



## **MAG SILVER CORP.**

*(formerly Mega Capital Investments Inc.)  
(An exploration stage company)*

Consolidated Interim Financial Statements  
For the six month period ended June 30, 2004

Filed: August 26, 2004

*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 auditors.**

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## **Consolidated Balance Sheets**

	<u>June 30, 2004</u>	<u>Dec. 31, 2003</u>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 3,365,988	\$ 4,795,822
Accounts receivable	445,451	259,501
Interest receivable	12,300	64,127
Prepaid expenses	1,583	8,750
<b>TOTAL CURRENT ASSETS</b>	<b>3,825,322</b>	<b>5,128,200</b>
MINERAL RIGHT ACQUISITION COSTS (Note 7)	2,304,847	1,314,678
DEFERRED EXPLORATION COSTS (Note 7)	3,416,376	2,057,542
EQUIPMENT (Note 3)	29,218	34,374
<b>TOTAL ASSETS</b>	<b>\$ 9,575,763</b>	<b>\$ 8,534,794</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 401,546	\$ 208,018
<b>TOTAL LIABILITIES</b>	<b>401,546</b>	<b>208,018</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 4)		
Authorized - 1,000,000,000 common shares, without par value		
Issued and outstanding at June 30, 2004		
- 24,429,150 common shares (December 31, 2003)		
- 23,093,995)	10,713,614	9,504,984
Contributed surplus (Note 4 (b))	75,308	75,308
Deficit	(1,614,705)	(1,253,516)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>9,174,217</b>	<b>8,326,776</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 9,575,763</b>	<b>\$ 8,534,794</b>

ON BEHALF OF THE BOARD:

*“George Young” (signed)*  
George Young, President & Director

*“R. Michael Jones” (signed)*  
R. Michael Jones, Director

See accompanying Notes to the Consolidated Financial Statements.

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**Consolidated Statement of Operations and Deficit**

	For the 3-month period Ended June 30		For the 6-month period Ended June 30	
	2004 (unaudited)	2003 (unaudited)	2004 (unaudited)	2003 (unaudited)
Expenses:				
Accounting and Audit	35,706	\$ 17,589	\$ 57,706	\$ 17,776
Amortization	2,579	869	5,157	1,138
Annual general meeting	39,974	3,681	39,974	3,681
Bank charges and Interest	1,129	5,589	1,776	14,215
Translation Adjustment & Foreign Exchange	(40,433)	7,779	(60,569)	10,665
Office and Administration	36,903	9,202	63,970	10,295
Office Rent	4,500	6,500	9,000	7,250
Filing fees	11,536	14,959	17,525	33,927
Legal	38,609	8,127	60,626	38,026
Management and consulting fees	49,611	80,917	90,157	80,917
Shareholder Relations	35,399	16,530	58,265	16,530
Telephone	4,846	3,579	4,868	3,579
Transfer agent fees	7,489	3,306	11,705	4,761
Travel and Accommodation	36,965	21,376	44,180	56,855
Loss before other items	<u>264,813</u>	<u>200,003</u>	<u>404,340</u>	<u>299,615</u>
Other:				
Interest	<u>16,756</u>	<u>24,948</u>	<u>43,151</u>	<u>25,090</u>
Loss for the period	\$ (248,057)	\$ (175,055)	\$ (361,189)	\$ (274,525)
Deficit, beginning of period	<u>(1,366,648)</u>	<u>(515,447)</u>	<u>(1,253,516)</u>	<u>(415,977)</u>
Deficit, end of period	<u>\$(1,614,705)</u>	<u>\$(690,502)</u>	<u>\$(1,614,705)</u>	<u>\$(690,502)</u>
Basic and diluted loss per share	\$0.01	\$0.02	\$0.02	\$0.03

See accompanying Notes to the Consolidated Financial Statements.

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## **Consolidated Statements of Shareholders' Equity**

	Common shares without par value		Special warrants		Contributed Surplus	Deficit accumulated during the exploration stage	Total shareholders' equity
	Shares	Amount	Shares	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 (Note 5)	11,500,000	5,109,766	-	-	-	-	5,109,766
Conversion of special warrants	2,400,000	375,000	(2,400,000)	(375,000)	-	-	-
Agent's Administration shares	10,000	5,000	-	-	-	-	5,000
Finders' fee shares (Note 9)	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 9)	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
Issued to obtain mineral property option rights	628,905	880,467	-	-	-	-	880,467
Warrants exercised	566,250	277,363	-	-	-	-	277,363
Stock options exercised	140,000	50,800	-	-	-	-	50,800
Net loss	-	-	-	-	-	(361,189)	(361,189)
Balance, June 30, 2004	24,429,150	\$ 10,713,614	-	\$ -	\$ 75,308	\$ (1,614,705)	\$9,174,217

See accompanying Notes to the Consolidated Financial Statements.

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## Consolidated Statements of Cash Flows

	Three months ended June 30, 2004	Three months ended June 30, 2003	Six months ended June 30, 2004	Six months ended June 30, 2003
<b>OPERATING ACTIVITIES</b>				
Loss for the period	\$ (248,057)	\$ (175,055)	\$ (361,189)	\$ (274,525)
Items not involving cash:				
Amortization	2,579	869	5,157	1,138
Non-cash compensation expense	-	41,400	-	41,400
Changes in operating assets and liabilities				
Accounts receivable	(95,268)	(76,316)	(185,950)	(80,098)
Interest receivable	63,105	(18,911)	51,826	(18,911)
Prepaid expenses	14,039	-	7,167	-
Accounts payable and accrued liabilities	340,495	(46,165)	193,528	59,485
	<u>76,893</u>	<u>(274,178)</u>	<u>(289,461)</u>	<u>(271,511)</u>
<b>INVESTING ACTIVITIES</b>				
Purchase of equipment	-	(4,000)	-	(4,000)
Acquisition of Minera Los Lagartos, S.A. de C.V. (Note 9)	-	-	-	(7,500)
Acquisition of Lexington Capital Group Inc. (Note 9)	-	-	-	-
Mineral rights	(108,164)	(16,167)	(109,702)	(136,819)
Deferred exploration costs	(877,783)	(455,193)	(1,358,834)	(502,981)
	<u>(985,947)</u>	<u>(475,360)</u>	<u>(1,468,536)</u>	<u>(651,300)</u>
<b>FINANCING ACTIVITIES</b>				
Issue of share capital	103,000	5,157,366	328,163	5,161,366
Deferred financing costs	-	94,699	-	7,500
Proceeds on short-term loan	-	-	-	150,000
Repayment of short-term loan	-	(150,000)	-	(150,000)
	<u>103,000</u>	<u>5,102,065</u>	<u>328,163</u>	<u>5,168,866</u>
<b>INCREASE (DECREASE) IN CASH</b>	(806,054)	4,352,527	(1,429,834)	4,246,055
<b>CASH, BEGINNING OF PERIOD</b>	4,172,042	60,804	4,795,822	167,276
<b>CASH, END OF PERIOD</b>	<u>\$ 3,365,988</u>	<u>\$ 4,413,331</u>	<u>\$ 3,365,988</u>	<u>\$ 4,413,331</u>
Income taxes paid	\$ -	\$ -	\$ -	\$ -
Interest paid	\$ -	\$ -	\$ -	\$ -
Issue of shares in connection with acquisition of Minera Los Lagartos, S.A. de C.V. (Note 10)	\$ -	\$ 250,000	\$ -	\$ 250,000
Issue of shares in exchange for mineral property option rights	\$ 880,467	\$ 100,000	\$ 880,467	\$ 100,000
Issue of shares in connection with acquisition of Lexington Capital Group Inc. (Note 10)	\$ -	\$ -	\$ -	\$ -

See accompanying Notes to the Consolidated Financial Statements.

**1. NATURE OF BUSINESS**

The Company was incorporated under the Company Act (British Columbia) on April 21, 1999 and was classified as a Venture Capital Pool Company as defined in the former Vancouver Stock Exchange (the "Exchange") Policy 30. The Company's shares were listed on the TSX Venture Exchange on April 21, 2000.

The Company was originally required to complete its Qualifying Transaction within 18 months of listing on the Exchange. This deadline was extended and subsequently the Qualifying Transaction was approved and completed on April 15, 2003 (Note 5 (a)).

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.

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## **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. These policies conform, in all material respects, with accounting principles generally accepted in the United States of America ("US GAAP"), except as described in Note 13.

*(a) Principles of consolidation*

On January 15, 2003, the Company completed its acquisition of Minera Los Lagartos, SA de CV and on July 16, 2003, its acquisition of Lexington Capital Corp. (Note 10). The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated on consolidation.

*(b) Use of estimates*

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. Actual results may differ from those reported.

*(c) Financial instruments and foreign exchange risk*

The Company's financial assets and liabilities are cash and cash equivalents, accounts receivable, interest receivable and accounts payable and accrued liabilities. The fair values of these financial instruments are estimated to be their carrying values due to their short-term or demand nature.

Foreign exchange risk is the risk that a variation in exchange rates between the Canadian dollar and foreign currencies will affect the Company's operating and financial results. The Company has significant operations outside of Canada which are subject to these foreign exchange risks. The Company does not use derivative instruments to reduce its exposure to this foreign exchange risk.

*(d) Mineral rights and deferred exploration costs*

The Company is in the exploration stage with respect to its mining activity and accordingly follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of the interests 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 aggregate costs related to abandoned interests are charged to operations at the time of any abandonment.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

Management reviews the carrying value of mineral rights and deferred exploration costs at least quarterly for evidence of impairment. This review is generally made with reference to the timing of exploration work, work programs proposed, exploration results achieved by the Company and by others in the related area of interest, and an assessment of the likely results to be achieved from performance of further exploration. When the results of this review indicate that a condition of impairment exists, the Company estimates the net recoverable amount of the deferred exploration costs and related mining rights by reference to the potential for success of further exploration activity and/or the likely proceeds to be received from sale or assignment of the rights. When the carrying values of mining rights or deferred exploration costs are estimated to exceed their net recoverable amounts, a provision is made for the decline in the value.

The Company is in the process of exploring mineral properties and has not yet determined whether they contain ore reserves that are economically recoverable. Accordingly, the recoverability of these capitalized costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development and, ultimately, upon future profitable production.

The issuance of CICA Handbook Section 1581, *Business Combinations*, ("CICA 1581"), and CICA Handbook Section 3062, *Goodwill and Other Intangible Assets*, ("CICA 3062"), resulted in an apparent conflict between previously issued accounting standards found in CICA Handbook Section 3061, *Property, Plant and Equipment* ("CICA 3061"), and EIC-126, *Accounting by Mining Enterprises for Exploration Costs* ("EIC-126").

Appendix 31 to CICA 1581 describes a mineral use right as an example of a contract-based intangible that is subject to amortization over its estimated useful life as recommended by CICA 3062. CICA 3061, however, states that mining properties represented by capitalized costs of acquired mineral rights and the costs of associated with exploration for and development of mineral reserves may be considered as items of property, plant and equipment. Furthermore, EIC-126 concluded that a mining enterprise that has not commenced operations or objectively established mineral reserves is not precluded from considering exploration costs to have the characteristics of property, plant and equipment.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

The Company has determined that, under Canadian GAAP, it is appropriate to consider the costs associated with acquiring the rights to explore a mining property as items of property, plant and equipment. Under this interpretation, the Company has concluded that it is appropriate to capitalize all such costs until commercial production commences or until the property is abandoned as described above. A view that is different from this interpretation is that the costs associated with acquiring the rights to explore a mining property are considered intangible assets and would be amortized over its estimated useful life. Additional guidance may be provided in the future that would require accounting for these costs in a manner different from the Company's current method of accounting. If the Company had considered the costs associated with acquiring the rights to explore a mining property an intangible asset and amortized them over the expected period in which exploration would be performed, Mineral Rights would have been \$601,000 lower at December 31, 2003 (2002 - \$Nil) and Amortization expense would have been \$601,000 higher for the year ended December 31, 2003 (2002 - \$Nil; 2001 - \$Nil; period from April 21, 1999 to December 31, 2003 - \$601,000).

*(e) Equipment*

Equipment is recorded at cost. Depreciation is provided on a straight-line basis to amortize the costs over a five year term.

*(f) Income taxes*

The Company accounts for income taxes using the asset and liability method. Under this method, future income taxes are recorded for the temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities. These future taxes are measured based on substantially enacted tax rates. Management believes that it is not sufficiently likely that the Company will generate sufficient taxable income for the realization of its future tax assets and therefore the Company has made a full valuation provision for these assets.

*(g) Stock-based compensation*

All stock-based awards made to non-employees are measured and recognized using a fair value based method. For stock options granted to employees and directors, the Company has adopted the disclosure-only provisions whereby pro forma net income and pro forma earnings per share are disclosed in the notes to the financial statements as if the fair value based method of accounting had been used.

Compensation expense is recognized when stock options are issued to employees and directors for the excess, if any, of the quoted market price at the date of grant over the exercise price. Any consideration paid by employees and directors on the exercise of stock options is credited to share capital.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*(h) 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.
- income and expenses at the average rate in effect during the year.

The resulting translation adjustment is included on the statement of operations.

*(i) Loss per share*

Basic earnings 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 until April 15, 2003 (Note 5 (f)).

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.

**3. EQUIPMENT**

	June 30, 2004			December 31, 2003	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	
Computer equipment and software	\$ 11,423	\$ 2,793	\$ 8,630	\$ 10,152	
Field equipment	24,812	4,224	20,588	24,222	
	<u>\$ 36,235</u>	<u>\$ 7,017</u>	<u>\$ 29,218</u>	<u>\$ 34,374</u>	

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**4. SHARE CAPITAL**

*(a) Issued and outstanding*

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 consists 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 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, they were also issued 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 disbursements 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 (Note 6). The prospectus also qualified 500,000 finders' fee shares issued in relation to the property acquisitions, of which 200,000 common shares have been issued and 300,000 have been issued in escrow. These shares are to be released from escrow as follows: 10% on completion of the Company's Qualifying Transaction, which took place on April 15, 2003, and the balance to be released in equal tranches of 15% every six months, for a three year period.

*(b) Stock options*

The Company has entered into Incentive Stock Option Agreements ("Agreements") with directors, officers and employees.

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:

	Quarter ended June 30, 2004	Weighted Average Exercise Price	Year ended December 31, 2003	Weighted Average Exercise Price
Balance outstanding, beginning of year	1,170,000	\$ 0.20	280,000	\$ 0.20
Activity during the year				
Options granted	-	-	990,000	0.58
Options exercised	(140,000)	0.36	(100,000)	0.26
Balance outstanding, end of year	1,030,000	\$ 0.54	1,170,000	\$ 0.52

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**4. SHARE CAPITAL (Continued)**

*(b) Stock options (continued)*

The following table summarizes options outstanding and exercisable at June 30, 2004:

Options Outstanding and Exercisable			
Range of Exercise Prices	Number Outstanding and Exercisable at June 30, 2004	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$0.20	100,000	1.05	\$ 0.20
0.50	575,000	4.03	0.50
0.70	355,000	4.11	0.70
	1,030,000	3.96	\$ 0.52

During the current period no stock options have been granted. The Company granted 775,000 stock options to employees and 215,000 stock options to consultants during the year ending December 31, 2003. The Company has recorded \$75,308 of compensation expense relating to stock options granted to consultants in the year ended December 31, 2003 (2002 - \$Nil). The Company has elected to measure compensation costs for employee stock options whereby no compensation expense was recognized when the stock options are granted. Had compensation costs been determined based on the fair value of the options granted using the Black-Scholes option pricing model, additional compensation expense would have been recorded as follows:

	Year ended December 31, 2003	Year ended December 31, 2002
Loss for the year as reported	\$ (837,539)	\$ (122,631)
Additional compensation expense	(248,128)	-
<b>Pro forma loss</b>	<b>\$ (1,085,667)</b>	<b>\$ (122,631)</b>
<b>Pro forma basic and diluted loss per share</b>	<b>\$ (0.08)</b>	<b>\$ (0.08)</b>

The following weighted-average assumptions were used for the Black-Scholes valuation of stock options granted during the year ended December 31, 2003:

Risk-free interest rate	3.76%
Expected life of options	5 years
Annualized volatility	63%
Dividend rate	0.00%

No options were granted in 2002.

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**4. SHARE CAPITAL (Continued)**

(c) *Share purchase warrants*

	<u>Number of Warrants</u>	<u>Weighted- Average Exercise Price</u>
Balance at December 31, 2002	-	\$ -
Issued on conversion of Special Warrants	1,500,000	0.20
Issued on conversion of Special Warrants	450,000	0.40
Issued in connection with issuance of common shares	5,750,000	0.75
Issued to agents in connection with issuance of common shares	1,150,000	0.50
<u>Exercised and converted to common shares</u>	<u>(5,183,995)</u>	<u>0.59</u>
Balance at December 31, 2003	3,666,005	0.63
<u>Exercised and converted to common shares</u>	<u>(566,250)</u>	<u>0.47</u>
<u>Balance at June 30, 2004</u>	<u>3,099,755</u>	<u>\$ 0.65</u>

(d) *Shares held in escrow*

As a result of the completion and approval of the Company's Qualifying Transaction on April 15, 2003, the 1,500,000 of the Company's common shares held in escrow are to be released as to one-third on each of April 15, 2004, 2005 and 2006.

**5. SPECIAL WARRANTS**

During the year ended December 31, 2002, the Company:

- (i) issued 1,500,000 special warrants for \$0.10 per special warrant, which were convertible into one common share and one common share purchase warrant until the earlier of five business days following the date of the Company's final prospectus (April 3, 2003) or September 9, 2003. Each common share purchase warrant is exercisable into one common share of the Company at \$0.20 per share until September 9, 2004.
- (ii) issued 900,000 special warrants for \$0.25 per special warrant, which were convertible into one common share and one-half of one common share purchase warrant until the earlier of five business days following the date of the Company's final prospectus (April 3, 2003) or December 20, 2003. Each whole common share purchase warrant is exercisable into one common share of the Company at \$0.40 per share until December 20, 2004.

In 2003, each of the special warrants were converted into one common share and one share purchase warrant, with exercise terms as described above.

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**6. INCOME TAXES**

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

	2003	2002	2001
Statutory tax rate	37.60%	39.60%	45.60%
Recovery of income taxes computed at standard rates	\$ 314,915	\$ 48,561	\$ 127,515
Non-taxable portion of capital loss	-	(700)	(56,715)
Non-deductible expenses	(28,316)	-	-
Lower effective tax rate on loss in foreign jurisdictions	(1,603)	-	-
Future tax benefits not recognized in the period that the loss arose	(284,996)	(47,861)	(70,800)
	\$ -	\$ -	\$ -

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

	2003	2002
Operating loss carry forwards	\$ 323,750	\$ 64,768
Capital losses carried forward	44,100	49,979
Less valuation allowance	(367,850)	(114,747)
	\$ -	\$ -

At December 31, 2003, the Company has non-capital loss carry-forwards of \$925,000, expiring between 2006 and 2010, available for tax purposes 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.

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**MAG SILVER CORP.**  
**(formerly Mega Capital Investments Inc.)**  
**(An exploration stage company)**  
**June 30, 2004**

**7. MINERAL RIGHTS AND DEFERRED EXPLORATION COSTS**

**Six Month Period ended June 30, 2004**

	Juanicipio	Don Fippi	Guigui	Lagartos	Sierra Ramirez	Adargas	Cinco de Maya	Total
Acquisition costs of mineral rights								
Balance, beginning of year	\$ 894,379	\$ 173,534	\$ 181,812	\$ 21,519	\$ 43,434	\$ -	\$ -	\$ 1,314,678
Incurred during year	868	384,167	565,554	19,105	2,359	11,592	6,524	\$ 990,169
Balance, end of period	\$ 895,247	\$ 557,701	\$ 747,366	\$ 40,624	\$ 45,793	\$ 11,592	\$ 6,524	\$ 2,304,847
Deferred exploration costs								
Camp costs	\$ 23,306	\$ 42,991	\$ 16,600	\$ -	\$ 228	\$ 14,230	\$ -	\$ 97,355
Drilling	169,457	-	191,968	-	-	238,424	-	599,849
Geochemical	1,642	9,964	22,853	-	-	-	-	34,459
Geological	128,099	240,227	72,508	1,813	2,700	31,849	-	477,196
Geophysical	-	-	-	-	-	-	-	-
Maps, fees and licenses	16,806	14,231	12,930	7,955	1,211	4,994	-	58,127
Research	-	-	-	-	-	-	-	-
Travel	15,970	18,658	58	-	1,482	5,568	-	41,736
Transport and shipping	61	-	-	-	39	12	-	112
Site administration	18,480	17,338	6,338	-	2,360	5,484	-	50,000
	373,821	343,409	323,255	9,768	8,020	300,561	-	1,358,834
Balance, beginning of year	1,145,332	335,793	558,456	17,961	-	-	-	2,057,542
Balance, end of period	\$ 1,519,153	\$ 679,202	\$ 881,711	\$ 27,729	\$ 8,020	\$ 300,561	\$ -	\$ 3,416,376



**MAG SILVER CORP.**  
**(formerly Mega Capital Investments Inc.)**  
**(An exploration stage company)**  
**June 30, 2004**

**7. MINERAL RIGHTS AND DEFERRED EXPLORATION COSTS (Continued)**

**Three Month Period ended June 30, 2004**

	Juanicipio	Don Fippi	Guigui	Lagartos	Sierra Ramirez	Adargas	Cinco de Maya	Total
<b>Acquisition costs of mineral rights</b>								
Balance, beginning of quarter	\$ 894,379	\$ 173,534	\$ 181,812	\$ 23,057	\$ 43,434	\$ -	\$ -	\$ 1,316,216
Incurred during quarter	868	384,167	565,554	17,567	2,359	11,592	6,524	\$ 988,631
Balance, end of quarter	\$ 895,247	\$ 557,701	\$ 747,366	\$ 40,624	\$ 45,793	\$ 11,592	\$ 6,524	\$ 2,304,847
<b>Deferred exploration costs</b>								
Camp costs	\$ 15,605	\$ 29,430	\$ 3,866	\$ -	\$ -	\$ 10,399	\$ -	\$ 59,300
Drilling	169,457	-	-	-	-	238,424	-	407,881
Geochemical	134	-	22,853	-	-	-	-	22,987
Geological	104,884	176,422	30,079	-	2,127	23,208	-	336,720
Geophysical	-	-	-	-	-	-	-	-
Maps, fees and licenses	1,225	-	-	-	-	-	-	1,225
Research	-	-	-	-	-	-	-	-
Travel	10,607	8,628	-	-	1,482	5,568	-	26,285
Transport and shipping	61	-	-	-	-	-	-	61
Site administration	9,633	9,223	1,231	-	148	3,089	-	23,324
	311,606	223,703	58,029	-	3,757	280,688	-	877,783
Balance, beginning of quarter	1,207,547	455,499	823,682	27,729	4,263	19,873	-	2,538,593
Balance, end of quarter	\$ 1,519,153	\$ 679,202	\$ 881,711	\$ 27,729	\$ 8,020	\$ 300,561	\$ -	\$ 3,416,376

*(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. This exploration concession enables Lagartos to explore the mining claim covered by the concession for the period to August 8, 2005.

Previously, as a condition to acquiring the concession, Lagartos was obligated to make payments totalling US\$2,500,000 over a period of four years.

As a result of the Company's acquisition of Lexington Capital Group Inc. (Note 9 (b)), this obligation, as well as any future royalty payments, were removed.

**7. MINERAL RIGHTS AND DEFERRED EXPLORATION COSTS (Continued)**

*(b) Don Fippi Property*

Lagartos has entered into an agreement which gives it the right to explore and acquire a 100% interest in mining concessions located in the Batapilas, Chihuahua district of Mexico. Under the terms of the agreement, Lagartos is obligated to:

- i) make scheduled payments totalling US\$550,000 plus applicable value added tax (of which US\$100,000 has been paid) by April 21, 2007;
- ii) incur exploration expenditures totalling US\$4,000,000 by April 21, 2008; and
- iii) issue an aggregate of 2,100,000 common shares of the Company, of which 324,938 common shares have been issued.

*(c) Guigui Property*

Lagartos has entered into an agreement which gives it the right to explore and acquire a 100% interest in mining concessions located in the Santa Eulalia, Chihuahua district of Mexico. Under the terms of the agreement, Lagartos is obligated to:

- i) make scheduled payments totalling US\$550,000 plus applicable value added tax (of which US\$50,000 has been paid) by April 21, 2007;
- ii) incur exploration expenditures totalling US\$2,500,000 by April 21, 2007; and
- iii) issue an aggregate of 2,100,000 common shares of the Company, of which 503,967 common shares have been issued.

*(d) Sierra Ramirez Property*

Lagartos has entered into an agreement, which subsequent to the quarter end has been accepted by the TSX Venture Exchange, which gives it the right to explore and acquire a 100% interest in mining concessions located in the Sierra Ramirez district in Durango, Mexico. Under the terms of the agreement, Lagartos is obligated to:

- i) make scheduled payments totalling US\$1,505,000 within 60 months after the date of acceptance by the TSX Venture Exchange, of which US\$30,000 has been paid;
  - ii) issue 20,000 common shares of MAG Silver Corp. upon acceptance of the agreement by the TSX Venture Exchange; and
  - iii) incur exploration expenditures totalling \$750,000 within 60 months after the date of acceptance by the TSX Venture Exchange.
-

**7. MINERAL RIGHTS AND DEFERRED EXPLORATION COSTS (Continued)**

(e) *Lagartos Property*

Lagartos has acquired an exploration concession on mining claims on the Fresnillo trend to the northwest and southeast of the Juanicipio property. This exploration concession enables Lagartos to explore the mining claim covered by the concession to December 2009.

(f) *Adargas Property*

Lagartos has entered into an agreement, which is subject to acceptance by the TSX Venture Exchange, which gives it the right to explore and 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, Lagartos is obligated to:

- i) make scheduled payments totalling US\$1,000,000 within 60 months after the date of acceptance by the TSX Venture Exchange.
- ii) issue 75,000 common shares of MAG Silver Corp. upon acceptance of the agreement by the TSX Venture Exchange; and
- iii) incur exploration expenditures totalling \$1,000,000 within 60 months after the date of acceptance by the TSX Venture Exchange.

(g) *Cinco de Mayos Property*

Lagartos has entered into an agreement, which is subject to acceptance by the TSX Venture Exchange, which gives it the right to explore and 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, Lagartos is obligated to:

- i) make scheduled payments totalling US\$1,000,000 within 60 months after the date of acceptance by the TSX Venture Exchange.
  - ii) issue 75,000 common shares of MAG Silver Corp. upon acceptance of the agreement by the TSX Venture Exchange; and
  - iii) incur exploration expenditures totalling \$1,000,000 within 60 months after the date of acceptance by the TSX Venture Exchange.
-

## **8. RELATED PARTY TRANSACTIONS**

For the period ended June 30, 2004 the Company's president received \$48,600 in compensation for legal and management services (2003 - \$42,283).

During the year ended December 31, 2003, the Company borrowed \$150,000 on a short-term loan from a shareholder of the Company. The loan has been fully repaid, as well as \$12,500 related to interest.

During 2003, the Company entered into an office rental and services agreement with Platinum Group Metals Ltd. ("PTM"), a company with a common director and common officer. During the period ended June 30, 2004 the Company paid PTM \$76,293 under the common service agreement (2003 - \$17,211).

## **9. 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 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 shares	250,000
<u>Advances to Lagartos prior to acquisition</u>	<u>113,139</u>
	<u>\$ 449,389</u>
The fair value of net assets acquired	
<u>Mineral rights</u>	<u>\$ 449,389</u>

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.

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.

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**MAG SILVER CORP.**  
**(formerly Mega Capital Investments Inc.)**  
**(An exploration stage company)**  
**June 30, 2004**

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**9. ACQUISITIONS (Continued)**

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

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 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, MAG paid the vendor US\$250,000 (Cdn\$350,000) and 200,000 common shares of the Company. This acquisition reduced future required option payments and work commitments described in Note 8 (a). This also eliminated a net smelter return royalty obligation.

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

Cash	\$	350,000
200,000 common shares		180,000
	\$	530,000
<hr/>		
Fair value of net assets acquired:		
Cash	\$	4,219
Working capital deficiency		(13,196)
Mineral rights		538,977
	\$	530,000

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**10. SUBSEQUENT EVENTS**

Subsequent to June 30, 2004, the Company:

- (a) Issued a total of 50,000 common shares at \$0.75 per share on the exercise of warrants.
  - (b) Issued a total of 147,500 common shares at \$0.20 per share on the exercise of warrants.
  - (c) Issued 75,000 common shares at \$2.00 per share and paid US\$25,000 as part of the option payment for the Cinco de Mayo property agreement (see Note 7.g.i & ii), after receiving TSX Venture Exchange acceptance.
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## **MAG SILVER CORP.**

*(formerly Mega Capital Investments Inc.)*

*(An exploration stage company)*

Supplementary Information and MD&A  
For the six month period ended June 30,  
2004

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

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**The attached statements have not been reviewed by the Company's auditors.**

## **Supplementary Information**

### **For the Period ended June 30, 2004**

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#### **1. ANALYSIS OF EXPENSES AND DEFERRED COSTS**

Refer to Financial Statements for details

#### **2. RELATED PARTY TRANSACTIONS**

For the period ended June 30, 2004 the Company's president received \$48,600 in compensation for legal and management services (2003 - \$42,283).

During the period ended December 31, 2003 the Company borrowed \$150,000 on a short-term loan from a shareholder of the Company. The loan has been fully repaid, as well as \$12,500 related to interest.

During 2003, the Company entered into an office rental and services agreement with Platinum Group Metals Ltd. ("PTM"), a company with a common director and common officer. During the six month period ended June 30, 2004 the Company paid PTM \$76,293 under the common service agreement (2003 - \$17,211)

#### **3. SUMMARY OF SECURITIES ISSUED AND OPTIONS GRANTED**

Refer to Financial Statements Note 4b for details.

a) Summary of securities issued during the quarter:

<b>Issue Date</b>	<b>Security Type</b>	<b>Type of Issue</b>	<b>Number Issued</b>	<b>Price</b>	<b>Total Proceeds</b>	<b>Consideration Type</b>
May 19/04	Common Shares	Warrants Exercised	10,000	\$0.40	\$4,000	Cash
Apr. 20/04 – May 28/04	Common Shares	Warrants Exercised	132,000	\$0.75	\$80,250	Cash
Apr. 29/04	Common Shares	Property Option	628,905	\$1.40	\$880,467	Non Cash

Refer to Financial Statements for details of securities issued to date.

b) Options granted during the quarter:

<b>Issue Date</b>	<b>Optionees</b>	<b>Number Issued</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
Nil				

#### **4. SUMMARY OF SECURITIES AS AT THE END OF THE REPORTING PERIOD**



## Supplementary Information

### For the Period ended June 30, 2004

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a) Authorized and issued share capital at June 30, 2004:

Class	Par Value	Authorized	Issued and o/s	Amount
Common	N.P.V.	1,000,000,000	24,429,150	\$10,713,614

b) Options outstanding at June 30, 2004:

Name of Optionee	Date Granted	Exercise Price	Expiry Date	No. of Shares
Dave Pearce	April 19,2000	\$0.20	April 19,2005	100,000
Dave Pearce	April 15,2003	\$0.50	April 15,2008	75,000
Eric Carlson	April 15,2003	\$0.50	April 15,2008	75,000
George Young	April 15,2003	\$0.50	April 15,2008	175,000
R. Michael Jones	April 15,2003	\$0.50	April 15,2008	175,000
Consultant	April 15,2003	\$0.50	April 15,2008	75,000
Dave Pearce	May 12,2003	\$0.70	May 12,2008	50,000
Eric Carlson	May 12,2003	\$0.70	May 12,2008	50,000
George Young	May 12,2003	\$0.70	May 12,2008	50,000
R. Michael Jones	May 12,2003	\$0.70	May 12,2008	50,000
Frank Hallam	May 12,2003	\$0.70	May 12,2008	75,000
Consultants	May 12,2003	\$0.70	May 12,2008	80,000

c) Warrants outstanding at June 30, 2004:

The following warrants are exercisable into one common share of the Company as follows:

No. of Warrants	Exercise Price	Expiry Date
412,500	\$0.20	September 9, 2004
208,000	\$0.40	December 20, 2004
16,000	\$0.50	April 15, 2005
2,463,255	\$0.75	April 15, 2005

d) Shares in escrow or subject to pooling restrictions at June 30, 2004:

1,180,000 Common Shares in escrow

#### 5. LIST OF DIRECTORS AS AT THE DATE THIS REPORT WAS SIGNED AND FILED:

George S. Young	David Pearce
Eric Carlson	R. Michael Jones

#### 6. LIST OF THE OFFICERS AS AT THE DATE THIS REPORT SIGNED AND FILED:

George S. Young, President and Chief Executive Officer  
Dave Pearce, Corporate Secretary  
Frank Hallam, Chief Financial Officer

**MAG SILVER CORP.**  
(formerly Mega Capital Investments Inc.)  
(An exploration stage company)

## **Management Discussion & Analysis**

### **For the Period ended June 30, 2004**

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#### **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 consequent 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".

At the time of writing the Company continues to conduct exploration programs on its properties in Mexico, such as rehabilitation work on existing underground workings on the Don Fippi property, drilling at the Adargas property, and a drilling program on the Guigui property. The Company remains in strong financial condition as a result of the April 15, 2003 financing as described above and the exercise of share purchase warrants during and subsequent to the Company's March 31, 2004 quarter end. The Company continues to follow its business plan as set forth in April 2003.

#### **2. DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION**

##### **Revenues**

During the period ended June 30, 2004 the Company earned interest income of \$43,151 (2003 - \$25,090) on short-term investments and cash on hand. There were no other revenues realized by the Company during the period. Cash at June 30, 2004 amounted to \$3,365,988 (June 30, 2003 - \$4,413,331).

##### **General and Administrative Expenses**

Interest earned during the period of \$43,151 (2003 - \$25,090) was applied as a reduction to general and administrative expenses of \$404,340 (2003 - \$299,615), resulting in an operating loss for the period of (\$361,189) (2003 - (\$274,525)).

The increase in expenses is directly related to the Company's newly active status and the costs of identifying and completing the Company's Qualifying Transaction in April 2003. The Company has also incurred additional professional fees during the period for the preparation and filing of a Form 20F Registration Document with the United States Securities and Exchange Commission.

Travel and accommodation expenses for the period totaled \$44,180 (2003 - \$56,855), management and consulting fees totaled \$90,157 (2003 - \$80,917). Consulting and management fees have been paid to three individuals including one director. (See related party transactions).

Services provided by the company's president, the company's lawyer, consulting geologists include project management, investor relations, legal, geological and administrative services. Such services were originally budgeted for within "general and administrative costs" in the Company's Prospectus

## **Management Discussion & Analysis**

### **For the Period ended June 30, 2004**

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dated March 31, 2003, however, the scope and nature of the Company's activities since that time have necessitated the hiring of a full time president and the provision of more paid services than originally budgeted for. During the six months ending June 30, 2004 legal fees amounted to \$60,626 (2003 - \$38,026), filing fees totaled \$17,525 (2003 - \$33,927) while accounting and audit expenses totaled \$57,706 (2003 - \$17,776). Bank charges and interest totaled \$1,776 (2003 - \$14,215). Other smaller expense items account for the balance of general and administrative costs for the period. The Company now occupies office space and receives administrative services on a contract basis.

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

	<b>Year ended Dec. 31, 2003</b>	<b>Year ended Dec. 31, 2002</b>	<b>Year Ended Dec. 31, 2001</b>
Revenues	Nil	Nil	Nil
Net Income (Loss)	(\$837,539)	(\$122,631)	(\$279,639)
Net Income (Loss) per Share	(\$0.06)	(\$0.08)	(\$0.19)
Total Assets	\$8,534,794	\$408,125	\$110,904
Long Term Debt	Nil	Nil	Nil
Dividends	Nil	Nil	Nil

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

<b>Quarter Ending</b>	<b>Revenue</b>	<b>Net Earnings (Loss)</b>	<b>Net Loss per share</b>
June 30, 2004	Nil	(264,813)	0.01
March 31, 2004	Nil	(113,132)	0.01
December 31, 2003	Nil	(302,473)	0.01
September 30, 2003	Nil	(260,541)	0.01
June 30, 2003	Nil	(175,055)	0.01
March 31, 2003	Nil	(99,470)	0.03
December 31, 2002	Nil	(71,745)	0.04
September 30, 2002	Nil	(35,602)	0.03

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

## **Management Discussion & Analysis**

### **For the Period ended June 30, 2004**

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#### **Trend Information**

Other than the obligations under the Company's property option agreements set out in Tabular Disclosure of Contractual Obligations, there are no identifiable trends, demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, the Company's liquidity either increasing or decreasing at present or in the foreseeable future. The Company will require sufficient capital in the future to meet its acquisition payments and other obligations under property option agreements for those properties it considers worthy to incur continued holding and exploration costs upon. The need to make such payments is a "Trend" as it is unlikely that all such obligations will be eliminated from the Company's future business activities. The Company intends to utilize cash on hand in order to meet its obligations under property option agreements until at least December 31, 2004. It is unlikely that the Company will generate sufficient operating cash flow to meet these ongoing obligations in the foreseeable future. Accordingly, subsequent to December 31, 2004, the Company may need to raise additional capital by issuance of equity. 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.

#### **Tabular Disclosure of Contractual Obligations** (in U.S. dollars, as per agreement)

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>More than 5 years</b>
Don Fippi Property	\$4,500,000	\$300,000	\$2,000,000	\$2,200,000	Nil
Guigui Property	\$3,000,000	\$150,000	\$1,650,000	\$1,200,000	Nil
Sierra Ramirez Property	\$2,255,000	\$130,000	\$550,000	\$1,575,000	Nil
Adargas Property	\$2,000,000	\$200,000	\$700,000	\$1,100,000	Nil
Cinco de Mayo Property	\$2,000,000	\$200,000	\$700,000	\$1,100,000	Nil
<b>Total</b>	<b>\$13,755,000</b>	<b>\$980,000</b>	<b>\$5,600,000</b>	<b>\$7,175,000</b>	<b>Nil</b>

#### **Other Items**

During the period the Company did not write down or abandon any mineral property. No material capital equipment was purchased or disposed of. The Company does not pay any person for marketing or investor relation services. The Company has attended seminars and from time to time and does visit brokers, market analysts and investors who request information about the Company's business. 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.

In 2003 the MAG completed the acquisition of Lexington Capital Group Inc. ("Lexington") whose main asset is its indirect interest in the Juanicipio I claim that encompasses MAG's Juanicipio

## **Management Discussion & Analysis**

### **For the Period ended June 30, 2004**

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Project near Fresnillo, Zacatecas, Mexico, which has now been drilled by MAG, and further work is recommended. Under the terms of the agreement MAG paid the vendor US\$250,000 and issued 200,000 shares of its common stock. This acquisition could potentially save the Company US\$1,150,000 in option payments and US\$2,500,000 in work commitments. This also eliminates a net smelter return royalty obligation.

#### **Resource Expenditures**

During the first two quarters the Company incurred \$990,169 (\$109,702 in cash and \$880,467 in shares, being 628,905 common shares @ \$1.40) in property acquisition costs. Exploration expenditures in cash for the first six months amounted to \$1,358,834. These costs relate to the three drilling programs at Juanicipio \$373,821; Guigui \$323,255; Adargas \$300,561, as well as the mine rehabilitation program at the Don Fippi property where the Company has spent \$343,409 in preparing the property for a drill program in the fall of 2004. A total of \$599,849 has been spent on rotary diamond drilling in the first six months of the year.

During 2003 a total of 6,147 metres were drilled on seven different holes at the Juanicipio property. The company had originally budgeted to drill 4,500 metres at a cost of \$200 per metre, totaling \$900,000, but increased this amount to approximately 6,200 metres at an actual cost of \$1,132,731, due to the nature, extent and grade of the mineralization encountered and in order to better delineate the mineralization discovered. Another consideration was the fact that actual cost was below budget on a per metre basis, approximately \$184 per metre, compared to \$200 per metre budgeted.

Results from the 7 holes drilled on the Juanicipio property have been encouraging and continue to confirm the Company's concepts and exploration models, adding great confidence for future exploration of structures throughout the property.

Phase 1 drilling at Juanicipio targeted six major surface-mapped structures coincident with strong NSAMT geophysical anomalies along the projection of veins being mined in the adjoining Fresnillo Mine area. Drilling results from the last 2 holes showed that silver dominant mineralization lies well above the base-metal rich "root zone" mineralization that appears to cause the deep NSAMT anomalies (See Press Release of November 13, 2003).

Phase 2 exploration activities have begun, following the completion and evaluation of Phase 1 drilling, at its 100% controlled Juanicipio project. Exploration work includes detailed surface mapping and sampling to locate vein segments where mineralization may widen along the 2 to 5 kilometre lateral continuations of the drilled structures. Initial Phase 2 exploration will incorporate further NSAMT geophysics along these wider vein segments to help define targets in the silver dominant zones. Existing permits cover this program, allowing drilling to begin in early 2004.

During 2003 the Company staked claims to approximately 120,000 hectares of open ground northwest and southeast of its Juanicipio I claim, which has been the focus of its recent drilling program.

The Company has completed aerial photography of the historic Batopilas District and is currently carrying out rehabilitation of some of the principal underground workings in its Don Fippi property that contains the historic Batopilas District. During the first two quarters the Company incurred

## **Management Discussion & Analysis**

### **For the Period ended June 30, 2004**

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approximately \$343,409 (\$679,202 to date) in geological costs on this rehabilitation. Batopilas produced 250 million ounces of silver from very high-grade native-silver ore bodies prior to being shut down by the Mexican Revolution in 1913. As well the company has carried out 70% of its planned geological mapping, and 80% of its planned orientation geophysical survey. During 2004, MAG plans to complete the rest of its geological mapping, geophysical survey and to commence drilling at Batopilas.

Drilling began on October 20, 2003 on its 4,553-hectare Guigui Project in the Santa Eulalia District in Chihuahua, Mexico. The Santa Eulalia District hosts a carbonate replacement silver deposit that has produced over 450 million ounces of silver from nearly 50 million tonnes of ores averaging 350 g/T (11.3 Oz/T) silver, 8.2% lead and 7.8% zinc. Despite nearly 300 years of continuous mining of interconnected high-grade deposits, these have never been traced back to the style of near-source intrusion-related mineralization typical of these deposits worldwide. MAG and others have performed geological and geochemical zoning studies and gravity, magnetic, CSAMT and NSAMT geophysical surveys to define the near-source mineralization targets on the property. The planned 3,500-metre drill program on Guigui consisted of 6 holes to test these targets, the largest of which centers on a geophysical anomaly more than 1 kilometre in diameter that MAG infers to reflect a buried intrusive body. Four holes were drilled by the end of 2003 for a total of 3,009 metres. The drill program finished in February 2004 with a total of 4,576 metres drilled over 6 different holes. The Company has recently received assay results from this drilling program. The original budget was for 4 holes, but after some exploration work the Company drilled a further 2 holes in the San Antonio Graben which added over 1,000 metres more than it had originally planned. This along with other additional geological work carried out on the property accounted for the exploration activities to come in above the originally planned budget.

All of the above expenses were deferred. There were no mineral properties written down during the period or in 2003. A complete table of mineral property costs can be found in Note 7 of the Company's Financial Statements for the period ended June 30, 2004.

During 2003 the Company announced that it has entered into agreements in principle to acquire the option to earn a 100% interest in the Adargas and Cinco de Mayo properties, two large exploration projects in the Mexican silver belt. Compilation of previous exploration results has begun for the Cinco de Mayo project to guide design of orientation geophysical surveys and biological sampling scheduled to begin during the third quarter of 2004. Phase 1 drilling, consisting of four holes totaling approximately 2,000 metres, was successfully completed in June of 2004. The cost of this drilling program totaled \$280,688 in the first six months of 2004. Assays from the drilling are pending, as are results of a downhole BHUTM survey of both MAG and two 1997 holes drilled by a predecessor, one of which cut 20 centimetres of Zn-Pb-Ag massive sulfides developed along the same contact.

### **3. SUBSEQUENT EVENTS**

Subsequent to June 30, 2004, the Company:

## **Management Discussion & Analysis**

### **For the Period ended June 30, 2004**

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- (a) Issued a total of 50,000 common shares at \$0.75 per share on the exercise of warrants.
- (b) Issued a total of 147,500 common shares at \$0.20 per share on the exercise of warrants.
- (c) Issued 75,000 common shares at \$2.00 per share and paid US\$25,000 as part of the option payment for the Cinco de Mayo property agreement (see Note 7.g.i & ii), after receiving TSX Venture Exchange acceptance.

#### **4. FINANCINGS, PRINCIPAL PURPOSES AND MILESTONES**

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 \$3,400,000 from the exercise of warrants from this financing, as well as warrants from previous financings. 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.

During 2003 the Company completed the acquisition of Lexington Capital Group Inc. ("Lexington") whose main asset is its indirect interest in the Juanicipio I claim that encompasses its Juanicipio Project near Fresnillo, Zacatecas, Mexico, which has just been drilled by MAG. Under the terms of the agreement MAG paid the vendor US\$250,000 and issued 200,000 shares of its common stock. This acquisition could potentially save the Company US\$1,150,000 in option payments and US\$2,500,000 in work commitments, as well as eliminate a net smelter return royalty obligation.

The Company has completed aerial photography of the historic Batopilas Mine and is currently carrying out rehabilitation of some of the principal underground workings in its Don Fippi property that contains the historic Batopilas District. During the first two quarters of 2004 the Company has incurred approximately \$343,409 (\$679,202 to date) in geological costs on this rehabilitation. Batopilas produced 250 million ounces of silver from very high-grade native-silver ore bodies prior to being shut down by the Mexican Revolution in 1913. MAG plans to commence drilling at Batopilas during 2004 following additional exploration work in the spring and summer of 2004.

The Company has completed the surface mapping and sampling program at its Guigui property, as set out in the Company's prospectus. Four holes were drilled by the end of the year for a total of 3,009 metres. The drill program finished in February 2004 with a total of 4,576 metres drilled over 6 different holes. Guigui exploration is based on a geological, geochemical and geophysical model designed to find the source zones of the adjoining Santa Eulalia District near Chihuahua, Mexico. Santa Eulalia is another historic district that has produced at least 450 million ounces of silver over the last 300 years, but the Guigui area has never been explored.

General and administrative expenses for the six month period totaled \$404,340 (2003 - \$299,615), net of interest of \$43,151 (2003 - \$25,090). Shareholder relations expense, web site hosting and maintenance, investor calls, mail outs, printing and news releases totaled \$58,265 (2003 - \$16,530). The increase was due to the increased level of activity to accommodate the level of interest in the company. Management and consulting fees to June 30, 2004 totaled \$90,157 (2003 - \$80,917).

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### **For the Period ended June 30, 2004**

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Office and administration totaled \$63,970 (2003 - \$10,295), the increase in office and administration costs is due to the company having a services agreement with Platinum Group Metals Ltd. who provide full time office administration.

The Company has completed a United States Securities and Exchange Commission ("SEC") Registration (Form 20-F). The company incurred approximately \$75,000 in the current year and at least \$225,000 in total, on accounting and legal costs relating to this goal. Accounting and legal costs totaled \$118,332 (2003 - \$55,802) for the six month period ending June 30, 2004, which includes the \$75,000 mentioned above for the United States Securities and Exchange Commission ("SEC") Registration (Form 20-F). Legal opinions on property acquisitions carried out during the period have made up the majority of the balance of legal expenses.

During the six month period ended June 30, 2004 the Company paid stock exchange and filing fees of \$17,525 (2003 - \$33,927). A net translation adjustment gain of \$60,569 (2003 - loss of \$10,665) was incurred during the same period, which is attributed to the rise in the value of mineral properties in the Company's subsidiary Minera Los Lagartos which are accounted for in Mexican pesos and then translated into Canadian dollars on consolidation. A gain occurs as the Mexican pesos gains strength against the Canadian dollar. Transfer agent costs totaled \$11,705 (2003 - \$4,761). Travel, lodging and related expenses for the management of the company amounted to \$44,180 (2003 - \$56,855) as the Company attended many trade shows across North America.

#### **5. CRITICAL ACCOUNTING POLICIES**

The Company's accounting policies are set out in Note 2 of its Consolidated Financial Statements for the period ended June 30, 2004.

There are two policies that, due to the nature of the mining business, are more significant to the financial results of the Company. These policies relate to the capitalizing of mineral exploration expenditures and the use of estimates:

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 deferred exploration costs 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 calculation 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.



**MAG SILVER CORP.**  
(formerly Mega Capital Investments Inc.)  
(An exploration stage company)

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### **For the Period ended June 30, 2004**

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#### **6. LIQUIDITY AND SOLVENCY**

Although, the expenses incurred have been higher than the original budgeted amounts, the Company has experienced a higher than expected volume of exploration, market and financial activity do to the results of its drilling and exploration program at its Mexican properties.

The Company had \$3,423,776 in working capital as at June 30, 2004 compared to \$4,394,051 at June 30, 2003. In the opinion of management of the Company, the Company is able to meet its ongoing obligations as they become due. Management refers the reader to the contents of the Financial Statements for the period ended June 30, 2004, the audited Financial Statements for the period ended December 31, 2003, as well as the subsequent events section above.

Expenses incurred during the quarter ended June 30, 2004 are the result of ongoing general and administrative expenses, the acquisition of Lagartos and resource property expenditures.

Current liabilities of the Company at June 30, 2004 amounted to \$401,546, mostly being attributable to accrued exploration expenses.