



## **MAG SILVER CORP.**

*Consolidated Financial Statements  
(expressed in thousands of US dollars)*

For the years ended December 31, 2020 and 2019

Dated: March 31, 2021

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

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## Management's Responsibility for the Financial Statements

The preparation and presentation of the accompanying consolidated financial statements, management's discussion and analysis ("MD&A") and all financial information in the Annual Report for MAG Silver Corp. (the "Company") are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Financial statements, by nature, are not precise since they include certain amounts based upon estimates and judgments. When alternative methods exist, management has chosen those it deems to be the most appropriate in the circumstances. The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management, under the supervision, and with the participation of, the Chief Executive Officer and the Chief Financial Officer, have a process in place to evaluate disclosure controls and procedures and internal control over financial reporting as required by Canadian and U.S. securities regulations. We, as Chief Executive Officer and Chief Financial Officer, will certify our annual filings with the Canadian Securities Administrators, as required in Canada by National Instrument 52-109 – *Certification of Disclosure*, and in the United States with the U.S. Securities and Exchange Commission as required by the Securities Exchange Act of 1934, as amended.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee, which is independent from management.

The Audit Committee is appointed by the Board of Directors and reviews the consolidated financial statements and MD&A, considers the report of the external auditors, assesses the adequacy of our internal controls, including management's assessment described below, examines and approves the fees and expenses for the audit services, and recommends the independent auditors to the Board of Directors for the appointment by the shareholders. The independent auditors have full and free access to the Audit Committee and meet with it to discuss their audit work, our internal control over financial reporting and financial reporting matters. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders and management's assessment of the internal control over financial reporting.

## Management's Report on Internal Control over Financial Reporting

Management of MAG Silver Corp. ("MAG" or "the Company") is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or caused to be designed under the supervision of the President and Chief Executive Officer, and the Chief Financial Officer, and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS as issued by the IASB. It includes those policies and procedures that:

- i. pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions and dispositions of assets of MAG;
- ii. provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with IFRS as issued by the IASB, and that MAG's receipts and expenditures are made only in accordance with authorizations of management and MAG's directors; and
- iii. provided reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of MAG's assets that could have a material effect on the Company's consolidated financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of MAG's internal control over financial reporting as of December 31, 2020, based on the criteria set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concludes that, as of December 31, 2020, MAG's internal control over financial reporting was effective.

The effectiveness of MAG's internal control over financial reporting, as of December 31, 2020, has been audited by Deloitte LLP, Independent Registered Public Accounting Firm, who also audited the Company's consolidated financial statements as at and for the year ended December 31, 2020, as stated in their report.

/s/ "George Paspalas"  
George Paspalas  
Chief Executive Officer

/s/ "Larry Taddei"  
Larry Taddei  
Chief Financial Officer

March 31, 2021

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the shareholders and the Board of Directors of MAG Silver Corp.**

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of financial position of MAG Silver Corp. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of loss and comprehensive loss, changes in equity and cash flows, for each of the two years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and its financial performance and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 31, 2021 expressed an unqualified opinion on the Company's internal control over financial reporting.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical Audit Matter**

Critical audit matters are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ Deloitte LLP

Chartered Professional Accountants  
Vancouver, Canada  
March 31, 2021

We have served as the Company's auditor since 1999.

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the shareholders and the Board of Directors of MAG Silver Corp.**

### **Opinion on Internal Control over Financial Reporting**

We have audited the internal control over financial reporting of MAG Silver Corp. and subsidiaries (the “Company”) as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated March 31, 2021, expressed an unqualified opinion on those financial statements.

### **Basis for Opinion**

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that

controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*/s/ Deloitte LLP*

Chartered Professional Accountants  
Vancouver, Canada  
March 31, 2021

**MAG SILVER CORP.**  
**Consolidated Statements of Financial Position**

(In thousands of US dollars, unless otherwise stated)

	Note	December 31, 2020	December 31, 2019
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents	3	\$ 94,008	\$ 72,360
Accounts receivable	4	897	83
Prepaid expenses		509	269
<b>TOTAL CURRENT ASSETS</b>		<b>95,414</b>	<b>72,712</b>
INVESTMENTS	5	11,951	1,408
INVESTMENT IN JUANICPIO	6	202,570	136,643
EXPLORATION AND EVALUATION ASSETS	7	12,472	7,266
PROPERTY AND EQUIPMENT	8	675	781
<b>TOTAL ASSETS</b>		<b>\$ 323,082</b>	<b>\$ 218,810</b>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Trade and other payables		\$ 808	\$ 780
Current portion of lease obligation	8	93	74
<b>TOTAL CURRENT LIABILITIES</b>		<b>901</b>	<b>854</b>
<b>NON-CURRENT</b>			
Lease obligation	8	383	467
Deferred income taxes	16	4,721	1,982
Provision for reclamation	7	409	260
<b>TOTAL LIABILITIES</b>		<b>6,414</b>	<b>3,563</b>
<b>EQUITY</b>			
Share capital	9	496,604	399,995
Equity reserve		16,906	17,777
Accumulated other comprehensive income (loss)		10,628	(1,015)
Deficit		(207,470)	(201,510)
<b>TOTAL EQUITY</b>		<b>316,668</b>	<b>215,247</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 323,082</b>	<b>\$ 218,810</b>

COMMITMENTS AND CONTINGENCIES 15

ON BEHALF OF THE BOARD (approved on March 26, 2021)

/s/ "Peter Barnes"  
Peter Barnes, Director

/s/ "Jill Leversage"  
Jill Leversage, Director

See accompanying notes to the consolidated financial statements

# MAG SILVER CORP.

## Consolidated Statements of Loss and Comprehensive Loss

(In thousands of US dollars, except for shares and per share amounts)

		For the year ended	
		December 31	
	Note	2020	2019
EXPENSES			
Accounting and audit		\$ 442	\$ 466
Amortization	8	121	106
Filing and transfer agent fees		301	232
Foreign exchange (gain) loss		(171)	21
General office expenses		1,083	902
Legal		371	363
Management compensation and consulting fees		3,259	3,076
Mining taxes and other property costs		38	577
Share based payment expense	9b,c,d	3,122	2,572
Shareholder relations		298	470
Travel		58	244
		8,922	9,029
INTEREST INCOME		637	2,627
CHANGE IN FAIR VALUE OF WARRANTS		-	(39)
EQUITY PICK UP FROM INVESTMENT IN JUANICPIO	6	2,214	1,884
LOSS FOR THE YEAR BEFORE INCOME TAX		\$ (6,071)	\$ (4,557)
DEFERRED INCOME TAX (EXPENSE) BENEFIT	16	(1,026)	131
LOSS FOR THE YEAR		\$ (7,097)	\$ (4,426)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified subsequently to profit or loss:			
UNREALIZED GAIN (LOSS) ON EQUITY SECURITIES	5	14,493	(334)
NET OF DEFERRED TAX EXPENSE	16	(1,713)	-
		12,780	(334)
TOTAL COMPREHENSIVE INCOME (LOSS)		\$ 5,683	\$ (4,760)
BASIC AND DILUTED LOSS PER SHARE		\$ (0.08)	\$ (0.05)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING			
BASIC AND DILUTED		91,108,622	86,142,539

See accompanying notes to the consolidated financial statements



## MAG SILVER CORP.

### Consolidated Statements of Changes in Equity

(In thousands of US dollars, except shares)

	Note	Common shares without par value		Equity Reserve	Accumulated other comprehensive income (loss)	Deficit	Total equity
		Shares	Amount				
<b>Balance, January 1, 2019</b>		85,539,476	\$392,916	\$18,696	\$ (681)	\$(197,050)	\$213,881
IFRS 16 transition adjustment on January 1, 2019		-	-	-	-	(34)	(34)
Stock options exercised	9a,b	442,052	4,059	(1,240)	-	-	2,819
Stock options exercised cashless	9a,b	428,934	1,762	(1,762)	-	-	-
Restricted and performance share units converted	9a,c	75,219	662	(662)	-	-	-
Deferred share units converted	9a,d	60,166	596	(596)	-	-	-
Share based payment	9b,c,d	-	-	3,341	-	-	3,341
Unrealized loss on equity securities	5	-	-	-	(334)	-	(334)
Net loss		-	-	-	-	(4,426)	(4,426)
<b>Balance, December 31, 2019</b>		86,545,847	\$399,995	\$17,777	\$ (1,015)	\$(201,510)	\$215,247
Stock options exercised	9a,b	418,294	4,565	(1,228)	-	-	3,337
Stock options exercised cashless	9a,b	139,273	1,404	(1,404)	-	-	-
Restricted and performance share units converted	9a,c	20,382	819	(819)	-	-	-
Deferred share units converted	9a,d	60,000	557	(557)	-	-	-
Share based payment	9b,c,d	-	-	3,137	-	-	3,137
Issued for cash	9a	7,621,085	89,164	-	-	-	89,164
Issued for property option payment	7a	8,241	100	-	-	-	100
Transfer of gain on disposal of equity securities at FVOCI to deficit, net of tax	5	-	-	-	(1,137)	1,137	-
Unrealized gain on equity securities	5	-	-	-	14,493	-	14,493
Deferred tax expense on unrealized securities gain	5	-	-	-	(1,713)	-	(1,713)
Net loss		-	-	-	-	(7,097)	(7,097)
<b>Balance, December 31, 2020</b>		94,813,122	\$496,604	\$16,906	\$ 10,628	\$(207,470)	\$316,668

See accompanying notes to the consolidated financial statements

# MAG SILVER CORP.

## Consolidated Statements of Cash Flows

(In thousands of US dollars, unless otherwise stated)

		For the year ended December 31	
	Note	2020	2019
<b>OPERATING ACTIVITIES</b>			
Loss for the year		\$ (7,097)	\$ (4,426)
Items not involving cash:			
Amortization	8	121	106
Change in fair value of warrants		-	39
Deferred income tax expense (benefit)	16	1,026	(131)
Equity pick up from Investment in Juanicipio	6	(2,214)	(1,884)
Share based payment expense	9b,c,d	3,122	2,572
Unrealized foreign exchange (gain) loss		(738)	255
Changes in operating assets and liabilities			
Accounts receivable		(201)	288
Prepaid expenses		(241)	58
Trade and other payables		8	(84)
Net cash used in operating activities		(6,214)	(3,207)
<b>INVESTING ACTIVITIES</b>			
Exploration and evaluation expenditures	7	(4,873)	(3,230)
Investment in Juanicipio	6	(64,270)	(53,549)
Proceeds from disposition of equity securities	5	3,905	-
Purchase of equipment	8	(74)	(354)
Net cash used in investing activities		(65,312)	(57,133)
<b>FINANCING ACTIVITIES</b>			
Issuance of common shares upon exercise of stock options	9	3,337	2,819
Issuance of common shares, net of share issue costs	9	89,164	-
Payment of lease obligation (principal)	8	(72)	(71)
Net cash provided by financing activities		92,429	2,748
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
		745	(228)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		21,648	(57,820)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>			
		72,360	130,180
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>			
		\$ 94,008	\$ 72,360

See accompanying notes to the consolidated financial statements

# MAG SILVER CORP.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

*(Expressed in thousands of US dollars unless otherwise stated)*

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### 1. NATURE OF OPERATIONS

MAG Silver Corp. (the “Company” or “MAG”) was incorporated on April 21, 1999 under the Company Act of the Province of British Columbia and its shares were listed on the TSX Venture Exchange on April 21, 2000 and subsequently moved to a TSX listing on October 5, 2007. The Company was also listed on what is now the NYSE American Exchange on July 9, 2007.

The Company is an advanced stage development and exploration company that is focused on the acquisition, exploration and development of high-grade, district-scale projects located primarily in the Americas. The Company’s principal asset is a 44% interest in the Juanicipio joint venture (see *Note 6*) located in Mexico, which is now in the construction phase heading to production. The Juanicipio joint venture toll milled mineralized material from development for the first time in the third quarter of 2020, and is currently constructing its own processing facility, which is expected to commence commissioning in late 2021. The Company defers all acquisition, exploration and development costs related to the properties which are not yet in commercial production. The recoverability of these amounts is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of the interests, and future profitable production, or alternatively, upon the Company’s ability to dispose of its interests on a profitable basis.

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

Address of registered offices of the Company:

2600 – 595 Burrard Street  
Vancouver, British Columbia,  
Canada V7X 1L3

Head office and principal place of business:

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

During the year ended December 31, 2020, the COVID-19 pandemic has had a material impact on the global economy, the scale and duration of which remain uncertain. In response to the pandemic, in April 2020 the Federal Government of Mexico issued an administrative order for the temporary suspension of all “non-essential activities” until May 30, 2020 as part of its nationwide effort to slow the spread of the COVID-19 virus. The Company’s Investment in Juanicipio (*Note 6*) encompasses the Juanicipio Project located in Mexico. The Juanicipio Project operator, Fresnillo plc (“Fresnillo”), was in regular consultation with Mexican Government officials to ensure Minera Juanicipio’s compliance with the order. Fresnillo advised the Company that while the order was in effect, underground development continued under government mandated hygiene protocols, surface construction work was reduced and surface-based drilling was temporarily halted. Although all work has since resumed, the impact of this pandemic could include significant COVID-19 specific costs, volatility in the prices for silver and other metals, further restrictions or temporary closures, additional travel restraints, other supply chain disruptions and workforce and contractor interruptions, including possible loss of life. Depending on the duration and extent of the impact of COVID-19, this could materially impact the Company’s financial

# MAG SILVER CORP.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

*(Expressed in thousands of US dollars unless otherwise stated)*

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performance, cash flows and financial position, and could result in material impairment charges to the Company's assets.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Statement of compliance*

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The accounting policies applied in the preparation of the Financial Statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2019, except for standards newly adopted as stated below:

### *Adoption of New Accounting Policy and Restatement*

During the fourth quarter of 2020, the Company early adopted Amendments to International Accounting Standard ("IAS") 16, Property, Plant & Equipment, Proceeds Before Intended Use. The amended standard prohibits the Company from deducting any proceeds from selling items produced from the cost of building an item of mineral interest, plant and equipment, while bringing that asset to be capable of operating in the manner intended by management. The Company adopted the accounting policy retrospectively with respect to applicable transactions occurring on or after the earliest period presented herein, being January 1, 2019. With the adoption of the amended standard, pre-commercial production sales of silver, gold, lead and zinc produced and sold, and related costs while bringing a mine into a condition necessary for it to be capable of operating in the manner intended by management, are recognized in profit or loss in accordance with applicable standards to the extent those sales occurred on or after January 1, 2019. The entity measures the cost of those items applying the measurement requirements of "IAS 2 Inventories".

There is no impact of this adoption on the comparative financial information presented for 2019 or the current year through June 30, 2020. However, previously in the third quarter of 2020, proceeds from the sales of silver, gold, lead and zinc in the Company's 44% interest in the Juanicipio joint venture (see *Note 6*) in the total amount of \$9,525 (on a 100% basis) net of mining and transport costs of \$1,530 were netted against mineral interest, plant and equipment on the books of the Juanicipio Joint Venture. Accordingly, financial information for the three and nine months ended September 30, 2020 are restated as follows representing the 44% impact on the Company's Equity Pick-up from its Investment in Juanicipio as a result of adopting the IAS 16 amendments:

# MAG SILVER CORP.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(Expressed in thousands of US dollars unless otherwise stated)

	Amount previously disclosed for the three months ended September 30, 2020	Effect of early adoption of an amendment to IAS 16	Restated balance for the three months ended September 30, 2020 following the adoption of IAS 16 Amendments
Equity pick up from Investment in Juanicipio	\$ (3,392)	\$ 3,518	\$ 126
Net (loss) income	(3,607)	3,518	(89)
Net (loss) income per share	(0.04)	0.04	-
Investment in Juanicipio	153,384	3,518	156,902
Deficit	(217,062)	3,518	(213,544)
Total Equity	\$ 300,958	\$ 3,518	\$ 304,476

	Amount previously disclosed for the nine months ended September 30, 2020	Effect of early adoption of an amendment to IAS 16	Restated balance for the nine months ended September 30, 2020 following the adoption of IAS 16 Amendments
Equity pick up from Investment in Juanicipio	\$ (6,890)	\$ 3,518	\$ (3,372)
Net (loss) income	(17,208)	3,518	(13,690)
Net (loss) income per share	\$ (0.19)	\$ 0.04	\$ (0.15)
Investment in Juanicipio	153,384	3,518	156,902
Deficit	(217,062)	3,518	(213,544)
Total Equity	\$ 300,958	\$ 3,518	\$ 304,476

**IFRS 3 Business Combinations.** On October 22, 2018, the IASB issued narrow-scope amendments to IFRS 3 Business Combinations that intend to assist entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the

# MAG SILVER CORP.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(Expressed in thousands of US dollars unless otherwise stated)

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assessment focuses on the existence of a substantive process. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020, and the Company will apply these amendments to applicable acquisition transactions.

These Financial Statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments, which are stated at their fair value.

These Financial Statements were authorized for issuance by the Board of Directors of the Company on March 26, 2021.

### (a) *Basis of consolidation*

These Financial Statements include the accounts of the Company and its controlled subsidiaries. Control exists when the Company has power over the investee, is exposed or has rights to variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect the amount of the investor's returns. Subsidiaries and controlled entities are included in the consolidated financial results of the Company from the effective date that control is obtained up to the effective date of disposal or loss of control. The principal wholly-owned subsidiary as at December 31, 2020 is Minera Los Lagartos, S.A. de C.V. All intercompany balances, transactions, revenues and expenses have been eliminated upon consolidation.

These consolidated financial statements also include the Company's 44% interest in Minera Juanicipio S.A. de C.V. (Note 6, "Investment in Juanicipio"), an associate (Note 2(b)) accounted for using the equity method.

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

### (b) *Investments in Associates*

The Company conducts a high percentage of its business through an equity interest in associates. An associate is an entity over which the Company has significant influence, and is neither a subsidiary nor a joint arrangement, and includes the Company's 44% interest in Minera Juanicipio S.A. de C.V., a Mexican incorporated joint venture company (Note 6, "Investment in Juanicipio"). The Company has significant influence when it has the power to participate in the financial and operating policy decisions of the associate but does not have control or joint control over those policies.

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

#### *Impairment*

# **MAG SILVER CORP.**

## **Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2020 and 2019**

*(Expressed in thousands of US dollars unless otherwise stated)*

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At the end of each reporting period, the Company assesses whether there is objective evidence that an investment in associate is impaired. The Company has performed an assessment for impairment indicators of its investment in associate as of December 31, 2020 and noted no impairment indicators. This assessment is generally made with reference to the timing of completing construction of the development project, future production, future silver, gold, lead and zinc prices, future capital requirements, future operating costs, exploration results achieved, and an assessment of the likely operating and estimated cash flow results to be achieved. When there is objective evidence that an investment in associate is impaired, the carrying amount of such investment is compared to its recoverable amount. If the recoverable amount of an investment in associate is less than its carrying amount, the carrying amount is reduced to its recoverable amount and an impairment loss, being the excess of carrying amount over the recoverable amount, is recognized in the period of impairment. When an impairment loss reverses in a subsequent period, the carrying amount of the investment in associate is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized in profit or loss in the period the reversal occurs.

### ***(c) Significant Estimates***

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Significant estimates used in preparation of these financial statements include: estimates of the recoverable amount and any impairment of exploration and evaluation assets, investment in associates and mine development costs; recovery of receivable balances; estimates of fair value of financial instruments where a quoted market price or secondary market for the instrument does not exist; provisions including closure and reclamation; share based payment expense; and income tax provisions. Actual results may differ from those estimated. Further details of the nature of these estimates may be found in the relevant notes to the consolidated statements.

### ***(d) Critical judgments***

The Company makes certain critical judgments in the process of applying the Company's accounting policies. The following are those judgments that have the most significant effect on the consolidated financial statements:

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

# **MAG SILVER CORP.**

## **Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2020 and 2019**

*(Expressed in thousands of US dollars unless otherwise stated)*

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### (ii) Commercial Production

The determination of the date on which a mine enters the commercial production stage is a significant judgement as capitalization of certain costs ceases and the recording of expenses commences upon entering commercial production. In determining commercial production and when the mine is available for use in the manner intended by management, the following factors are considered:

- i) Operational commissioning of major mine and plant components is complete;
- ii) Operating results are being achieved consistently for a period of time;
- iii) There are indicators that these operating results will be continued; and
- iv) Other factors are present, including one or more of the following: a significant portion of plant/mill capacity has been achieved; a significant portion of available funding is directed towards operating activities; a pre-determined, reasonable period of time has passed; or significant milestones for the development of the mining property have been achieved.

(iii) In the normal course of operations, the Company may invest in equity investments for strategic reasons. In such circumstances, management considers whether the facts and circumstances pertaining to each investment result in the Company obtaining control, joint control or significant influence over the investee entity. In some cases, the determination of whether or not the Company has control, joint control or significant influence over the investee entities requires the application of significant management judgment to consider individually and collectively such factors as:

- The purpose and design of the investee entity.
- The ability to exercise power, through substantive rights, over the activities of the investee entity that significantly affect its returns.
- The size of the company's equity ownership and voting rights, including potential voting rights.
- The size and dispersion of other voting interests, including the existence of voting blocks.
- Other investments in or relationships with the investee entity including, but not limited to, current or possible board representation, loans and other types of financial support, material transactions with the investee entity, interchange of managerial personnel or consulting positions.
- Other relevant and pertinent factors.

If the Company determines that it controls an investee entity, it consolidates the investee entity's financial statements as further described in note 2(a). If the Company determines that it has joint control (a joint venture) or significant influence (an associate) over an investee entity, then it uses the equity method of accounting to account for its investment in that investee entity as further described in note 2(b). If, after careful consideration, it is determined that the Company neither has control, joint control nor significant influence over an investee entity, the Company accounts for the corresponding investment in equity interest as fair value through other comprehensive income investment as further described in note 2(e).



# MAG SILVER CORP.

## Notes to the Consolidated Financial Statements

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### *(e) Financial instruments*

#### **Financial assets**

Financial assets are classified as either financial assets at fair value through profit or loss (“FVTPL”), fair value through other comprehensive income (“FVTOCI”) or amortized cost. The Company determines the classification of financial assets at initial recognition.

##### (i) Financial assets at FVTPL

Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit or loss. Equity instruments that are held for trading and all equity derivative instruments are classified as FVTPL. Equity derivative instruments such as warrants listed on a recognized exchange are valued at the latest available closing price. Warrants not listed on a recognized exchange, but where a secondary market exists, are valued at independent broker prices (if available) traded within that secondary market. If no secondary market exists, the warrants are valued using the Black Scholes option pricing model. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets held at FVTPL are included in profit or loss in the period in which they arise.

##### (ii) Financial assets at FVTOCI

Equity instruments that are designated at FVTOCI are initially recorded at fair value plus transaction costs with all subsequent changes in fair value recognized in other comprehensive income (loss). For investments in equity instruments that are not held for trading, the Company can make an irrevocable election (on an instrument-by-instrument bases) at initial recognition to classify them as FVTOCI. On the disposal of the investment, the cumulative change in fair value remains in other comprehensive income (loss) and is not recycled to profit or loss.

##### (iii) Financial assets at amortized cost

Financial assets are classified at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the assets’ contractual cash flows are comprised solely of payments of principal and interest. The Company’s accounts receivable are recorded at amortized cost as they meet the required criteria. A provision is recorded based on the expected credit losses for the financial asset and reflects changes in the expected credit losses at each reporting period (see impairment below).

#### **Financial liabilities**

Financial liabilities are initially recorded at fair value and subsequently measured at amortized cost, unless they are required to be measured at FVTPL (such as derivatives) or the Company has elected to measure at FVTPL. The Company’s financial liabilities include trade and other payables and lease obligations which are classified at amortized cost.

The Company classifies financial instruments as follows:

# MAG SILVER CORP.

## Notes to the Consolidated Financial Statements

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Financial instrument	Classification
Cash and cash equivalents	FVTPL
Equity securities	FVTOCI
Equity derivative securities (warrants)	FVTPL
Accounts receivable	Amortized cost
Trade and other payables	Amortized cost
Lease obligations	Amortized cost
Loan to Minera Juanicipio S.A. de C.V.	Amortized cost

### Impairment

IFRS 9 requires an ‘expected credit loss’ model to be applied which requires a loss allowance to be recognized based on expected credit losses. This applies to financial assets measured at amortized cost. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

#### (f) Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits, and term deposits with original maturities of three months or less.

#### (g) Inventories

Finished goods, work in process and stockpile mineral inventories are measured at the lower of cost and net realisable value. Cost is determined using the weighted average cost method and includes all costs incurred, based on a normal production capacity, in bringing each product to its present location and condition.

The cost of inventories includes:

- operating costs, which include employee costs, material costs and contractor expenses which are directly attributable to the extraction and processing of mineralized material;
- amortization of property, plant and equipment used in the extraction and processing of mineralized material; and
- related production overheads after reaching commercial production.

Operating materials and spare parts are valued at the lower of cost or net realisable value. An allowance for obsolete and slow-moving inventories is determined by reference to specific items of stock. A regular review is undertaken by management to determine the extent of such an allowance.

Net realisable value is the estimated selling price in the ordinary course of business less any further costs expected to be incurred to completion and disposal.

# **MAG SILVER CORP.**

## **Notes to the Consolidated Financial Statements**

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### *(h) Exploration and evaluation assets*

With respect to its exploration activities, the Company follows the practice of capitalizing all costs relating to the acquisition, exploration and evaluation of its mining rights. Option payments made by the Company are capitalized until the decision to exercise the option is made. If the option agreement is to exercise a purchase option in an underlying mineral property, the costs are capitalized and accounted for as an exploration and evaluation asset. At such time as commercial production commences, the capitalized costs will be depleted on a units-of-production method (“UOP”). If a mineable ore body is discovered, exploration and evaluation costs are reclassified to mining properties. If no mineable ore body is discovered, such costs are expensed in the period in which it is determined the property has no future economic value.

Exploration and evaluation expenditures include acquisition costs of rights to explore; topographical, geological, geochemical and geophysical studies; exploratory drilling; trenching and sampling; all costs incurred to obtain permits and other licenses required to conduct such activities, including legal, community, strategic and consulting fees; and activities involved in evaluating the technical feasibility and commercial viability of extracting mineral resources. This includes the costs incurred in determining the most appropriate mining/processing methods and developing feasibility studies. Expenditures incurred on a prospective property prior to the Company obtaining the right to explore it, are expensed in the period in which they are incurred.

When an exploration project has entered into the advanced exploration phase and sufficient evidence of the probability of the existence of economically recoverable minerals has been obtained, pre-operative expenditures relating to mine preparation works are capitalized to mine development costs. Activities that are typically capitalized include costs incurred to build shafts, drifts, ramps and access corridors to enable ore extraction from underground.

#### *Impairment*

Management reviews the carrying amount of exploration and evaluation assets for impairment when facts or circumstances suggest that the carrying amount is not recoverable. This review is generally made with reference to the timing of exploration work, work programs proposed, exploration results achieved by the Company and by others in the related area of interest, and an assessment of the likely results to be achieved from performance of further exploration. When the results of this review indicate that indicators of impairment exist, the Company estimates the recoverable amount of the deferred exploration costs and related mining rights by reference to the potential for success of further exploration activity and/or the likely proceeds to be received from sale or assignment of the rights. When the carrying amounts of exploration and evaluation assets are estimated to exceed their recoverable amounts, an impairment loss is recorded in profit or loss. The cash-generating unit for assessing impairment is a geographic region and shall be no larger than the operating segment. If conditions that gave rise to the impairment no longer exist, a reversal of impairment may be recognized in a subsequent period, with the carrying amount of the exploration and evaluation asset increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized in profit or loss in the period the reversal occurs.

# MAG SILVER CORP.

## Notes to the Consolidated Financial Statements

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### (i) *Property, plant and equipment and mine development costs*

Property and equipment are recorded at cost less accumulated amortization and impairment losses. When parts of an item of equipment have different useful lives, they are accounted for as separate equipment items (major components).

Amortization is based on the depreciable amount, which is the cost of the asset, less its expected residual value.

Amortization on 100% owned and controlled assets is recognized in profit or loss on a declining balance basis or straight-line basis over the estimated useful lives of each part of an item of property and equipment, based on how this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Amortization for exploration assets is capitalized to mineral properties in the statement of financial position.

The amortization rates for 100% owned and controlled assets are as follows:

Building	4% declining balance
Computer equipment	30% declining balance
Office equipment	30% declining balance
Exploration camp and equipment	30% declining balance
Right-of-Use assets	straight-line over the earlier of the end of the lease term or useful life of the asset

Amortization methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

### (j) *Lease*

At inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for the period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the contract term and if the Company has the right to direct the use of the asset.

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. Right-of-use assets are initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payment made at or before the commencement date.

Right-of-use assets are subsequently amortized on a straight-line basis from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments to be made over the lease term, discounted by the interest rate implicit in the lease or if that rate cannot be readily

# **MAG SILVER CORP.**

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determined, the Company's incremental borrowing rate. Lease payments include fixed payments, variable lease payments that depend on an index or a rate, amounts to be paid under residual value guarantees and the exercise price of a purchase option reasonably certain to be exercised by the Company.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a modification, a change in the lease term, a change in the fixed lease payments or change in the assessment to purchase the underlying asset.

The Company presents the right-of-use asset in the property and equipment line item on the consolidated statements of financial position and the lease liability in the lease obligation line item on the consolidated statements of financial position.

### ***(k) Income taxes***

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

### ***(l) Provisions***

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

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

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

- (i) By an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and
- (ii) As a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Provisions are reviewed at the end of each reporting period and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Provisions are reduced by actual expenditures for which the provision was originally recognized. Where discounting has

# MAG SILVER CORP.

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been used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase (accretion expense) is included in profit or loss for the period.

### *Closure and reclamation*

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

The provision for closure and reclamation is reviewed at the end of each reporting period for changes in estimates and circumstances, including as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the expenditures. These changes are recorded directly to the related assets with a corresponding entry to the reclamation provision. The provision recorded by the Company as at December 31, 2020 of \$409 relates to current and prior disturbances on the Deer Trail exploration property (see *Note 7*) (December 31, 2019: \$260).

The operating company of the Company's investment in associate, Minera Juanicipio, S.A. de C.V., recorded a provision for reclamation and remediation costs of \$1,450 and capitalized a corresponding asset as at December 31, 2020 (December 31, 2019: \$725) (see *Note 6*).

### *(m) Functional currency and presentation currency*

The functional currency of the parent, its subsidiaries, and the investment in Juanicipio is the United States dollar ("US\$").

Each entity within the Company determines its own functional currency, and the items included in the financial statements of each entity are measured using that functional currency. The functional currency determination involves certain judgments in evaluating the primary economic environment, and the Company reconsiders the functional currencies of each entity if there is a change in the underlying transactions, events and conditions which determine the primary economic environment.

The Company's reporting and presentation currency is the US\$.

### *(n) Foreign currency transactions*

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

# **MAG SILVER CORP.**

## **Notes to the Consolidated Financial Statements**

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### ***(o) Revenue***

The Juancipio Joint Venture recognizes revenue for silver, gold, lead and zinc from concentrate production, net of treatment and refining charges, when it satisfies the performance obligation of transferring control of the concentrate to the customer. This generally occurs as material is received at the customer's plant, as the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from the material and the customer has the risk of loss. The Joint Ventures sales are based on estimated metal quantities based on assay data and on a provisional price. The receivable is marked to market through sales each period prior to final settlement. The Joint Venture also adjusts estimated metal quantities used in computing provisional sales using new information and assay data from the smelter as it is received (if any). A provisional payment is generally due by the 15th of the month of the month following delivery of the concentrate to the customer. Final payment is due upon final settlement of price and quantity with the customer. The principal risks associated with recognition of sales on a provisional basis include metal price fluctuations and updated quantities between the date the sale is recorded and the date of final settlement.

### ***(p) Loss per common share***

Basic loss per share is based on the weighted average number of common shares outstanding during the period.

Diluted loss per share is computed using the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares consist of the incremental common shares upon the assumed exercise of stock options and warrants, and upon the assumed conversion of deferred share units and units issued under the Company's share unit plan, to the extent their inclusion is not anti-dilutive.

For the year ended December 31, 2020, the Company had 1,882,225 (December 31, 2019: 1,981,740) common share equivalents consisting of: common shares issuable upon the exercise of outstanding and exercisable stock options; restricted and performance share units; and deferred share units. These common share equivalents were not included for the purpose of calculating diluted loss per share as their effect would be anti-dilutive.

### ***(q) Share based payments***

The fair value of equity-settled share-based payment awards are estimated as of the date of the grant and recorded as share-based payment expense in profit or loss over their vesting periods, with a corresponding increase in equity. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met. Market price performance conditions are included in the fair value estimate on the grant date with no subsequent adjustment to the actual number of awards that vest. Forfeiture rates are estimated on grant date, and adjusted annually for actual forfeitures in the period. Changes to the estimated number of awards that will eventually vest are accounted for prospectively. Share based payment awards with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values.

# MAG SILVER CORP.

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The fair value of stock options is estimated using the Black-Scholes-Merton option valuation model. The fair value of restricted and deferred share units, is based on the fair market value of a common share equivalent on the date of grant. The fair value of performance share units awarded with market price conditions is determined using the Monte Carlo pricing model and the fair value of performance share units with non-market performance conditions is based on the fair market value of a common share equivalent on the date of grant.

### 3. CASH AND CASH EQUIVALENTS

The Company's cash and cash equivalents include cash on hand and bank deposits with original maturities of three months or less, as follows:

	December 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 94,008	\$ 72,360

### 4. ACCOUNTS RECEIVABLE

	December 31, 2020	December 31, 2019
Receivable from Minera Juanicipio (see Note 6)	\$ 658	\$ -
Value added tax ("IVA" and "GST")	122	82
Other receivables	117	1
	\$ 897	\$ 83

### 5. INVESTMENTS

The Company holds investments as follows for the years ended December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Equity securities, beginning of year	\$ 1,408	\$ 1,742
Disposition of equity securities at fair value	(3,950)	-
Unrealized gain (loss) for the year	14,493	(334)
Equity securities, end of year	\$ 11,951	\$ 1,408

During the year ended December 31, 2020, the Company disposed of certain equity securities held as investments. The proceeds on disposition were \$3,950 of which \$45 settled subsequent to the year end. In addition, the Company recognized a gain on disposal of \$1,137 (net of \$177 tax) which was transferred



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## Notes to the Consolidated Financial Statements

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from other comprehensive income (loss) to deficit. During the year ended December 31, 2020, the Company recorded an unrealized gain of \$14,493 (December 31, 2019: \$334 unrealized loss) on its investment in equity securities designated as FVTOCI instruments. A deferred tax liability related to this unrealized gain in 2020 in the amount of \$1,713 was also recorded.

### 6. INVESTMENT IN JUANICIPIO

The Company acquired a 100% interest in the Juanicipio property effective July 16, 2003. Pursuant to an agreement effective July 1, 2005 (the "Agreement") with Industrias Peñoles, S.A. de C.V. ("Peñoles"), the Company granted Peñoles or any of its subsidiaries an option to earn a 56% interest in the Juanicipio Property in Mexico in consideration for Peñoles conducting \$5,000 of exploration on the property over four years and Peñoles purchasing \$1,000 of common shares of the Company in two tranches for \$500 each.

In mid 2007, Peñoles met all of the earn-in requirements of the Agreement. In December 2007, the Company and Peñoles created an operating company named Minera Juanicipio, S.A. de C.V. ("Minera Juanicipio") for the purpose of holding and operating the Juanicipio Property. In 2008, MAG was notified that Peñoles had transferred its 56% interest of Minera Juanicipio to Fresnillo pursuant to a statutory merger. Minera Juanicipio is held 56% by Fresnillo and 44% by the Company. Fresnillo is the operator of Minera Juanicipio, and with its affiliates, beneficially owns 10.3% of the common shares of the Company as at December 31, 2020, as publicly reported. In December 2007, all mineral rights and surface rights relating to the Juanicipio project held by the Company and Peñoles, respectively, were ceded into Minera Juanicipio. Minera Juanicipio is governed by a shareholders' agreement. All costs relating to the project and Minera Juanicipio are required to be shared by the Company and Fresnillo pro-rata based on their ownership interests in Minera Juanicipio, and if either party does not fund pro-rata, their ownership interest will be diluted in accordance with the Minera Juanicipio shareholders' agreement.

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

The Company's investment relating to its interest in Minera Juanicipio is detailed as follows for the year:

	Year Ended December 31,	
	2020	2019
Joint venture oversight expenditures incurred 100% by MAG	\$ 568	\$ 345
Interest earned on advance to Minera Juanicipio <sup>(1)</sup>	(567)	-
Cash contributions to Minera Juanicipio <sup>(1)</sup>	63,712	53,200
Total for the year	63,713	53,545
Equity pick up of current income for the year <sup>(2)</sup>	2,214	1,884
Balance, beginning of year	136,643	81,214
Balance, end of year	\$ 202,570	\$ 136,643

# MAG SILVER CORP.

## Notes to the Consolidated Financial Statements

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<sup>(1)</sup> During the year, Fresnillo and the Company advanced \$144,800 as shareholder loans (MAG's 44% share \$63,712) to Minera Juanicipio, bearing interest at Libor + 2%. The interest accrued within Minera Juanicipio was capitalized to 'Mineral Interests, plant and equipment' and the interest recorded by the Company on the loan totaling \$567 has therefore been credited to the Investment in Juanicipio account as an eliminating related party entry (see *Note 14*).

<sup>(2)</sup> Represents the Company's 44% share of Minera Juanicipio's net income for the year, as determined by the Company.

Summary of financial information of Minera Juanicipio (on a 100% basis reflecting adjustments made by the Company, including adjustments for differences in accounting policies):

	Year Ended December 31,	
	2020	2019
Cash and cash equivalents	\$ 51,503	\$ 29,601
Value added tax and other receivables	26,055	19,163
Accounts receivable - metal sales	5,203	-
Inventory	427	-
Prepays	-	101
Total current assets	83,188	48,865
Right-of-use asset	18	8
Mineral interests, plant and equipment	381,780	261,023
Total assets	\$ 464,986	\$ 309,896
Payables to Peñoles and other vendors	\$ 5,011	\$ 5,600
Total current liabilities	5,011	5,600
Lease liability	13	9
Provision for reclamation and remediation costs	1,450	725
Deferred income tax liability	8,406	3,288
Total liabilities	14,880	9,622
Shareholders equity including shareholder advances	450,106	300,274
Total liabilities and equity	\$ 464,986	\$ 309,896

# MAG SILVER CORP.

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	Year ended December 31,	
	2020	2019
Sales	\$ 15,335	\$ -
Cost of sales	(3,873)	-
Gross profit	11,462	-
Operating expenses	(315)	-
	11,147	-
Interest and foreign exchange	(623)	946
Income tax (expense) benefit	(5,492)	3,337
Income for the year	\$ 5,032	\$ 4,283
MAG's 44% equity pick up	\$ 2,214	\$ 1,884

The Juanicipio Project has not reached commercial production as of December 31, 2020 as the mine and processing facility are still in development. However, some mineralized material from development was processed through Fresnillo's mill and refined and sold during year 2020. The Joint Venture produced and sold 616 thousand silver ounces, 1,029 gold ounces, 163 tonnes of lead and 224 tonnes of zinc during the year. Pre-commercial production sales on a 100% basis totaled \$15,335 net of related costs of \$3,873 resulted in a gross profit of \$11,462.

Mineral interest, plant and equipment capitalized directly by Minera Juanicipio for the year ended December 31, 2020 amounted to \$120,757 (December 31, 2019: \$99,048).

## 7. EXPLORATION AND EVALUATION ASSETS

(a) In 2017, the Company entered into an option earn-in agreement with a private group whereby the Company can earn up to a 100% interest in a prospective land claim package. To December 31, 2020, the Company has incurred \$8,010 in exploration expenditures on the property and there are no further exploration funding requirements under the agreement. However, to earn a 100% interest in the property package, the Company must make remaining cash or share payments of \$100 and \$150 on the fourth and fifth annual anniversaries of the agreement, at which time the vendors would retain a 2% net smelter returns royalty ("NSR"). In May 2020, the Company elected to settle the third option payment of \$100 in shares, and issued 8,241 shares to the vendors in settlement of the payment.

(b) In late 2018, the Company entered into an option agreement with another private group, whereby the Company has the right to earn 100% ownership interest in a company which owns the Deer Trail project in Utah. The Company paid \$150 upon signing the agreement and another \$150 in October 2020. To earn 100% interest in the property, the Company must make combined remaining cash payments of \$1,700 over the next 8 years, and fund a cumulative of \$30,000 of eligible exploration expenditures (\$4,459 incurred to December 31, 2020) by 2028. As at December 31, 2020, the Company also bonded and recorded a \$409 reclamation liability for the project (see *Note 2(l)*). Other than the reclamation liability, the balance of cash payments and exploration commitments are optional at the Company's discretion. Upon the Company's 100% earn-in, the vendors would retain a 2% NSR.

# MAG SILVER CORP.

## Notes to the Consolidated Financial Statements

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(Expressed in thousands of US dollars unless otherwise stated)

To December 31, 2020, the Company has incurred the following exploration and evaluation expenditures on these earn-in projects:

	Year ended December 31, 2020	Year ended December 31, 2019
Exploration and evaluation assets:		
Acquisition costs		
Option payments	\$ 250	\$ 75
Reclamation obligation	149	260
Total acquisition costs	399	335
Geochemical	78	142
Camp and site costs	411	354
Drilling	198	-
Geological consulting	2,216	1,784
Geophysical	430	100
Land taxes and government fees	787	411
Legal, community and other consultation costs	393	260
Travel	294	232
Total for the year	5,206	3,618
Balance, beginning of year	7,266	3,648
Balance, end of year	\$ 12,472	\$ 7,266

Included in exploration and evaluation assets at December 31, 2020, were liabilities for trade and other payables of \$128 (December 31, 2019: \$89) and a reclamation obligation accrued in the year of \$149 (December 31, 2019: \$260), both non-cash investing activities.

A full impairment was recognized on the Cinco de Mayo property in Mexico in prior years, although the concessions are still maintained in good standing.

## 8. PROPERTY AND EQUIPMENT AND LEASES

As at December 31, 2020, the Company had the following property and equipment:

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Cost	Office and computer equipment	Exploration camp and equipment	Right of use asset (see Leases below)	Total
Balance, January 1, 2019	\$ 470	\$ -	\$ -	\$ 470
Additions	13	341	550	904
Balance, December 31, 2019	483	341	550	1,374
Additions	4	70	-	74
Balance, December 31, 2020	\$ 487	\$ 411	\$ 550	\$ 1,448

Accumulated depreciation	Office and computer equipment	Exploration camp and equipment	Right of use asset	Total
Balance, January 1, 2019	\$ 435	\$ -	\$ -	\$ 435
Amortization	14	52	92	158
Balance, December 31, 2019	449	52	92	593
Amortization	11	59	110	180
Balance, December 31, 2020	\$ 460	\$ 111	\$ 202	\$ 773

Carrying amounts	Office and computer equipment	Exploration camp and equipment	Right of use asset	Total
At December 31, 2019	\$ 34	\$ 289	\$ 458	\$ 781
At December 31, 2020	\$ 27	\$ 300	\$ 348	\$ 675

### Lease obligation

Minimum lease payments in respect of lease obligation and the effect of discounting are as follows:

	December 31, 2020
Undiscounted minimum lease payments	
Less than one year	\$ 153
Two to three years	306
Four to five years	160
Thereafter	-
	619
Effect of discounting	(143)
Present value of minimum lease payments - total lease obligation	476
Less: current portion	(93)
Long-term lease obligation	\$ 383

For the year ended December 31, 2020, the Company recognized \$64 of interest expense on the lease obligation included in 'General Office Expense' (December 31, 2019: \$67).

# MAG SILVER CORP.

## Notes to the Consolidated Financial Statements

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### 9. SHARE CAPITAL

#### (a) Issued and outstanding

The Company is authorized to issue an unlimited number of common shares without par value.

As at December 31, 2020, there were 94,813,122 shares outstanding (December 31, 2019: 86,545,847).

On April 30, 2020, the Company closed a non-brokered private placement offering and issued 4,528,302 common shares at C\$13.25 for gross proceeds of C\$60 million (\$43,134) to Mr. Eric Sprott, through 2176423 Ontario Ltd., a corporation beneficially controlled by him.

On September 8, 2020, the Company completed a \$50,000 at-the-market equity program (“the ATM Program”) previously established on June 29, 2020. The Company sold and issued 3,092,783 common shares under the ATM Program at an average price of \$16.17 per share for gross and net proceeds of \$50,000 and \$48,625 respectively. Under the ATM Program, the Company was permitted to issue up to an aggregate of \$50 million worth of common shares from treasury at prevailing market prices to the public through the NYSE American or any other marketplace on which the common shares are listed, quoted or otherwise traded in the United States. The volume and timing of distributions under the ATM Program was determined at the Company’s sole discretion, subject to applicable regulatory limitations.

The aggregate gross and net proceeds from the combined private placement and ATM Program offerings amounted to \$93,134 and \$89,164 respectively.

During the year ended December 31, 2020, 418,294 stock options were exercised for cash proceeds of \$3,337. An additional 365,483 stock options were exercised under a less dilutive cashless exercise provision of the plan, whereby 139,273 shares were issued in settlement of the stock options, and the remaining 226,210 options were cancelled.

During the year ended December 31, 2019, 442,052 stock options were exercised for cash proceeds of \$2,819. An additional 812,323 stock options were exercised under a less dilutive cashless exercise provision of the plan, whereby 428,934 shares were issued in settlement of the stock options, and the remaining 383,389 options were cancelled.

During the year ended December 31, 2020, 3,334 restricted share units, 17,048 performance share and 60,000 deferred share units were converted into shares.

During the year ended December 31, 2019, 43,343 restricted share units, 31,876 performance share units and 60,166 deferred share units were converted into shares.

During the year ended December 31, 2020, 8,241 shares were issued in lieu of a \$100 mineral property option payment (*Note 7(a)*).

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## Notes to the Consolidated Financial Statements

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(Expressed in thousands of US dollars unless otherwise stated)

### (b) Stock options

The Company may enter into Incentive Stock Option Agreements with officers, employees, and consultants. On June 18, 2020, the Shareholders re-approved the Company's rolling Stock Option Plan (the "Plan"). The maximum number of common shares that may be issuable under the Plan is set at 5% of the number of issued and outstanding common shares on a non-diluted basis at any time, provided that the number of common shares issued or issuable under the combined Plan and Share Unit Plan (*Note 9(c)*) shall not exceed 5% of the issued and outstanding common shares of the Company on a non-diluted basis. Options granted under the Plan have a maximum term of 5 years. As at December 31, 2020, there were 1,018,067 stock options outstanding under the Plan.

Stock option grants are recommended for approval to the Board of Directors by the Compensation Committee consisting of three independent members of the Board of Directors. At the time of a stock option grant, the exercise price of each option is set and in accordance with the Plan, cannot be lower than the market value of the common shares at the date of grant.

The following table summarizes the Company's option activity for the year:

	Year ended December 31, 2020	Weighted average exercise price (C\$/option)	Year ended December 31, 2019	Weighted average exercise price (C\$/option)
Outstanding, beginning of year	1,229,341	\$ 12.99	2,134,294	\$ 9.59
Granted	572,503	17.64	392,967	13.41
Forfeited	-	-	(43,545)	15.09
Exercised for cash	(418,294)	10.73	(442,052)	8.55
Exercised cashless	(365,483)	14.29	(812,323)	6.57
Outstanding, end of year	1,018,067	\$ 16.07	1,229,341	\$ 12.99

During the year ended December 31, 2020, 572,503 stock options were granted (December 31, 2019: 392,967) with a weighted average grant date fair value of \$2,546 or \$4.45 per option (December 31, 2019: \$1,231 or \$3.13). The stock options have a five-year term to expiry, and vest 1/3 in each of 12, 24, and 36 months from the date of grant.

The Company estimated the fair value of the option using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2020	December 31, 2019
Risk-free interest rate	0.91%	1.64%
Expected volatility	46%	44%
Expected dividend yield	nil	nil
Expected life (years)	3	3

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The expected volatility assumption was calculated with reference to the Company's historical share price volatility up to the grant date to reflect a term approximate to the expected life of the option.

During the year ended December 31, 2020, 783,777 stock options were exercised (December 31, 2019: 1,254,375) with a weighted average market share price at the date of exercise of C\$21.79 (December 31, 2019: C\$13.82).

The following table summarizes the Company's stock options outstanding and exercisable as at December 31, 2020:

Exercise price (\$C/option)	Number outstanding	Number exercisable	Weighted average remaining contractual life (years)
12.75	12,500	-	3.85
13.46	279,965	147,495	3.28
13.91	97,544	97,544	1.93
14.98	341,448	-	4.16
17.55	55,555	55,555	0.93
21.57	231,055	-	4.94
C\$12.75 - C\$21.57	1,018,067	300,594	3.70

During the year ended December 31, 2020, the Company recorded share based payment expense of \$1,069 (December 31, 2019: \$1,044) relating to stock options vested to employees and consultants in the period of which \$15 (December 31, 2019: nil) was capitalized to exploration and evaluation assets.

### (c) *Restricted and performance share units*

On June 18, 2020, the Shareholders re-approved a share unit plan (the "Share Unit Plan") for the benefit of the Company's officers, employees and consultants. The Share Unit Plan provides for the issuance of common shares from treasury, in the form of Restricted Share Units ("RSUs") and Performance Share Units ("PSUs"). The maximum number of common shares that may be issuable under the Share Unit Plan is set at 1.5% of the number of issued and outstanding common shares on a non-diluted basis, provided that the number of common shares issued or issuable under the combined Share Unit Plan and Stock Option Plan (*Note 9(b)*) shall not exceed 5% of the issued and outstanding common shares on a non-diluted basis. RSUs and PSUs granted under the Share Unit Plan have a term of 5 years unless otherwise specified by the Board, and each unit entitles the participant to receive one common share of the Company subject to vesting criteria, and in the case of PSUs, performance criteria.

During the year ended December 31, 2020, 39,063 RSUs were granted (December 31, 2019: 10,000) under the Company's Share Unit Plan, with 30,981 vesting in 12 months from the grant date, and 8,082 vesting in 13 months from the date of grant, all with a five-year term to expiry. The RSUs had a grant date fair value of \$11.26 per RSU (December 31, 2019: \$10.10) as determined using the fair market value of the common shares on the date of grant. In the year ended December 31, 2020, 3,334 RSUs (December 31, 2019: 43,343) were converted and settled in common shares.



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During the year ended December 31, 2020, 146,755 PSUs were granted (December 31, 2019: 91,406) under the Company's Share Unit Plan with a five-year term to expiry. Of the grant, 97,837 PSUs are performance-based awards and vest upon the achievement of specified targets over a three-year performance period. PSUs for which the performance targets are not achieved during the performance period, shall automatically be forfeited and canceled. The remainder of the grant, 48,918 PSUs with a five-year term to expiry, are subject to a market share price performance factor measured over a three-year performance period, resulting in a PSU vesting range from 50% (24,459) to 150% (73,377) PSUs. The PSUs had a weighted average grant date fair value of \$13.65 per PSU as determined using the fair market value of the common shares on the date of grant.

The three-year performance period for the 2017 PSU grant ended on December 5, 2020 and resulted in a PSU vesting of 18.34% of the initial grant or 15,475 PSUs. Consequently, 68,916 PSUs did not vest and were cancelled.

During the year ended December 31, 2020, 17,048 PSUs were converted and settled in common shares (December 31, 2019: 31,876).

As at December 31, 2020, there were 45,729 RSUs and 249,276 PSUs issued and outstanding under the Share Unit Plan, of which 14,857 PSUs had vested and are convertible into common shares of the Company. Included in the PSUs at December 31, 2020, are 87,664 PSUs with vesting conditions subject to a market share price performance factor measured over a three-year performance period, resulting in a PSU payout range from 0% or nil PSUs to 200% or 175,328 PSUs and 48,918 PSUs with vesting conditions also subject to a market share price performance factor measured over a three-year period, resulting in a PSU payout range from 50% (24,459 PSUs) to 150% (73,377 PSUs).

The Company recognized a share-based payment expense of \$1,201 (December 31, 2019: \$731) relating to RSUs and PSUs vesting in the period.

### *(d) Deferred share units*

On June 18, 2020, the Shareholders re-approved a Deferred Share Unit Plan (the "DSU Plan") for the benefit of the Company's non-executive directors. The DSU Plan provides for the issuance of common shares from treasury, in the form of Deferred Share Units ("DSUs"). Directors may also elect to receive all or a portion of their annual retainer and meeting fees in the form of DSUs. DSUs may be settled in cash or in common shares issued from treasury, as determined by the Board at the time of the grant. The maximum number of common shares that may be issuable under the DSU Plan is set at 1.0% of the number of issued and outstanding common shares on a non-diluted basis.

During the year ended December 31, 2020, 64,757 DSUs were granted under the plan (December 31, 2019: 141,386). In addition, 10,482 DSUs (December 31, 2019: 19,955) were granted to directors who elected to receive all or a portion of their annual retainer and meeting fees in the form of DSUs rather than cash. A DSU share-based payment expense of \$867 was recognized in the year ended December 31, 2020 (December 31, 2019: \$797). Under the DSU plan, no common shares are to be issued, or cash payments made to, or in respect of a participant in the DSU Plan prior to such eligible participant's termination date. During the year ended December 31, 2020, 60,000 DSUs

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(December 31, 2019: 60,166) were converted and settled in common shares. As at December 31, 2020, there are 569,153 DSUs issued and outstanding under the DSU Plan, all of which have vested.

As at December 31, 2020, there are 1,882,225 common shares issuable under the combined share compensation arrangements referred to above (the Plan, the Share Unit Plan and the DSU Plan) representing 1.99% of the issued and outstanding common shares on a non-diluted basis, and there are 3,806,562 share-based awards available for grant under these combined share compensation arrangements.

### 10. CAPITAL RISK MANAGEMENT

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

Capital as defined above is summarized in the following table:

	December 31, 2020	December 31, 2019
Equity	\$ 316,668	\$ 215,247
Cash and cash equivalents ( <i>Note 3</i> )	(94,008)	(72,360)
	<u>\$ 222,660</u>	<u>\$ 142,887</u>

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

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. The Company currently does not pay out dividends.

As at December 31, 2020, the Company does not have any long-term debt and is not subject to any externally imposed capital requirements.

The Company has working capital of \$94,513 as at December 31, 2020. The Company may require additional capital in the future to meet its future project and other related expenditures (see *Notes 6, 7, and 15*). Future liquidity may depend upon the Company's ability to arrange debt or additional equity financings.

### 11. FINANCIAL RISK MANAGEMENT

The Company's operations consist of the acquisition, exploration and development of projects primarily in the Americas. The Company examines the various financial risks to which it is exposed and assesses the impact and likelihood of occurrence. These risks may include credit risk, liquidity risk, currency risk,

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interest rate risk and other price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

### (a) *Market risk*

The Company conducts the majority of its business through its equity interest in its associate, Minera Juanicipio (see *Note 6*). Minera Juanicipio is exposed to commodity price risk, specifically to the prices of silver, gold, lead and zinc. Minera Juanicipio will produce and sell these metals which are each subject to market price fluctuations which will affect its profitability and its ability to generate both operating and free cash flow. Minera Juanicipio does not hedge silver and gold prices, and did not enter into any metal hedge positions during the year ended December 31, 2020 and does not have any such positions outstanding at December 31, 2020.

### (b) *Credit risk*

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

#### (i) *Trade credit risk*

Minera Juanicipio, in which the Company has a 44% interest, is transitioning into commercial production and now has pre-production sales (see *Note 2*). Minera Juanicipio sells and receives payment under an offtake agreement upon delivery of its concentrates to Met-Mex Peñoles, S.A. De C.V. (“Met-Mex”), a related party to Fresnillo. Met-Mex has a good history and credit rating, and the Company believes it is not exposed to significant trade credit risk.

#### (ii) *Cash*

In order to manage credit and liquidity risk, the Company’s policy is to invest only in highly rated investment grade instruments backed by Canadian commercial banks.

#### (iii) *Mexican value added tax*

As at December 31, 2020, the Company had a receivable of \$53 from the Mexican government for value added tax (*Note 4*). Management expects the balance to be fully recoverable within the year.

The Company’s maximum exposure to credit risk is the carrying value of its cash and cash equivalents, accounts receivable, its loan to Minera Juanicipio, and indirectly its 44% interest in cash and cash equivalents and accounts receivable held in its Investment in Juanicipio joint venture, as follows:

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	December 31, 2020	December 31, 2019
Cash and cash equivalents ( <i>Note 3</i> )	\$ 94,008	\$ 72,360
Cash and cash equivalents, Minera Juanicipio (44%) <sup>(1)</sup>	22,661	13,024
Accounts receivable ( <i>Note 4</i> )	897	83
Value added tax and other receivables, Minera Juanicipio (44%) <sup>(1)</sup>	13,753	8,432
Loan to Minera Juanicipio ( <i>Notes 6 and 14</i> ) <sup>(1)</sup>	63,712	-
	<u>\$ 195,031</u>	<u>\$ 93,899</u>

<sup>(1)</sup> The expected credit losses take into account future information of the credit worthiness of Minera Juanicipio and are not considered significant.

### (c) *Liquidity risk*

The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements, its exploration and development plans, and its various optional property and other commitments (see *Notes 6, 7 and 15*). The annual budget is approved by the Board of Directors. The Company ensures that there are sufficient cash balances to meet its short-term business requirements.

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

### (d) *Currency risk*

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

#### *Exposure to currency risk*

As at December 31, 2020, the Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than the functional currency of the applicable entity:

<i>(in US\$ equivalent)</i>	Mexican peso	Canadian dollar
Cash	\$ 21	\$ 4,277
Accounts receivable	53	186
Receivable from Minera Juanicipio	658	-
Prepaid expenses	19	-
Investments	-	11,951
Accounts payable	(61)	(379)
Lease obligations	-	(476)
Net assets exposure	<u>\$ 690</u>	<u>\$ 15,559</u>

# **MAG SILVER CORP.**

## **Notes to the Consolidated Financial Statements**

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### *Mexican peso relative to the US\$*

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

An appreciation/depreciation in the Mexican peso against the US\$ will also result in a gain/loss before tax to the extent that the Company holds net monetary assets (liabilities) in pesos. Specifically, the Company's foreign currency exposure is comprised of peso denominated cash, prepayments and value added taxes receivable, net of trade and other payables. The carrying amount of the Company's net peso denominated monetary assets at December 31, 2020 is 13.9 million pesos (December 31, 2019: 2.8 million pesos). A 10% appreciation in the peso against the US\$ would result in a gain before tax at December 31, 2020 of \$69 (December 31, 2019: \$15), while a 10% depreciation in the peso relative to the US\$ would result in an equivalent loss before tax.

### *Mexican peso relative to the US\$ - Investment in Juanicipio*

The Company conducts the majority of its business through its equity interest in its associate, Minera Juanicipio (*see Note 6*). The Company accounts for this investment using the equity method, and recognizes the Company's 44% share of earnings and losses of Minera Juanicipio. Minera Juanicipio also has a US\$ functional currency, and is exposed to the same currency risks noted above for the Company.

An appreciation/depreciation in the Mexican peso against the US\$ will also result in a gain/loss before tax and deferred taxes (*Notes 6 and 16*) in Minera Juanicipio to the extent that it holds net monetary assets (liabilities) in pesos, comprised of peso denominated cash, value added taxes receivable, net of trade and other payables. The carrying amount of Minera Juanicipio's net peso denominated monetary assets at December 31, 2020 is 3.2 million pesos (December 31, 2019: 257.3 million pesos). A 10% appreciation in the peso against the US\$ would result in a gain before tax at December 31, 2020 of \$94 (December 31, 2019: \$1,241) in Minera Juanicipio, of which the Company would record 44% or \$41 equity income pick-up (December 31, 2019: \$546), while a 10% depreciation in the peso relative to the US\$ would result in an equivalent gain.

In the year ended December 31, 2020, the Mexican Pesos devalued against the US\$ from 18.87 Pesos/US\$ on December 31, 2019 to 19.94 on December 31, 2020, resulting in an exchange loss in Minera Juanicipio of \$606 (the Company's 44% share \$267).

### *C\$ relative to the US\$*

The Company is exposed to gains and losses from fluctuations in the C\$ relative to the US\$.

As general and administrative overheads in Canada are denominated in C\$, an appreciation in the C\$ relative to the US\$ will increase the Company's overhead costs as reported in US\$.

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Alternatively, a depreciation in the C\$ relative to the US\$ will decrease the Company's overhead costs as reported in US\$.

An appreciation/depreciation in the C\$ against the US\$ will result in a gain/loss to the extent that MAG, the parent entity, holds net monetary assets (liabilities) in C\$. The carrying amount of the Company's net Canadian denominated monetary assets at December 31, 2020 is C\$19.810 million (December 31, 2019: C\$706 thousand). A 10% appreciation in the C\$ against the US\$ would result in gain at December 31, 2020 of \$1,556 (December 31, 2019: \$54) while a 10% depreciation in the C\$ relative to the US\$ would result in an equivalent loss.

### (e) *Interest rate risk*

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

## 12. FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES

The Company's financial instruments include cash and cash equivalents, accounts receivable, investments, trade and other payables and lease obligation. The carrying values of cash and cash equivalents, accounts receivable, trade and other payables and lease liability reported in the consolidated statement of financial position approximate their respective fair values due to the relatively short-term nature of these instruments.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value as described below:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Observable inputs other than quoted prices in Level 1 such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs which are supported by little or no market activity.

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

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	As at December 31, 2020			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 94,008	\$ -	\$ -	\$ 94,008
Investments (Note 5) <sup>(1)</sup>	11,951	-	-	11,951
	\$ 105,959	\$ -	\$ -	\$ 105,959

	As at December 31, 2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 72,360	\$ -	\$ -	\$ 72,360
Investments (Note 5) <sup>(1)</sup>	1,408	-	-	1,408
	\$ 73,768	\$ -	\$ -	\$ 73,768

<sup>(1)</sup> The fair value of equity securities quoted in active markets, is determined based on a market approach reflecting the closing price of each particular security as at the statement of financial position date. The closing price is a quoted market price obtained from the exchange that is the principal active market for the particular security, and therefore equity securities are classified within Level 1 of the fair value hierarchy. The fair values of equity securities and warrants that are not quoted in active markets are valued based on quoted prices of similar instruments in active markets or using valuation techniques where all inputs are directly or indirectly observable from market data and are classified within Level 2 of the fair value hierarchy.

There were no transfers between levels 1, 2 and 3 during the year ended December 31, 2020 or during the year ended December 31, 2019.

### 13. SEGMENTED INFORMATION

The Company operates primarily in one operating segment, being the exploration and development of mineral properties in North America. The Company's principal asset, its 44% ownership in the Minera Juanicipio Joint Venture, is located in Mexico, and the Company also has other exploration properties in North America. The Company's executive and head office is located in Canada.

### 14. RELATED PARTY TRANSACTIONS

The Company does not have offices or direct personnel in Mexico, but rather is party to a Field Services Agreement, whereby it has contracted administrative and exploration services in Mexico with MINERA CASCABEL S.A. de C.V. ("Cascabel") and IMDEX Inc. ("IMDEX"). Dr. Peter Megaw, the Company's Chief Exploration Officer, is a principal of both IMDEX and Cascabel, and is remunerated by the Company through fees to IMDEX. In addition to corporate executive responsibilities with MAG, Dr. Megaw is responsible for the planning, execution and assessment of the Company's exploration programs, and he and his team developed the geologic concepts and directed the acquisition of the Juanicipio Project.

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During the year, the Company incurred charges with Cascabel and IMDEX as follows:

	December 31, 2020	December 31, 2019
Fees related to Dr. Megaw:		
Exploration and marketing services	\$ 505	\$ 420
Travel and expenses	12	72
Other fees to Cascabel and IMDEX:		
Administration for Mexican subsidiaries	54	59
Field exploration services	160	298
	\$ 731	\$ 849

All transactions are incurred in the normal course of business, and are negotiated on terms between the parties which are believed to represent fair market value for all services rendered. A portion of the expenditures are incurred on the Company's behalf, and are charged to the Company on a "cost + 10%" basis. The services provided do not include drilling and assay work which are contracted out independently from Cascabel and IMDEX. Included in trade and other payables at December 31, 2020 is \$78 related to these services (December 31, 2019: \$102).

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

The Company holds various mineral property claims in Mexico upon which full impairments have been recognized. The Company is obligated to a 2.5% NSR royalty on the Cinco de Mayo property payable to the principals of Cascabel under the terms of an option agreement dated February 26, 2004, whereby the Company acquired a 100% interest in the property from Cascabel, and under the terms of assignment agreements entered into by Cascabel with its principals.

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

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

Significant subsidiaries of the Company are as follows:

Name	Country of Incorporation	Principal Project	MAG's effective interest 2020 (%)	2019 (%)
Minera Los Lagartos, S.A. de C.V.	Mexico	Juanicipio (44%)	100%	100%

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

Minera Juanicipio, S.A. de C.V. ("Minera Juanicipio"), created for the purpose of holding and operating the Juanicipio Property, is held 56% by Fresnillo plc ("Fresnillo") and 44% by the Company through Minera Los Lagartos, S.A. de C.V. Fresnillo is the operator of Minera Juanicipio, and with its affiliates,



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beneficially owns 10.3% of the common shares of the Company as at December 31, 2020, as publicly reported. Minera Juanicipio is governed by a shareholders agreement. All costs relating to the project and Minera Juanicipio are required to be shared by the Company and Fresnillo pro-rata based on their ownership interests in Minera Juanicipio (see Note 6).

During the year, Fresnillo and the Company advanced \$144,800 as shareholder loans (MAG's 44% share \$63,712) to Minera Juanicipio, bearing interest at Libor + 2%. The interest accrued within Minera Juanicipio was capitalized to 'Mineral Interests, plant and equipment' and the interest recorded by the Company on the loan totaling \$567 has therefore been credited to the Investment in Juanicipio account as an eliminating related party entry. The loans mature on June 24, 2021 (see Note 6).

During the year, compensation of key management personnel (including directors) was as follows:

	December 31, 2020	December 31, 2019
Salaries and other short term employee benefits	\$ 1,726	\$ 1,694
Share based payments (Note 9(b), (c), and (d))	1,853	1,429
	\$ 3,579	\$ 3,123

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

## 15. COMMITMENTS AND CONTINGENCIES

The following table discloses the contractual obligations of the Company and its subsidiaries as at December 31, 2020 for committed exploration work and committed other obligations.

	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
		2021	2022-2023	2024-2025	2026 & over
Committed exploration expenditures	\$ -	\$ -	\$ -	\$ -	\$ -
Minera Juanicipio <sup>(1)&amp;(2)</sup>	-	-	-	-	-
Other commitments	79	79	-	-	-
<b>Total Obligations and Commitments</b>	<b>\$ 79</b>	<b>\$ 79</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

(1) Although the Company makes cash advances to Minera Juanicipio as cash called by the operator Fresnillo (based on approved Minera Juanicipio budgets), they are not contractual obligations. The Company intends, however, to continue to fund its share of cash calls and avoid dilution of its ownership interest in Minera Juanicipio.

(2) According to the operator, Fresnillo, contractual commitments for processing equipment and development contractors are \$192,173 with respect to the Juanicipio Project on a 100% basis as at December 31, 2020.

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The Company also has optional commitments for property option payments and exploration expenditures as outlined above in *Note 7 Exploration and Evaluation Assets*. There is no obligation to make any of those payments or to conduct any work on its optioned properties. As the Company advances them, it evaluates exploration results and determines at its own discretion which option payments to make and which additional exploration work to undertake in order to comply with the funding requirements.

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

### 16. INCOME TAXES

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

	December 31, 2020	December 31, 2019
Deferred tax (expense) benefit	\$ (1,026)	\$ 131
Total income tax (expense) benefit	\$ (1,026)	\$ 131

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

	December 31, 2020	December 31, 2019
Loss for the year before income taxes	\$ (6,071)	\$ (4,557)
Statutory tax rate	27%	27%
Recovery of income taxes computed at statutory rates	1,639	1,230
Share based payments	(843)	(694)
Mexican inflationary adjustments	(699)	(600)
Differing effective tax rate on loss in foreign jurisdiction	(34)	4
Unrecognized deferred tax assets	1,120	(2,680)
Impact of foreign exchange and other	(2,209)	2,871
Total income tax (expense) benefit	\$ (1,026)	\$ 131

The approximate tax effect of each item that gives rise to the Company's unrecognized and recognized deferred tax assets and liabilities as at December 31, 2020 and 2019 are as follows:

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	December 31, 2020	December 31, 2019
Deferred income tax assets		
Exploration and evaluation assets	\$ 828	\$ 1,004
Non-capital losses	2,070	301
	<u>\$ 2,898</u>	<u>\$ 1,305</u>
Deferred income tax liabilities		
Exploration and evaluation assets	\$ (219)	\$ (95)
Investment in associate	(5,870)	(3,192)
Investments	(1,530)	-
	<u>\$ (7,619)</u>	<u>\$ (3,287)</u>
Net deferred income tax liability	<u>\$ (4,721)</u>	<u>\$ (1,982)</u>

The Company's movement of net deferred tax liabilities is described below:

	December 31, 2020	December 31, 2019
At January 1	\$ (1,982)	\$ (2,113)
Deferred income tax (expense) benefit through income statement	(1,026)	131
Deferred income tax (expense) benefit through OCI	(1,713)	-
At December 31	<u>\$ (4,721)</u>	<u>\$ (1,982)</u>

The Company has the following deductible temporary differences for which no deferred tax assets have been recognized:

	December 31, 2020	expiry dates	December 31, 2019
Non-capital losses	\$ 93,602	2021-2040	\$ 85,611
Exploration and evaluation assets	7,171	no expiry	13,040
Financing fees	3,453	2040 - 2044	934
Other	7,490	no expiry	3,352
Total	<u>\$ 111,716</u>		<u>\$ 102,937</u>

At December 31, 2020, the Company has non-capital loss carry forwards in Canada aggregating \$49,947 (December 31, 2019: \$39,572) which expire over the period between 2026 to 2040, available to offset future taxable income in Canada, and the Company has capital loss carry forwards in Canada of \$943 (December 31, 2019: nil) which are available only to offset future capital gains for Canadian tax purposes and may be carried forward indefinitely.

At December 31, 2020, the Company has tax loss carry forwards in Mexico aggregating \$49,837 (December 31, 2019: \$46,779) which expire over the period 2021 to 2030, available to offset future taxable income in Mexico.

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## **Notes to the Consolidated Financial Statements**

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At December 31, 2020, the Company has \$33 (December 31, 2019: \$274) included in cash that is held by foreign subsidiaries, and hence not available to fund domestic operations unless the funds were repatriated. There are no taxes payable on the funds should the Company choose to repatriate them, however, the Company does not intend to repatriate these funds in the next year.