 and Nil shares arising from outstanding exercisable stock options and share purchase warrants, respectively) were not included as their effect would be anti-dilutive.

(k) *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.

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Period ended September 30, 2006 and 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Comparative figures

Certain of the prior periods' comparative figures have been reclassified to conform with the classifications used in September 30, 2006.

3. FIXED ASSETS AND LEASEHOLDS

	September 30, 2006		December 31, 2005	
	Cost	Accumulated depreciation	Net book value	Net book value
Computer equipment and software	\$ 30,127	\$ 14,016	\$ 16,111	\$ 12,300
Field equipment	34,806	20,186	14,620	18,864
Leasehold improvements	15,000	10,000	5,000	8,750
	<u>\$ 79,933</u>	<u>\$ 44,202</u>	<u>\$ 35,731</u>	<u>\$ 39,914</u>

4. SHARE CAPITAL

(a) Issued and outstanding

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 6 (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 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 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.

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 6 (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 6 (c).

MAG SILVER CORP.

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Period ended September 30, 2006 and 2005

4. SHARE CAPITAL (Continued)

(a) Issued and outstanding (continued)

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 6 (a)(v).

On April 15, 2003, 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. 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 \$0.75 per share for a period of two years from the date of closing. The Agents were granted warrants to purchase up to 1,150,000 shares of the Company at the same price in partial payment of services rendered in connection with the financing. The commission paid to the Agents was \$460,000, equal to 8% of the gross proceeds of the Offering, including the issue of 10,000 shares of the Company (the “Administration Shares”) as an administration fee in relation to the Offering, valued at \$5,000. Corporate finance fees, legal fees and related expenditures totalled \$175,234, of which \$7,500 was incurred to December 31, 2002. The net proceeds to the Company from the financing were \$5,109,766.

The prospectus issued in respect of the financing also qualified 2,400,000 common shares and non-transferable share purchase warrants to purchase up to 1,950,000 common shares of the Company issuable upon the exercise of special warrants issued by the Company in September and December, 2002, which shares and warrants have now been issued. The prospectus also qualified 500,000 finders’ fee shares issued in relation to property acquisitions, of which 200,000 common shares have been issued and 300,000 were initially issued in escrow.

(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.

MAG SILVER CORP.

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Period ended September 30, 2006 and 2005

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 September 30, 2006	Weighted average exercise price	Year ended December 31, 2005	Weighted average exercise price
Balance outstanding, beginning of year	2,154,500	\$ 0.84	1,030,000	\$ 0.54
Activity during the period				
Options granted	1,130,000	3.07	1,240,000	1.03
Options cancelled	(10,000)	4.04	(10,000)	1.06
Options exercised	(432,000)	0.72	(105,500)	0.22
Balance outstanding, end of period	2,842,500	\$ 1.73	2,154,500	\$ 0.84

The following table summarizes options outstanding and exercisable at September 30, 2006:

Number outstanding and exercisable at September 30, 2006	Weighted average remaining contractual life (years)	Weighted average exercise price
394,500	1.54	\$ 0.50
220,000	1.61	0.70
68,000	3.85	0.75
110,000	4.17	1.00
25,000	4.20	1.02
878,000	3.30	1.06
37,500	4.01	1.14
14,500	4.28	1.55
650,000	4.35	3.00
25,000	4.47	3.56
200,000	4.50	4.04
50,000	4.71	2.00
145,000	4.81	2.46
25,000	4.92	3.12
2,842,500	3.45	\$ 1.68

During the current period the Company granted 1,130,000 stock options, and later cancelled 10,000 of these, (September 30, 2005 – 1,060,000 and later cancelled 10,000 of these). The Company has recorded \$1,954,298 (2005 - \$578,745) of compensation expense relating to stock options vested to employees and consultants in the period ended September 30, 2006.

MAG SILVER CORP.

(An exploration stage company)

Period ended September 30, 2006 and 2005

4. SHARE CAPITAL (Continued)

(b) Stock options (continued)

For the period ended September 30, 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 4.11% and expected lives of three years.

For the year ended December 31, 2005, 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 80%, an annual risk free interest rate of 3.5% and expected lives of three years.

(c) Share purchase warrants

	Number of warrants	Weighted average exercise price
Balance at December 31, 2004	2,429,255	0.75
Issued in connection with issuance of common shares	3,584,990	1.35
Exercised and converted into common shares	(1,400,755)	0.75
Expired	(1,028,500)	0.75
Balance at December 31, 2005	3,584,990	1.35
Exercised and converted into common shares	(507,003)	1.35
Balance at September 30, 2006	3,077,987	\$ 1.35

The following table summarizes information about the warrants outstanding at September 30, 2006:

Exercise price	Warrants outstanding	Expiry date
\$ 1.35	3,077,987	June 21, 2007

(d) Shares held in escrow

At the end of the period there are no shares held in escrow. All remaining escrow shares have been released during the period ended September 30, 2006. At April 21, 2006, the final 45,000 of the of the originally escrowed common shares issued in connection with the finders fee (Note 4 (a)) and 225,000 of the original 1,500,000 common shares issued to directors and officers of the company were released.

MAG SILVER CORP.

(An exploration stage company)

Period ended September 30, 2006 and 2005

5. 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:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Statutory tax rates	34.87%	35.60%	37.60%
Recovery of income taxes computed at statutory rates	\$ 631,439	\$ 261,267	\$ 314,915
Non-deductible expenses	(215,930)	(4,116)	(28,316)
Lower effective tax rate on loss in foreign jurisdictions	(6,363)	(1,973)	(1,603)
Future tax benefits not recognized in the period that the loss arose	(409,146)	(255,178)	(284,996)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

	<u>2005</u>	<u>2004</u>
Canadian operating loss carryforwards	\$ 1,023,908	\$ 651,097
Mexican operating loss carryforwards	1,669,599	1,223,600
Canadian capital losses carried forward	41,649	44,100
Share issuance costs	192,478	136,750
Total future income tax assets	2,927,634	2,055,547
Less valuation allowance	(1,130,648)	(831,947)
Net future income tax assets	1,796,986	1,223,600
Future income tax liability		
Excess of book value of mineral rights and deferred exploration costs over tax values	(1,796,986)	(1,223,600)
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2005, the Company has Canadian non-capital loss carryforwards aggregating \$3,103,000, expiring between 2006 and 2015, 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, 2005, the Company has Mexican tax loss carryforwards aggregating \$5,962,000, expiring between 2012 and 2015, available to offset future taxable income.

MAG SILVER CORP.
(An exploration stage company)
Period ended September 30, 2006 and 2005

6. MINERAL RIGHTS AND DEFERRED EXPLORATION COSTS

	Nine Month Period ended September 30, 2006							Total
	Juanicipio	Don Fippi	Guigui	Lagartos	Sierra de Ramirez	Adargas	Cinco de Mayo	
Acquisition costs of mineral rights								
Bal., beginning of year	\$ 919,458	\$ 1,422,672	\$ 1,571,172	\$ 39,629	\$ 329,854	\$ 289,387	\$ 285,936	\$ 4,858,108
Incurred during period	-	-	-	10,689	57,740	142,302	142,302	353,033
Balance, end of period	\$ 919,458	\$ 1,422,672	\$ 1,571,172	\$ 50,318	\$ 387,594	\$ 431,689	\$ 428,238	\$ 5,211,141
Deferred exploration costs								
Camp costs	\$ 4,126	\$ 95,518	\$ 605	\$ 60,236	\$ 2,030	\$ -	23,063	\$ 185,578
Drilling	-	281,069	-	1,097,374	-	-	142,940	1,521,383
Geochemical	238	24,980	-	42,841	-	-	37,145	105,204
Geological	58,190	244,464	8,974	268,783	27,343	1,455	136,047	745,256
Gov't fees and licenses	9,505	2,399	7,632	229,119	16,203	1,168	29,586	295,612
Travel	11,870	29,432	410	5,986	839	985	392	49,914
Transport and shipping	-	-	-	-	-	-	-	-
Site administration	6,961	28,358	6,931	14,305	8,293	3,368	8,969	77,185
	90,890	706,220	24,552	1,718,644	54,708	6,976	378,142	2,980,132
Bal., beginning of year	2,026,094	1,240,889	1,265,194	399,192	88,536	307,779	135,787	5,463,471
Balance, end of period	\$ 2,116,984	\$ 1,947,109	\$ 1,289,746	\$ 2,117,836	\$ 143,244	\$ 314,755	\$ 513,929	\$ 8,443,603

	Three Month Period ended September 30, 2006							Total
	Juanicipio	Don Fippi	Guigui	Lagartos	Sierra de Ramirez	Adargas	Cinco de Mayo	
Acquisition costs of mineral rights								
Bal., beginning of period	\$ 919,458	\$ 1,422,672	\$ 1,571,172	\$ 50,318	\$ 359,062	\$ 289,387	\$ 285,936	\$ 4,898,005
Incurred during period	-	-	-	-	28,532	142,302	142,302	313,136
Balance, end of period	\$ 919,458	\$ 1,422,672	\$ 1,571,172	\$ 50,318	\$ 387,594	\$ 431,689	\$ 428,238	\$ 5,211,141
Deferred exploration costs								
Camp costs	\$ 3,232	\$ 19,690	\$ 330	\$ 15,634	\$ 656	\$ -	\$ 10,053	\$ 49,595
Drilling	-	-	-	289,480	-	-	142,940	432,420
Geochemical	-	3,387	-	16,538	-	-	2,900	22,825
Geological	23,388	40,154	3,431	85,150	12,085	420	57,640	222,268
Gov't fees and licenses	3,486	1,874	2,948	134,610	7,572	546	27,211	178,247
Travel	5,078	-	-	345	-	-	-	5,423
Transport and shipping	-	-	-	-	-	-	-	-
Site administration	4,180	7,220	4,432	6,428	8,193	3,368	7,668	41,489
	39,364	72,325	11,141	548,185	28,506	4,334	248,412	952,267
Bal., beginning of period	2,077,620	1,874,784	1,278,605	1,569,651	114,738	310,421	265,517	7,491,336
Balance, end of period	\$ 2,116,984	\$ 1,947,109	\$ 1,289,746	\$ 2,117,836	\$ 143,244	\$ 314,755	\$ 513,929	\$ 8,443,603

MAG SILVER CORP.

(An exploration stage company)

Period ended September 30, 2006 and 2005

6. 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 can earn a 56% interest in Juanicipio upon completion of a US\$5,000,000 exploration program on or before the end of year 4 of the agreement. To date Peñoles has spent approximately US\$2,457,000 and completed 1,959 metres of diamond drilling.
 - (ii) Peñoles was obligated to incur exploration expenditures of at least US\$750,000 in year one, including a minimum of 3,000 metres of diamond drilling and Peñoles completed the obligation.
 - (iii) 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.
 - (iv) Exploration results from Juanicipio will be published as appropriate on an ongoing basis, with both companies to agree on the content.
 - (v) 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.
 - (vi) Peñoles was obligated to incur further exploration expenditures of at least US\$1,00,000 in year two and Peñoles has completed the obligation.
-

MAG SILVER CORP.

(An exploration stage company)

Period ended September 30, 2006 and 2005

6. 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 September 30, 2006 the Company has incurred \$1,947,109 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 September 30, 2006 the Company has incurred \$1,289,746 in exploration costs on the property.

(d) *Lagartos Property*

The Company has acquired an exploration concession on mining claims (Lagartos) on the Fresno 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.

MAG SILVER CORP.

(An exploration stage company)

Period ended September 30, 2006 and 2005

6. MINERAL RIGHTS AND DEFERRED EXPLORATION COSTS (Continued)

(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 (of which US\$255,000 has been paid) by December 14, 2008;
- (ii) incur exploration expenditures totalling US\$750,000 by July 26, 2009 (of which US\$117,000 has been incurred to September 30, 2006); and
- (iii) issue a finder's fee of 25,000 common shares of the Company in three tranches (of which all are now issued).

During the period ended September 30, 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 (subsequently issued on October 6, 2006) and make scheduled cash payments totalling US\$1,300,000 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 US\$150,000 in exploration work commitments were also eliminated..

(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 US\$256,000 has been incurred to September 30, 2006).

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.

MAG SILVER CORP.

(An exploration stage company)

Period ended September 30, 2006 and 2005

6. MINERAL RIGHTS AND DEFERRED EXPLORATION COSTS (Continued)

(g) *Cinco de Mayo Property*

On February 26, 2004 the Company has entered into an option agreement 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 US\$441,500 has been incurred to September 30, 2006).

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.

7. ACQUISITIONS

(a) *Minera Los Lagartos, S.A. de C.V. ("Lagartos")*

The Company announced on November 25, 2002 that it was proceeding with the acquisition of a 99% interest in the issued and outstanding common shares of Lagartos. This acquisition was completed by the Company on January 15, 2003. The remaining 1% of Lagartos is held, in trust for the Company, by a director and officer of the Company. Upon acquisition by the Company, Lagartos held the interests in the Juanicipio concessions and the options to acquire interests in the Don Fippi and Guigui concessions.

The acquisition of Lagartos has been accounted for using the purchase method and the results of operations of Lagartos have been included in the Company's results of operations from January 15, 2003.

MAG SILVER CORP.

(An exploration stage company)

Period ended September 30, 2006 and 2005

7. ACQUISITIONS (Continued)

(a) *Minera Los Lagartos, S.A. de C.V. ("Lagartos") (continued)*

The total purchase price of Lagartos and its allocation to the fair value of net assets acquired is as follows:

Cash advanced to Lagartos in respect of option on Juanicipio property (US\$50,000) paid in 2002	\$ 78,750
Cash paid for the 100% interest in the common shares of Lagartos (US\$5,000)	7,500
Finders' fee	250,000
Advances to Lagartos prior to acquisition	113,139
	<hr/>
	\$ 449,389
	<hr/>
The fair value of net assets acquired	
Mineral rights	\$ 449,389
	<hr/>

The Company issued 500,000 common shares with a fair value of \$0.50 per share in connection with the completion of the transaction as a finders' fee to two officers and a company with directors and officers in common.

There were no other significant assets or liabilities acquired in this transaction. As such, the total of the acquisition of Lagartos has been allocated to acquired mineral rights being the right or the underlying right to explore a mining property.

(b) *Lexington Capital Group Inc. ("Lexington")*

On October 9, 2005 the assets of Lexington were merged with Lagartos, so that all indirect interests in the Juanicipio I claim were held by one company.

On July 16, 2003, the Company completed the acquisition of Lexington whose main asset is its indirect interest in the Juanicipio I claim that encompasses the Company's Juanicipio Project near Fresnillo, Zacatecas, Mexico. Under the terms of the agreement, the Company paid the vendor US\$250,000 (Cdn\$350,000) and 200,000 common shares of the Company.

The acquisition was accounted for using the purchase method. The allocation of the purchase price was as follows:

Cash	\$ 350,000
200,000 common shares	180,000
	<hr/>
	\$ 530,000
	<hr/>

MAG SILVER CORP.

(An exploration stage company)

Period ended September 30, 2006 and 2005

7. ACQUISITIONS (Continued)

(b) *Lexington Capital Group Inc. ("Lexington") (continued)*

Fair value of net assets acquired:

Cash	\$	4,219
Current liabilities		(13,196)
Mineral property interests		538,977
	\$	530,000

8. RELATED PARTY TRANSACTIONS

For the period ended September 30, 2006 the Company's president received \$98,100 in compensation for management services (2005 - \$88,450).

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 September 30, 2006 the Company accrued or paid Cascabel and IMDEX consulting fees totaling \$90,194 and exploration fees totaling \$818,634 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 September 30, 2006 the Company accrued or paid PTM \$102,308 under the common service agreement (2005 - \$99,906).

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 September 30, 2006 the Company accrued or paid Anthem \$46,750 under the office lease agreement (2005 - \$46,750).

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.

9. 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:

2006	\$	15,583
2007		46,750
	\$	62,333

MAG SILVER CORP.

(An exploration stage company)

Period ended September 30, 2006 and 2005

10. AMOUNTS RECEIVABLE

	<u>Sept. 30, 2006</u>	<u>Dec. 31, 2005</u>
Goods and services tax recoverable	\$ 9,823	\$ 26,706
Mexican value added tax ("IVA") recoverable	249,759	75,499
Other	19,588	2,866
	<u>\$ 279,170</u>	<u>\$ 105,071</u>

11. SUBSEQUENT EVENTS

Subsequent to September 30, 2006:

- (a) Issued 135,000 common shares at \$1.35 on the exercise of warrants for proceeds of \$182,250; and issued 17,500 common shares at an average price of \$0.86 on the exercise of options for proceeds of \$15,125;
 - (b) Issued 20,000 common shares at \$2.75 to Minera Rio Tinto, as an option payment for Sierra Ramirez property. This is part of the amended option agreement mentioned in (Note 6.(c)).
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MAG SILVER CORP.

(An exploration stage company)

Supplementary Information and MD&A
For the period ended
September 30, 2006

Filed: November 27, 2006

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

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Management Discussion & Analysis

September 30, 2006

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".

MAG Silver'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"). MAG Silver'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 MAG Silver 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. Since that time the Company has received approximately \$4,595,000 from the exercise of warrants from this financing, as well as warrants from previous financings. The Company remains in strong financial condition as a result of the April 15, 2003 financing and the exercise of share purchase warrants. The Company has generally followed its budgeted use of proceeds shown in the Company's Prospectus dated March 31, 2003, but due to the extra money received, the Company acquired other mineral properties, and increased some mineral exploration activities.

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 was the culmination of extensive negotiations carried out during the first half of 2005, fuelled by MAG's 2003 & 2004 explorations at Juanicipio and Peñoles exploration success at Juanicipio.

Under the terms of the agreement Peñoles can earn a 56% interest in Juanicipio by spending \$5,000,000 US over 4 years, including a \$750,000 US expenditure commitment in year one (2005) (completed) with a minimum of 3,000 meters of diamond drilling by Peñoles (drilled 5,747m in

Management Discussion & Analysis

September 30, 2006

2005). Under the terms of the agreement Peñoles agreed to make two \$500,000 US investments 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 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).

To the end of the 2005 year Peñoles had completed 7 diamond drill holes for a total of about 5,747 meters of drilling. In early 2006 the Company announced that a new, high grade silver / gold vein has been intersected in two holes at Juanicipio. 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.

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 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 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.

During 2005 the Company renegotiated the property agreements at Don Fippi and Guigui. Under the new terms of the property agreements MAG Silver purchased 100% interest in both properties through the issuance of 750,000 common shares per property (1,500,000 in aggregate). As a result of the purchases MAG 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 MAG's portfolio of properties.

Various drill programs over the past three years (2003, 2004 and 2005) at Juanicipio, Batopilas Lagartos, Guigui and Adargas have been successful in moving these projects from conceptual exploration plays to new mineral and or epithermal system discoveries highly deserving of further follow up. This is best exemplified through drilling in 2005 at Juanicipio (by Peñoles) and at Batopilas (by MAG) where there were significant new high grade silver vein discoveries. In addition drilling results at Guigui were considered encouraging with a number of narrow moderate-grade silver and base metal intersections.

New district scale targets were also identified at Lagartos NW, Lagartos SE, Cinco de Mayo and at Sierra de Ramirez. Drilling is now underway at the Cinco de Mayo property. Drilling is finished at the Lagartos property, and the Company is awaiting results. The Sierra de Ramirez project is earmarked for drilling during early 2007.

Management Discussion & Analysis

September 30, 2006

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

2. DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION

a) Results of Operations

During the period ended September 30, 2006 the Company earned interest income of \$164,186 (2005 - \$64,023) on short-term investments and cash on hand. Cash at September 30, 2006 amounted to \$4,611,501 (2005 - \$2,124,299).

General and administrative expenses amounted to \$3,212,364 (2005 - \$1,378,995) during the period. After deducting interest earned of \$164,186 (2005 - \$64,023), the operating loss for the period was (\$3,048,178) (2005 - (\$1,314,972)).

General and administrative expenses in 2006 increased when compared to 2005 due to stock compensation expense which is a non cash item, and the Company has become more active resulting in generally higher expenses.

Stock compensation expense, a non-cash item, amounted to \$1,954,298 this period (2005 - \$578,745). Office and telephone expense of \$276,901 was higher than the amount of \$192,125 in 2005. Travel and accommodation expenses for the period totaled \$149,705 which is higher than \$84,392 in 2005. Management traveled to Mexico several times during the period, and attended trade shows. Management and consulting fees of \$357,378 were higher than the \$221,348 incurred in 2005 as more management personnel have been hired. Consulting and management fees have been paid to several individuals including directors and an officer. (See related party transactions).

Services have been provided by the company's president, the company's VP of corporate development, the company's lawyer, and its consulting geologists and include project management, investor relations, legal, geological and administrative services. During the period ended September 30, 2006 legal fees amounted to \$65,415 (2005 - \$123,248), filing and transfer agent fees totaled \$33,109 (2005 - \$35,325), shareholder relations totaled \$203,479 (2005 - \$81,450) while accounting and audit expenses totaled \$127,107 (2005 - \$63,383). Accounting and audit expenses incurred include amounts incurred in connection with the Company's annual United States Securities and Exchange Commission ("SEC") Registration Form 20F. 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.

Third quarter net loss was \$619,460 compared to \$991,889 for first quarter, and \$1,485,493 in the second quarter. If one removed the stock compensation expense, a non-cash item, of \$234,592 for the third quarter (\$627,627 for the first quarter; \$1,092,079 for the second quarter) then the third quarter net loss would be \$336,204 which is lower than the net loss of \$393,414 for the second quarter and only slightly higher than the net loss of \$364,262 for the first quarter. Most expense items were fairly consistent over the three quarters.

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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 Sept. 30, 2006	Year ended Dec. 31, 2005	Year Ended Dec. 31, 2004
Revenues	\$164,186	\$80,432	\$66,999
Net Loss	(\$3,048,178)	(\$1,810,838)	(\$733,897)
Net Loss per Share	(\$0.08)	(\$0.06)	(\$0.03)
Total Assets	\$18,780,221	\$18,075,406	\$9,774,297
Long Term Debt	Nil	Nil	Nil
Dividends	Nil	Nil	Nil

Net loss during the period ended September 30, 2006 decreased slightly as compared to the prior quarter as a result of less legal expenses and filing fees. This was partially offset to increasing management personnel by the Company.

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
September 30, 2006	\$48,664	\$(570,796)	\$(0.015)
June 30, 2006	70,804	(1,556,297)	\$(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)
March 31, 2005	22,201	(750,077)	(0.025)
December 31, 2004	11,611	(243,843)	(0.01)
September 30, 2004	12,237	(112,109)	(0.005)

During the period ended September 30, 2006 the Company was focused on its drilling program at the Cinco de Mayo property. The Company conducted exploration work in Mexico on its other properties and assessed past results in preparation for drill programs expected to begin in earnest in the early part of 2007.

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

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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 June 30, 2007. 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

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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.

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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 affect 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

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During the period ended September 30, 2006 the Company incurred \$353,033 in property acquisition costs, comprised of \$203,602 in cash and \$149,431 in shares issued, comprised of 3,363 common shares @ \$2.25; and 61,680 common shares @ \$2.30; (2005 - \$1,457,739 (\$129,917 in cash and \$1,327,822 in shares, comprised of 13,382 common shares @ \$0.95; 1,500,000 common shares @ \$0.81; and 119,660 common shares @ \$0.76)) in property acquisition costs. Exploration expenditures in cash for the period amounted to \$2,980,132 (2005 - \$972,365).

On April 4, 2005 the Company announced the signing of a letter agreement for the establishment of an exploration Joint Venture covering MAG'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 can earn a 56% interest in Juanicipio upon completion of a US\$5,000,000 exploration program on or before the end of year 4 of the agreement. To date Peñoles has spent approximately US\$2,457,000 and completed 1,959 metres of diamond drilling.
- (ii) Peñoles was obligated to incur exploration expenditures of at least US\$750,000 in year one, including a minimum of 3,000 metres of diamond drilling and Peñoles completed the obligation.
- (iii) 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.
- (iv) Exploration results from Juanicipio will be published as appropriate on an ongoing basis, with both companies to agree on the content.
- (v) 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.
- (vi) Peñoles was obligated to incur further exploration expenditures of at least US\$1,00,000 in year two and Peñoles has completed the obligation.

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 5,747 metres of core recovery by December 31, 2005. Results of this program include the significant discovery of a new high grade silver / gold vein, named the Valdecañes Vein.

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Assay results from the second hole in the Valdecañas Vein discovery, Hole 16, returned high-grade Silver – Gold values over 6.35 meters (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. This includes 2.95 meters (9.6 feet) of 2,807 grams per tonne Silver (90.3 ounces), 3.27 grams per tonne Gold, 5.94% Lead and 9.14% Zinc. The new vein intersection lays approximately 1,000 metres north of the Juanicipio Vein, the initial vein discovery drilled by MAG Silver and recently confirmed by Peñoles

Hole 16 was drilled to intersect the new vein up dip on the same section from drill hole 13, the first hole to intersect the vein. Drill hole 13 returned: 8.65 meters (28 feet) of 116 grams per tonne Silver (3.7 ounces) and 0.26 grams per tonne Gold. There is a separate intercept of 1.05 meters (3.4 feet) at 447 grams per tonne Silver (14.4 ounces).

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 will pay 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 MAG.

Combined with exploration expenditures to date Peñoles will have completed approximately \$US 2,457,000 (to September 01, 2006) of their \$ US 5,000,000 required expenditure to earn a 56% interest in the Juanicipio property. MAG will retain a 44% interest in Juanicipio.

The definition diamond drill program was announced and is expected to involve 18 holes and 15,000 meters of drilling.

The first hole intersected the Valdecañas vein and assay results from Hole 17 returned 1,347 grams silver and 0.50 grams gold over 8.05 meters (7.0 meters true width)..

A second vein, named the "Valdecañas Footwall Vein", was intercepted 53.9 meters down hole from the main Valdecañas Vein intercept reported above. This vein returned 683 grams tonne silver (21.9 ounces) over 5.10 meters (4.4 meters true width).

The hole lies on the same section as Holes 16 and 13 (see press release dated January 23rd, 2006). The upper intercept is clearly the Valdecañas Vein, intersected 60 metres up-dip from the Hole 16 intercept reported earlier.

The Valdecañas Footwall Vein is a new discovery that had not been reached by previous drill holes in the area.

Visually and mineralogically, these intercepts look very similar to the Santo Niño Vein, one of the main production veins in the nearby Fresnillo Mine District

The Company had spent a total of \$2,116,984 in exploration costs at Juanicipio to September 30, 2006 (2005 - \$1,983,243). On May 9, 2006 the Company announced that Peñoles was commencing further drilling on the Juanicipio project.

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At Batopilas a ten-hole 2500 meter drill program was initiated in the fall of 2005 to test preliminary drill targets and helps refine the exploration methods MAG is developing to explore their land holdings in the Batopilas silver district. This program was expanded and 3,100 meters were drilled to March 31, 2006.

MAG reported in early January 2006 that drilling had made a new high grade silver discovery in Hole 02. The Don Juan Vein assayed 1.70 meters (5.6 feet) of 2,358 grams per tonne silver (75.8 ounces per ton). The intersection is part of a 3.0 meter (9.8feet) zone locally rich in the silver bearing mineral acanthite (argentite).

Three holes were drilled in the vicinity of Hole 02, The down-dip intersection in Hole 05 encountered 1.8 m of 118 grams per tonne Ag (3.8 ounces per tonne) forty meters below the high-grade intercept. Hole 06 was drilled 40m along strike and intersected 3.0 meters of 27 grams per tonne (0.9 ounces per tonne). Additionally, Hole 07, drilled 105 meters further NNW intercepted an anomalous interval 1.7 meters in width containing 17 grams per tonne Ag. All four intercepts define a vein exhibiting a distinct geochemical signature containing Silver along with anomalous Arsenic, Molybdenum, Cobalt, Nickel, Lead and Zinc. Although the high grade intercept was not repeated the new vein remains open along strike in both directions and at depth.

Two holes, 03 and 04 were designed to test the area around the San Martin Nuevo workings. These showed multiple intercepts of the signature Batopilas chemistry of Arsenic, Molybdenum, Lead and Zinc; however, the best intercepts encountered in this area were around 1.0 meter zones in the 11 to 40 gram per tonne Ag range. It is encouraging to recognize the signature geochemistry within a structural zone; however, more detailed work will be required in this area to investigate the extent of these mineralized zones.

The last five holes, 08 through 012, focused on the Pastrana Vein in order to evaluate the extensions of this historic past producing vein. Over 20 million ounces of silver were produced from the Pastrana Vein in the mid to late 1700's. Drilling intersected the structural zone and associated calcite in each hole along a 100 meter strike length, but there was no obvious visible silver or silver-sulphides.

This program will represent the first surface holes ever drilled in the district and according to old reports; this style of high-grade acanthite-rich mineralization was found above the native silver rich ore shoots that yielded the bulk of Batopilas' historic silver production of over 250 million ounces.

Field programs have been underway since mid September and include the expansion of the exploration program to the entire property. Mapping of the district and a detailed program of soil and silt geochemistry has also been undertaken. An airborne magnetics and time-domain electromagnetic program is expected to be flown covering the entire property in the last quarter of this year. The Pastrana tunnel has been re-opened and mapping and sampling is planned prior to the drill program expected to begin in early 2007.

Results to date are highlighting an area called Animas on strike from the Don Juan Vein intersected in the last drill program. Work is continuing.

The Company had spent a total of \$1,947,109 in exploration costs at Don Fippi (Batopilas) to September 30, 2006 (2005 - \$969,392).

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At Lagartos NW, (Cerro Cacalote) results received from a large and comprehensive biogeochemical survey have identified a number of long (up to eight kilometers) coincident silver, lead, zinc, copper and bismuth anomalies. The geochemical anomalies lie outboard of a large area identified from ASTER imaging as having the same alteration signature identified at Juanicipio. Geophysical (Magnetic) surveys were carried out in the last quarter of 2005 and into the first quarter of 2006.

A drill program was initiated in January of 2006, with a total of 13 drill holes completed for 7,365 meters drilled to September 30, 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 meters grading 40.1 grams per tonne silver.

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

The Company had spent a total of \$2,117,836 in exploration costs at Lagartos to September 30, 2006 (2005 - \$345,655).

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 (SAG), 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 or 1.40 meters of 242 grams per tonne Silver (7.8 ounces). The best values were associated with members of a felsite dike swarm that cores mineralization in Grupo Mexico's San Antonio Mine approximately 1800 meters 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. MAG also drilled a single hole into the upper zones of the East Fault of the 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, just 1200 meters to the north of our drill area and East Camp can be traced to the south and onto MAG's Guigui property.

A contract to fly an eight hundred line kilometre EM and Magnetic survey was signed and is expected to be completed by the end of November, 2006.

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The Company had spent a total of \$1,289,746 in exploration costs at Guigui to September 30, 2006 (2005 - \$1,262,552).

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. Biogeochemical sampling of creosote bush (a.k.a. greasewood or gobernadora) along the flanks of Cinco de Mayo Ridge has revealed strong linear anomalies in Zn and Cu.

These results were encouraging enough to justify a 30 line-kilometer 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 further 15 line kilometers of NSAMT was carried out to detail the anomaly and results are expected to be integrated into the data base by mid 2006.

Drilling began on this property in the third quarter of 2006. At the time of writing 6 holes for approximately 3,500m have been drilled, results are pending.

A contract to fly a four hundred and fifty line kilometre EM and Magnetic survey was signed and is expected to be completed by the end of November, 2006.

MAG 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 \$513,929 in exploration costs at Cinco de Mayo to September 30, 2006 (2005 - \$62,290).

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 MAG'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.

Joint venture possibilities are being explored in 2006 for the Adargas property.

The Company had spent a total of \$314,755 in exploration costs at Adargas to September 30, 2006 (2005 - \$295,524).

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 MAG Silver as a large scale CRD target. Metal zoning studies have identified three mineralized

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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.

A contract to fly an eleven hundred and twenty line kilometre EM and Magnetic survey was signed and is expected to be completed by the end of November, 2006.

The Company had spent a total of \$143,244 in exploration costs at Sierra de Ramirez to September 30, 2006 (2005 - \$87,873).

All of the costs incurred on property acquisition and exploration to date have been deferred. There were no mineral properties written down during the period or in 2004 or 2005. A complete table of mineral property costs can be found in Note 6 of the Company's Financial Statements for the period ended September 30, 2006.

e) Administration Expenses

General and administrative expenses for the period totaled \$3,212,364 (2005 - \$1,378,995), before interest income of \$164,186 (2005 - \$64,023). Shareholder relations expense, web site hosting and maintenance, investor calls, mail outs, printing and news releases totaled \$203,479 (2005 - \$8,450). Management and consulting fees to September 30, 2006 totaled \$357,378 (2005 - \$221,348). Office and telephone totaled \$276,901 (2005 - \$192,125). Stock compensation expense, a non-cash item, amounted to \$1,954,298 for the period (2005 - \$578,745).

During the period ended September 30, 2006 legal fees amounted to \$65,415 (2005 - \$123,248), and accounting and audit expenses totaled \$127,107 (2005 - \$63,383). Legal opinions and contract preparation for property acquisitions and joint ventures in 2005 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 2005 and 2006.

During the period September 30, 2006 the Company paid stock exchange, filing fees and transfer agent fees of \$33,109 (2005 - \$35,325). A foreign exchange loss of \$22,737 (2005 - \$16,085 gain) was incurred during the same 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 \$149,705 (2005 - \$84,392). 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 September 30, 2006 the Company's president received \$98,100 in compensation for management services (2005 - \$88,450).

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

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of January 2006, these companies have a common director with the Company. During the period ended September 30, 2006 the Company accrued or paid Cascabel and IMDEX consulting fees totaling \$90,194 and exploration fees totaling \$818,634 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 September 30, 2006 the Company accrued or paid PTM \$102,308 under the common service agreement (2005 - \$99,906).

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 September 30, 2006 the Company accrued or paid Anthem \$46,750 under the office lease agreement (2005 - \$46,750).

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 \$203,479 (2005 - \$81,450). The Company manages its shareholder relations as an internal function. The Company attends seminars and conferences related to its business and from time to time does visit brokers, market analysts and investors who request information about the Company's business.

h) Travel and Promotion Expenses

Travel and promotion expenses for the period amounted to \$149,705 (2005 - \$84,392). 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

During the period ended September 30, 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 (subsequently issued on October 6, 2006) and make scheduled cash payments totalling US\$1,300,000 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 US\$150,000 in exploration work commitments were also eliminated.

Property acquisition expenditures during the period totaled \$353,033 (2005 - \$1,457,739) in cash and shares.

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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 September 30, 2006 the Company has incurred \$1,947,109 in exploration costs on the property.

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 September 30, 2006 the Company has incurred \$1,289,746 in exploration costs on the property.

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 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.

During 2003 the Company completed the acquisition of Lexington Capital Group Inc. ("Lexington") whose main asset was its indirect interest in the Juanicipio I claim. Under the terms of the agreement MAG paid the vendor US\$250,000 and issued 200,000 shares of its common stock. In addition to consolidating its ownership of the Juanicipio I claim, this acquisition saved the Company US\$1,150,000 in option payments and US\$2,500,000 in work commitments, and eliminated a net smelter return royalty obligation.

On October 9, 2005 the assets of Lexington were merged with Lagartos, so that all indirect interests in the Juanicipio I claim were held by one company.

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.

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3. CRITICAL ACCOUNTING POLICIES

The Company's accounting policies are set out in Note 2 of its Consolidated Financial Statements for the period ended September 30, 2006.

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, MAG Silver 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, MAG Silver is required to recognize a charge to the income statement based on an option-pricing model based on the following assumption –no dividends were

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paid, a weighted average volatility of the Company's share price of 80 per cent, a weighted average annual risk free rate of 3.5 per cent and an expected life of 3 years. The resulting weighted average option related to an expense for stock options in 2005 of \$611,353 (2004 - \$Nil).

4. LIQUIDITY AND CAPITAL RESOURCES

The Company issued a total of 1,249,762 (2005 - 3,782,511) common shares during the period. Of these 1,184,719 shares (2005 - 2,127,832) were issued for cash proceeds of \$1,572,132 (2005 - \$1,670,381). A further 65,043 shares (2005 - 1,654,679) were issued for mineral properties for a value of \$149,431 (2005 - \$1,327,822). 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 September 30, 2006 the Company had cash and cash equivalents on hand of \$4,611,501 compared to cash and cash equivalents of \$2,124,299 at September 30, 2005. The primary use of cash during the period was for acquisition and exploration expenditures, being approximately \$3,183,734 (2005 - \$1,102,282), management and consulting fees of \$357,378 (2005 - \$221,348) and other general and administrative expenses of \$900,688 (2005 - \$578,902). The Company had \$4,618,993 in working capital as at September 30, 2006 compared to \$2,711,827 at September 30, 2005.

Current liabilities of the Company at September 30, 2006 amounted to \$470,753 (2005 - \$393,621) 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 September 30, 2006; the Audited Financial Statements for the year ended December 31, 2005, 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	\$1,300,000	\$75,000	\$300,000	\$925,000	Nil
Adargas Property	\$1,519,000	\$44,000	\$875,000	\$600,000	Nil
Cinco de Mayo Property	\$1,333,500	Nil	\$733,500	\$600,000	Nil

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Total (US \$)	\$4,152,500	\$119,000	\$1,908,500	\$2,125,000	Nil
Office Lease (Cdn \$)	\$62,333	\$15,583	\$46,750	Nil	Nil

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

A system of internal control is maintained by management to provide reasonable assurance that assets are safeguarded and financial information is accurate and reliable. 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.

6. SUBSEQUENT EVENTS

Subsequent to September 30, 2006:

- (a) Issued 135,000 common shares at \$1.35 on the exercise of warrants for proceeds of \$182,250; and issued 17,500 common shares at an average price of \$0.86 on the exercise of options for proceeds of \$15,125;
- (b) Issued 20,000 common shares at \$2.75 to Minera Rio Tinto, as an option payment for Sierra Ramirez property. This is part of the amended option agreement mentioned in (Note 6.(c)).